

☆☆☆
Swedish Match®



Clickable PDF



Annual Report 2019

Our journey

Drawing from our Scandinavian heritage, strong brands, and our talented organization, we will engage to address consumer needs on an ongoing basis. Through consumer engagement and product innovation, we can work to deliver products that meet consumer desires. Success will come from working closely together in building upon our strong brand portfolio and maintaining as well as advancing technological leadership.

A LONG
TRADITION OF
HIGH QUALITY
PRODUCTS



OUR VISION:
A WORLD
WITHOUT
CIGARETTES

We create shareholder value by offering consumers enjoyable nicotine-containing products of superior quality in a responsible way. By providing products that are recognized as safer alternatives to cigarettes, we can contribute significantly to improved public health.

A CLEAR AND CONSISTENT STRATEGY OF BRAND LEADERSHIP, DELIVERING SOLID RETURNS

STRONG PROFITABILITY AND CASH FLOWS

Swedish Match maintains a portfolio of high quality brands which provide a solid foundation for operating profit, with strong margins, generating solid cash flows.

SHAREHOLDER RETURN

Swedish Match has consistently delivered strong returns to its shareholders, through solid earnings per share and dividend growth. Excess cash is passed on to our shareholders, according to our financial strategy of returning excess funds, both through the payment of dividends and through share repurchases.

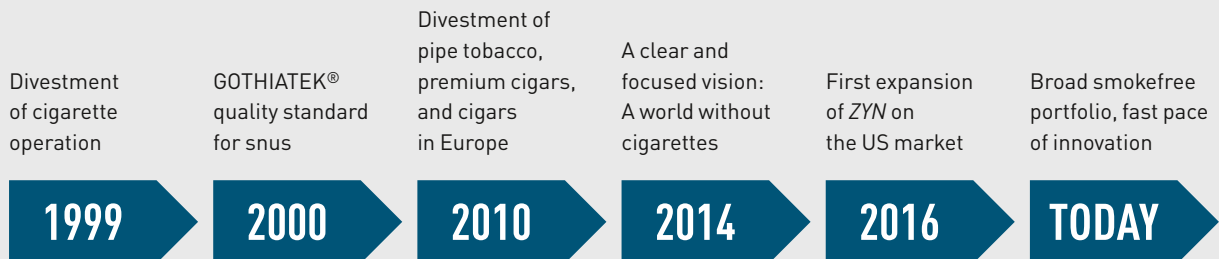
#1 Snus, Sweden
#1 Snus, Norway
#3 Moist snuff, US
#2 Cigars, US
#1 Chewing tobacco, US

STRONG MARKET POSITIONS, ROBUST CATEGORY MANAGEMENT

Swedish Match is a global company, with well-known local brands. Swedish Match also has international brands, such as *General*, *ZYN*, and *Cricket*. The Company's largest markets are in Scandinavia and the US.

MILESTONES IN OUR JOURNEY

Since the Company's listing in 1996, Swedish Match has led the journey away from cigarettes and today the smokefree portfolio generates more than 70 percent of Group operating profit.



THE INDUSTRY IS RAPIDLY CHANGING



NICOTINE POUCHES, US
#1

The global nicotine market is undergoing a shift away from traditional cigarettes toward products that have the potential of delivering substantial public health benefits versus cigarettes. Along with snus, Swedish Match actively

participates with its nicotine pouches. The nicotine pouch category is one of the fastest growing areas in alternative nicotine products, with their appeal to a wide audience of adult nicotine consumers.

WE ARE WELL POSITIONED FOR THIS CHANGING WORLD

ZYN is the world leading brand for enjoyment of nicotine pouches. In recent years the product has been available in the US and Sweden and Swedish Match has now introduced ZYN into a number of European countries with the potential to expand into more geographies. For snus, *General* has now been authorized by the FDA in the US to be designated as a Modified Risk Tobacco Product, further supporting our efforts in communicating the message of harm reduction.





CONTENT

2-27

The Group and our business

2	This is Swedish Match
5	CEO comment
7	Organization
9	Market
14	Our business
14	Snus and moist snuff
19	Other tobacco products
22	Lights
24	Regulatory engagement
26	Harm reduction
27	Introduction to the Board of Directors Report

28-33

Strategy and risks

29	Vision
29	Operational strategy
30	Financial strategy
30	Sustainability strategy
31	Risks and risk management

34-59

Sustainability

35	CEO comment
36	Our approach to sustainability
37	Our contribution to the UN SDGs
38	Our Code of Conduct
39	Our value chain
41	Our focus areas
41	Improve public health
44	Ensure ethical business practices
46	Equal opportunity
49	Reduce greenhouse gases
51	Reduce waste
53	Eliminate child labor
56	Governance
58	Employer of choice

60-64

Shareholder information

61	Shareholder communication
63	The share

65-129

Financial reports

66	CFO comment
67	Content
68	Financial overview
73	Guidelines for executive remuneration
75	Proposed distribution of earnings
76	Consolidated financial statements
111	Parent Company financial statements
122	Auditor's report
126	Five year summary 2015-2019
128	Quarterly data 2018-2019
129	Definitions

130-142

Corporate Governance

131	Chairman's comment
132	Governance report
139	Board of Directors
141	Group Management

This is Swedish Match

Swedish Match develops, manufactures, and sells quality products with market-leading brands. The Group's product segments in 2019 were Snus and moist snuff, Other tobacco products, and Lights. With its vision of a world without cigarettes, the Group is dedicated to the improvement of public health by offering attractive alternatives to cigarettes with its smokefree products.

Swedish Match provides consumers with the best quality products with well-known brands. Some of Swedish Match's brands include: *General* (snus), *Longhorn* (moist snuff), *ZYN* (nicotine pouches), *Onico* (pouch products with neither tobacco nor nicotine), *White Owl* (homogenized tobacco leaf cigars), *Game* (natural leaf cigars), *Red Man* (chewing tobacco), *Thunder* (chew bags), *Oliver Twist* (tobacco bits), *Fiat Lux* (matches), and *Cricket* (lighters).

Production is located in seven countries with the majority of Group sales coming from Scandinavia and the US.

Group sales for 2019 amounted to 14,739 MSEK and the average number of employees was 6,270.

Swedish Match's head office is located in Stockholm, Sweden. The Swedish Match share is listed on Nasdaq Stockholm (SWMA).

The Board of Directors Report and the formal audited part of this document comprises the following sections: Financial strategy on page 30, Risk management on pages 31-33, Share information and dividends on pages 63-64, Financial overview and consolidated financial accounts and disclosures, including proposed distribution of earnings and guidelines for executive remuneration are presented on pages 68-121. Definitions are presented on page 129.

Sustainability information is found on pages 34-59. The Corporate Governance report is found on pages 130-142. The sustainability and corporate governance reports have been reviewed by the auditors.

► The sections which form part of the Board of Directors Report are highlighted in grey in the table of contents above and on the respective page.



PRODUCTS AND BRANDS

SNUS AND MOIST SNUFF

Swedish Match has a market leading position in the Scandinavian snus market and is the number two player for nicotine pouches¹⁾. In European countries outside of Scandinavia, Swedish Match has a small but growing presence in several markets for its nicotine pouches. At the end of May 2019, snus was also allowed to be sold in Switzerland, and Swedish Match has started to sell snus on this market. In the US, Swedish Match is well positioned as the third largest snus and moist snuff company and is the clear market leader in the nicotine pouch segment. Production of snus takes place in Sweden and Denmark and moist snuff is produced in the US. Nicotine pouches are produced in both the US and Sweden.

>> Read more on page 14.



OTHER TOBACCO PRODUCTS

Swedish Match is a major player in the US market for mass market cigars and the largest manufacturer of US chewing tobacco. Swedish Match is one of the largest manufacturers in the niche chewing tobacco categories of chew bags and tobacco bits, produced in Denmark and sold mostly in Europe. Production of US chewing tobacco takes place in the US while cigars are produced in the US and the Dominican Republic.

>> Read more on page 19.



LIGHTS

Swedish Match is the market leader for matches in many markets throughout the world, with well-known local brands. For lighters, the Group has strong market positions in many countries. Production of matches takes place in Sweden and Brazil. Lighters are produced in the Netherlands, the Philippines and Brazil. Swedish Match also offers a portfolio of externally sourced complementary products (mainly for the Brazilian market), which include for example disposable razors, batteries and light bulbs.

>> Read more on page 22.



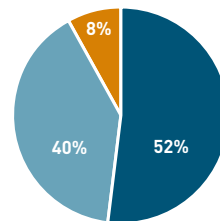
2019 IN BRIEF

- In local currencies, sales increased by 8 percent. Reported sales increased by 14 percent to 14,739 MSEK (12,966).
- In local currencies, operating profit from product segments¹⁾ increased by 13 percent. Reported operating profit from product segments increased by 18 percent to 5,828 MSEK (4,936).
- Operating profit²⁾ amounted to 5,307 MSEK (4,812).
- Profit after tax amounted to 3,896 MSEK (3,578).
- Earnings per share amounted to 23.22 SEK (20.63). Adjusted earnings per share increased by 23 percent to 25.41 SEK (20.63).
- ZYN available in approximately 67,000 stores in the US, and average sales per store continued to increase sequentially.

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

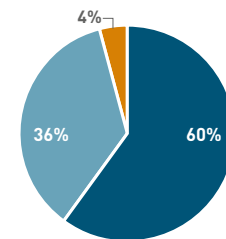
²⁾ Includes a non-cash impairment charge of 367 MSEK related to the European chewing tobacco business.

SALES BY PRODUCT SEGMENT



● Snus and moist snuff
● Other tobacco products
● Lights

OPERATING PROFIT BY PRODUCT SEGMENT



● Snus and moist snuff
● Other tobacco products
● Lights

KEY DATA

MSEK	2019	2018	2017 ¹⁾
Sales	14,739	12,966	11,751
Sales from product segments	14,363	12,612	11,410
Operating profit from product segments	5,828	4,936	4,345
Operating profit, excluding larger one-time items	5,675	4,812	4,219
Operating profit	5,307	4,812	4,592
Operating margin from product segments, %	40.6	39.1	38.1
Operating margin, % ²⁾	38.5	37.1	35.9
EBITDA from product segments	6,312	5,301	4,673
EBITDA	6,222	5,227	4,600
Profit for the year	3,896	3,578	3,400
Earnings per share, basic and diluted, SEK	23.22	20.63	18.88
Adjusted earnings per share, basic and diluted, SEK ³⁾	25.41	20.63	16.40 ⁴⁾
Ordinary dividend per share, SEK	12.50 ⁵⁾	10.50	9.20
Special dividend per share, SEK	-	-	7.40

¹⁾ Financial statements for 2017 has been restated in accordance with IFRS 15.

²⁾ Excluding larger one-time items and income from STG.

³⁾ Larger one-time items during 2019 amounted to -367 MSEK and during 2017 to 373 MSEK. There were no larger one-time items in 2018.

⁴⁾ Excluding income from STG.

⁵⁾ Board proposal.

¹⁾ Nicotine pouches are oral products that contain nicotine, but no tobacco. There are certain markets, like Norway, that do not currently allow nicotine pouches without tobacco. In those markets, nicotine pouches refer to products that contain small amounts of tobacco.



THE GROUP AND OUR BUSINESS





2019 – A year of transformation

In many respects, 2019 will stand out as a transformational year for Swedish Match – a year in which we not only delivered record sales and operating profit from product segments, but also where the Company, aligned with our vision, established itself as the clear market leader for nicotine pouches in the United States and began offering nicotine pouches to markets outside of our core Scandinavian and US markets.

Twenty years ago, Swedish Match embarked on a journey toward a world without cigarettes by divesting its cigarette business and choosing to expand its footprint with other products over a broad geography. Later, the Company divested its pipe tobacco businesses as well as its US premium and European cigar businesses, and instead concentrated its focus on smokefree products. Throughout this journey, Swedish Match has dedicated its efforts through research and development, product innovation, regulatory engagement and market insight in pursuit of our vision benefiting our shareholders as well as society as a whole.

Much like our vision, Swedish Match's strategy for sustainability is a long-term journey. Our approach to sustainability is not to attempt to cater to broadly defined, and at times, ideological demands of others. Rather, our compass is set strategically on specific areas where we believe Swedish Match has the potential to directly or indirectly influence meaningful outcomes or where the issue has the potential to impact the long-term viability of our businesses. Beyond the many successful sustainability initiatives implemented by our businesses during the year, we were particularly pleased to see that our greenhouse gas emission

reduction targets were approved by the Science Based Targets initiative in March of 2019.

The trend shift in global consumption of nicotine products away from traditional combustible cigarettes is accelerating. As nicotine markets evolve, producers, governments and regulators must work to achieve the societal benefits of harm reduction grounded in science while limiting unintended negative consequences like youth adoption. The global regulatory regimes are dynamic and divergent, and 2019 was a uniquely turbulent year. As an example of this regulatory divergence, within a period of ten months, the European Court of Justice ruled that Swedish snus will continue to be excluded from the EU internal market while Swedish Match became the first company to be granted Modified Risk Tobacco Product (MRTP) designations by the US FDA for our General snus offerings. We firmly believe that the best and most proven alternatives to cigarettes lie in smokefree nicotine products that do not require inhalation and we will continue to advocate for rational and science-based regulatory frameworks that will permit Swedish Match to responsibly market our products to adult consumers as a safer alternative to combustible cigarettes.



“2019 was a truly outstanding year for Swedish Match. As a pioneer in a dynamic and evolving industry landscape, we were able to both deliver a record financial performance and make substantial investments in the long-term strength of the Group. Our successful strategy has not only benefitted shareholders but also contributed to improved public health. We will continue making strides toward our vision of a world without cigarettes.”

Lars Dahlgren, President and CEO

Over the past several years, we have invested in the long-term strength and geographical reach of the Group. Our ZYN factory expansion projects in the US have progressed very well, and following the success of our 2019 national rollout of ZYN, we have once again taken a decision to further expand our manufacturing capacity in support of future growth. The opportunity for ZYN extends beyond the US and Sweden and ZYN is now available on a limited scale in a number of European countries, and markets as far away from Stockholm as New Zealand. In addition to investments in our existing business, we have also worked to build from our recent acquisitions of V2 Tobacco, Oliver Twist and Gotlandssnus – smokefree tobacco companies that complement our product portfolio and provide opportunities for a more flexible and adaptive portfolio under changing market and regulatory conditions.

The Group's outstanding financial performance in 2019 further reflects our commitment to our vision as the Snus and moist snuff product segment accounted for essentially all of our growth in sales and operating profit from product segments in local currencies.

In Scandinavia, cigarette smoking continued to decline and market growth for smokefree alternatives was robust during the year. As nicotine pouches became more widely accepted in both Sweden and Norway, dynamics within the smokefree markets have changed. In Norway, market volumes for conventional snus declined as consumers rapidly migrated to nicotine pouches. In Sweden, market growth accelerated during 2019, driven by nicotine pouches, which generally are priced higher than snus offerings, and by premium snus brands which are offered at somewhat lower price points than the traditional range of premium products. Our own volume growth was slower than the overall market growth for the combined snus and nicotine pouch categories in these markets, and we remain committed to actively competing in the attractive growing segments while balancing profit growth. Swedish Match's market share is particularly strong within the traditional range of premium snus products, and structural declines within this segment contributed to the market share declines for our total portfolio.

In the US, we noted slowdowns in growth within both the moist snuff and the snus category, impacted, in part, by the rapid growth of nicotine pouches, particularly for our own ZYN product assortment. For moist snuff, we continue to focus on the faster growing segments of the market, and it is encouraging to see that we once again outperformed the market growth rate in the moist snuff pouch segment. Volume growth for ZYN was extraordinary during

2019 benefitting from the national launch in the second quarter as well as increased sequential growth in velocities on a per store basis following the launch. Profitability for ZYN was also sharply higher as a result of volume growth and more cost-efficient local production.

Within Other tobacco products, cigars faced changed market conditions as market volumes contracted, and Swedish Match's shipment volumes similarly declined slightly compared to 2018 levels. While our shipment volumes declined in the HTL (homogenized tobacco leaf) segment, the impact of these declines on profit was more than offset by volume growth in the growing natural leaf segment resulting in an improved operating profit on a local currency basis. Growth for our natural rolled leaf cigars particularly in the earlier part of the year was constrained by a shortage of cigar wrapper supplies. In May of 2020, it is anticipated that we will be required to file substantial equivalence applications to the FDA for our cigar portfolio, and we are well advanced in this process. For chewing tobacco, the US market declined in line with the historical trend and the shift toward value priced offerings continued. Once again, Swedish Match experienced share growth in both the premium and value priced segment, helping to mitigate the impacts of general category declines and enabling the delivery of stable operating profit. In Europe, the chew bag market had a turbulent year, impacted by regulatory rulings, but also by the increased availability of alternative products. As a result of these uncertainties, we recorded a non-cash impairment charge related to our European chewing tobacco business in the fourth quarter.

Our Lights business had a difficult year with increased raw material costs and soft volumes. However, for both lighters and matches, portfolio price/mix effects were favorable which helped to offset the effects of lower volumes. In our continuing efforts to align the scale of our operations to market opportunities, we implemented restructuring activities during 2019, which have been fully funded through timber and land sales.

During the year, we distributed strong cash returns to our shareholders through dividends and share repurchases. We paid 1,777 MSEK in dividends and repurchased shares for 2,989 MSEK. At the upcoming Annual General Meeting, the Board of Directors will be proposing a 19 percent increase in the dividend to 12.50 SEK.

A key element to our long-term success involves the strong and positive relationships with our customers, our consumers, and especially our employees whose dedication and engagement help to build a strong and sustainable business. I would like to take the opportunity to thank you, our shareholders, for the confidence that you have placed in Swedish Match this past year and I look forward to continuing our journey toward a world without cigarettes.

Stockholm, March, 2020

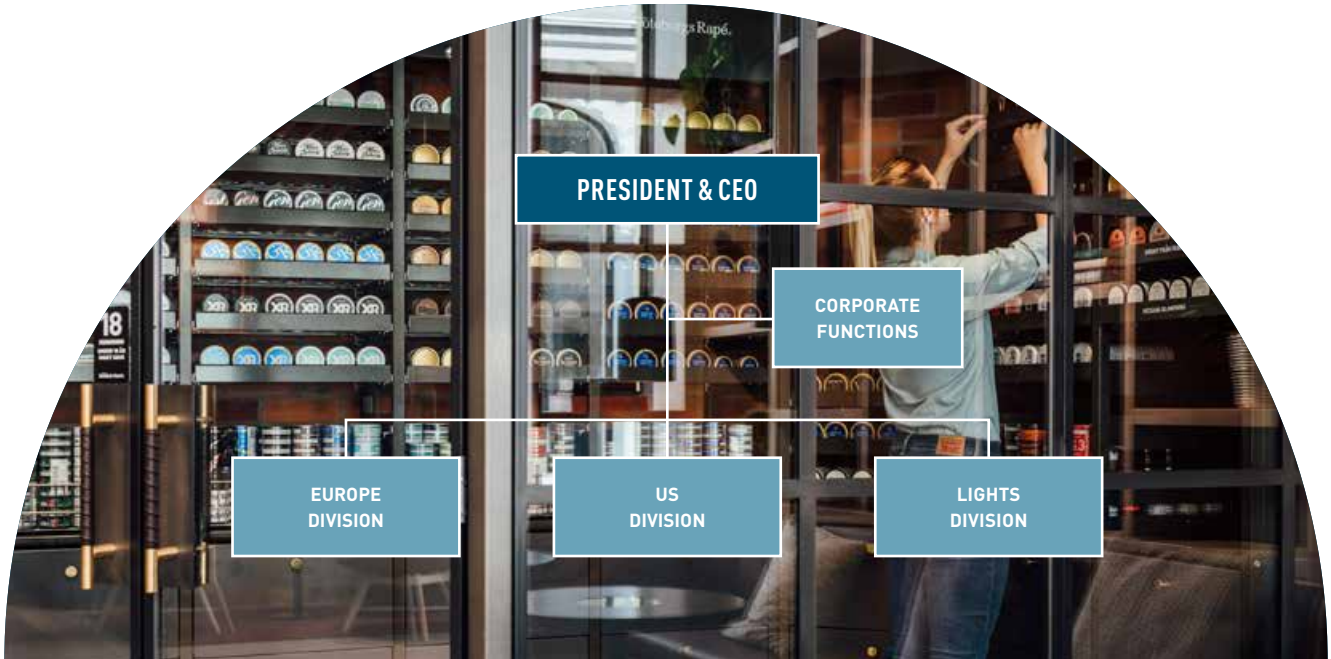
Lars Dahlgren
President and CEO

Important events during the year

- Extraordinary volume growth for ZYN nicotine pouches.
- Swedish Match became the first company to be granted Modified Risk Tobacco Product (MRTP) designations by the US FDA for General snus.
- Swedish Match's greenhouse gas emission reduction targets were approved by the Science Based Targets initiative.



How we operate



Flexible and innovative, Swedish Match works to have the right strategy, people, competencies, products, and structure in place in order to rapidly meet changing market conditions. The organization comprises three divisions as well as Corporate functions. The average number of employees in the Group was 6,270 in 2019. Swedish Match operates in eleven countries and our products are sold across the globe.

Europe Division

Europe Division is responsible for the snus, nicotine pouches, and other smokefree businesses including development, manufacturing, marketing, and sales internationally (outside North America). The division works to strengthen its position in the smokefree categories and growing through efficient sales processes, marketing activities, and product development.

US Division

US Division is responsible for the sales and marketing for smokefree tobacco products and nicotine pouches as well as cigars in the US. The division is also responsible for both the supply chain and manufacturing of cigars, chewing tobacco, moist snuff, and nicotine pouches for the US market.

Lights Division

Lights Division markets matches and lighters throughout the world and is responsible for the manufacturing of these products. The division also sells complementary products sourced from third party manufacturers, mainly to the Brazilian market. Lights Division has its own sales forces in Brazil, the Philippines and Turkey as well as a wide network of distribution partners worldwide. Distribution of certain other Swedish Match products is handled through the distribution networks of Lights Division.

Corporate functions

Corporate functions provide services to Swedish Match's divisions. Corporate functions include finance, business control, legal, IR, sustainability, scientific affairs, communications and public affairs, procurement, IT, central HR, as well as a distribution function.



OPERATING LOCATIONS

US

- Production of moist snuff, nicotine pouches, chewing tobacco, cigars
- Sales offices
- 1,067 employees

Dominican Republic

- Production of cigars
- 2,940 employees

Brazil

- Production of matches, lighters
- Sales offices
- 485 employees

Belgium

- Public Affairs offices
- 2 employees

Netherlands

- Production of lighters
- 96 employees

Switzerland

- Treasury offices
- Sales offices
- 4 employees

Norway

- Sales offices
- 45 employees

Sweden

- Head office
- Production of snus, nicotine pouches, pouch products with neither tobacco nor nicotine, matches
- Sales offices
- Distribution
- 1,273 employees

Denmark

- Production of chew bags, tobacco bits, snus
- Sales offices
- 111 employees

Philippines

- Production of lighters
- Sales offices
- 179 employees

Turkey

- Sales offices
- 15 employees

The number of employees refers to the average number of employees during 2019.





Significant market shifts toward modern products

Swedish Match is at the forefront of the global market for tobacco harm reduction with its portfolio of snus and nicotine pouches, supporting its vision of a world without cigarettes. The continuously growing interest from consumers and many important policymakers in tobacco harm reduction is well aligned with the Group's vision.

THE TOBACCO AND NICOTINE MARKET

Smokeless tobacco products are found worldwide, but with considerable product differentiation. Smokeless tobacco products primarily include snus, moist snuff, various forms of chewing tobacco, such as traditional US chewing tobacco, chew bags and tobacco bits, as well as niche products, such as nasal tobacco and dissolvables. Smokeless tobacco is a growing tobacco category consumed in many parts of the world in different types and formats but is still a small category compared to cigarettes.

In Scandinavia, the dominant form of smokeless tobacco is snus. In the US, snus is an attractive niche segment, while the dominant forms of smokeless tobacco are moist snuff and chewing tobacco. In other parts of the world, such as in India and certain countries in Africa and Asia, local variants of oral and nasal smokeless tobacco products are consumed in relatively large volumes. In the EU (outside of Sweden) and certain other markets, the sale of snus is prohibited while nearly all other tobacco products are allowed to be sold.

In recent years, new markets have developed for innovative smokeless

products that rely on nicotine derived from tobacco, such as nicotine pouches without tobacco (a market where Swedish Match actively participates). While the category for nicotine pouches is nascent, it has gained considerable ground in certain markets, including in Scandinavia and the US. Markets for innovative smoking products, including heated tobacco products and e-cigarettes/vaping products, have also been growing.

Large global tobacco companies rely on cigarettes for the bulk of their revenues and profits, and cigarettes account for roughly 90 percent of all tobacco consumed globally.¹⁾ Swedish Match does not produce cigarettes. Generally, cigarette consumption has been declining over the past decade in most developed countries, while in many emerging markets, cigarette consumption has continued to increase.¹⁾ Other smoking products sold globally include fine-cut and roll-your-own tobaccos, cigars, and pipe tobacco. Of these product categories, Swedish Match only participates with its machine made mass market cigars in the US.

The global tobacco market is exposed to ever increasing levels of restrictions and regulations, as governments and other regulatory and non-governmental organizations seek to reduce tobacco consumption, and, most notably, traditional cigarette consumption. These regulations, along with taxation measures, have had impacts on tobacco growing, production, product availability, packaging and labeling, consumer pricing, and location of use.

SHORT FACTS

- The global tobacco market is composed of smoking tobacco products, such as cigarettes, cigars, and pipe tobacco, as well as smokeless tobacco products, such as snus, moist snuff, and chewing tobacco.
- The largest segment of the global tobacco market is cigarettes, accounting for roughly 90 percent of all tobacco consumed globally.¹⁾
- Smokeless tobacco is a growing tobacco category but is still a small category compared to cigarettes.
- In Scandinavia, the dominant form of smokeless tobacco is snus. In Sweden, for example, snus consumption has continued to grow which to a large extent explains the decline in the use of cigarettes. Medical consensus recognizes snus manufactured according to the GOTHIA TEK® standard as a dramatically safer alternative to cigarettes.
- In the US, the dominant forms of smokeless tobacco are moist snuff and chewing tobacco, while snus is a niche segment. The FDA has provided a pathway to obtain Modified Risk Tobacco Product (MRTTP) status. In October 2019, FDA granted Swedish Match an order designating *General* snus products sold in the US as Modified Risk Tobacco Products.
- In recent years, the market for new, innovative nicotine products, has increased. Nicotine pouch products without tobacco and e-cigarettes/vaping products are examples of products available in certain markets as alternatives to traditional tobacco products.

¹⁾ Source: Euromonitor.



TRENDS

The global tobacco market is undergoing a significant shift in consumption trends, most notably away from cigarettes. Consumer demand for safer products and products without the disadvantages of second-hand smoke is increasing. There is also increased demand for transparency and demonstrated progress with regard

to sustainability. Tobacco regulations are becoming increasingly restrictive, while at the same time more regulators recognize differences in risk profiles among tobacco and nicotine containing products.

TRENDS HOW IT'S CHANGING

HOW SWEDISH MATCH RESPONDS

HEALTH AWARENESS AND RISK REDUCTION

Many consumers are becoming increasingly aware about harm reduction and the continuum of risk concept with regard to tobacco and nicotine products, and in understanding the scientific fact that some products are safer than others. Cigarette smoking is the leading cause of preventable death in the world, and there can be dramatic public health benefits by providing smokers with viable products that are recognized as safer alternatives to cigarettes. Smokeless tobacco and nicotine products meet the growing consumer demand for safer products and products without the disadvantages of combusted tobacco.

By developing attractive products that are recognized as safer alternatives to cigarettes, such as snus and nicotine pouches, Swedish Match can contribute to significantly improved public health. The Company's focus on snus in Sweden and Norway has contributed to an unprecedented low cigarette prevalence compared to most other countries. In Sweden, the risk of dying from a tobacco-related illness among men is lower than in any other European country, although tobacco consumption is on a comparable level. Researchers refer to this phenomenon as "the Swedish Experience".
In 2019, after several years of dedicated effort, Swedish Match became the first company to be granted modified risk tobacco product (MRTP) designations by the FDA in the US for eight *General* snus varieties. This classification allows Swedish Match to inform consumers about the relative health benefits of these products compared to cigarettes. The Company is also marketing its nicotine pouch brand *ZYN* in the US, and the success with this product provides a platform for continued growth in response to consumer needs.

SHIFT AWAY FROM "ONE-SIZE-FITS-ALL" REGULATIONS

The global tobacco market is exposed to ever increasing levels of restrictions and regulations, and most notably in regulators' efforts to reduce cigarette consumption. Some regulators and governments are increasingly taking into account the concept of harm reduction and continuum of risk, moving away from "one-size-fits-all" regulation.

Swedish Match is of the opinion that regulation must be evidence-based, taking into account the relative risk among different tobacco products. Regulation for smokeless tobacco and nicotine products should be based upon standards which strive to ensure that consumers receive attractive products with high product quality and low levels of risk i.e. product standards based on the same principles as food regulation. Swedish Match monitors relevant regulatory developments and is actively engaged with stakeholders in various ways, recognizing that regulatory decisions will ultimately be at the discretion of the lawmaker.

HEIGHTENED FOCUS ON SUSTAINABILITY ISSUES

Consumers are increasingly making more informed choices in their consumption of goods and services. Consumer demand for transparency means that tobacco companies need to be open about how they operate throughout their value chains and about what goes into the products they sell. Stakeholders are increasingly demanding improved transparency with regard to environmental, social and economic impacts as well as corporate behavior.

Swedish Match's approach to sustainability and the Company's development goes hand in hand. Pursuing our vision represents a great commercial opportunity as well as a potential to make significant positive impacts on society. We purchase raw tobacco from large international suppliers and monitor our value chain closely, covering a number of issues, including child labor. With our *GOTHIA TEK*® quality standard for snus, we have an objective to eliminate or reduce potentially harmful constituents naturally found in tobacco. We employ thorough testing at several stages of the value chain, including the selection of raw tobacco. We are transparent with regard to the content of our products and engage in responsible marketing practices. For packaging, we continuously work to reduce the use of materials associated with our products, as well as look for alternative materials that are partly renewable and/or recycled, and with lower carbon intensity. We are also exploring how we can contribute in increasing consumers' recycling rate of used products.

ADAPTATION TO EVOLVING CONSUMER DEMAND

Today's adult nicotine consumers are not satisfied with the status quo, and are seeking less harmful, convenient and enjoyable options to cigarettes that best suit their lifestyles. Both men and women expect high quality products that deliver satisfaction whenever and wherever they choose to use them.

At Swedish Match, tobacco harm reduction is at the core of what we do, and we have a long history in providing products that are recognized as safer alternatives to cigarettes. Our efforts behind snus and nicotine pouches in Scandinavia and our recent success with nicotine pouches in the US demonstrate that we can develop products that both fulfill consumer needs and that enable smokers to replace their cigarette habit. We use a structured approach to consumer insight and assess consumer needs and trends in the marketplace. Over the years, we have developed our product portfolio with innovation, including new products and the development of existing products. Our snus and nicotine pouches are convenient and easy to use. Our assortments of snus and nicotine pouches have been expanded to include more varieties and different nicotine strengths in order to accommodate changing consumer demands.



SMOKELESS PRODUCTS WORLDWIDE

Europe

In Scandinavia, smokeless tobacco consumption has a long tradition, with snus being the dominant form. Today, there are more snus users than cigarette users in both Sweden and Norway. Nicotine pouches is a small but growing category in Sweden. In Norway, the transformation from a small traditional snus market to a market where the consumption of cigarettes has shifted to snus and nicotine pouches, especially among younger adults, has been dramatic. In both Sweden and Norway, snus has historically been used by men, while in recent years has become increasingly

appealing among women. In Denmark and Finland, there are historical ties to snus. Nicotine pouches is a relatively recent product category in Denmark, but growth has been rapid.

In European markets outside Scandinavia, smokeless tobacco traditionally has been consumed as a chewing tobacco product or as nasal snuff. Chew bags and tobacco bits are small product segments within Europe but with an established presence in certain countries. Although scientifically recognized as a safer alternative to cigarettes, tobacco products for

oral use (such as snus) are banned within the EU (outside of Sweden) while cigarettes, chewing tobacco, nasal snuff and certain other smokeless tobacco products are allowed to be sold. In certain European countries, most particularly in central Europe and in the alpine regions, smokeless products enjoy greater use. In 2019, the ban on snus in Switzerland was lifted, and snus is now allowed to be sold on this market. Nicotine pouches have recently been launched in several European markets, including countries such as Austria, the Czech Republic, Germany, and the UK.



North America

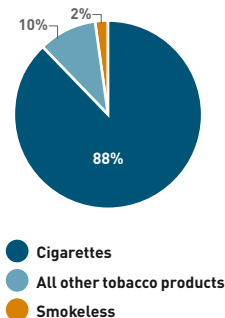
In the US, the dominant form of smokeless tobacco is fermented moist snuff. Moist snuff has its origins from products brought over by Scandinavian immigrants. Moist snuff has traditionally been consumed in a loose format, although consumption of moist snuff in pouch format has increased rapidly in recent years. Snus, which is pasteurized and not fermented, is a small and relatively recent product category. Nicotine

pouches is a rapidly growing category with an increasing level of interest from industry players as well as consumers. Traditional US chewing tobacco consumption is in a long term state of decline but this category nevertheless remains a significant part of the US smokeless tobacco market. Smokeless tobacco is also available on the Canadian market.

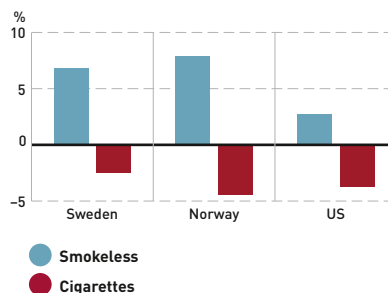
Asia and Africa

Local variants of other oral and nasal smokeless tobacco products are consumed in relatively large volumes in certain countries. In Asia, local chewing products include products such as gutkha and zarda in India, and tobacco mixed with betel, in Indonesia for example. In North Africa, chemma is a widely used product. These types of products in Asia and Africa, often contain significantly higher levels of undesired compounds compared to snus.

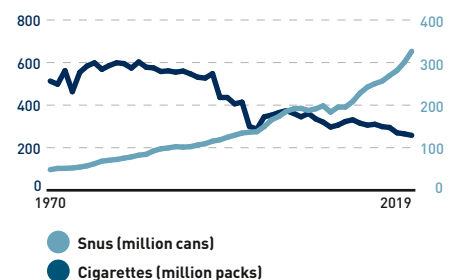
GLOBAL TOBACCO MARKET (VALUE)¹⁾



ANNUAL GROWTH RATES OF CIGARETTES AND SMOKELESS, 2010-2019 (CAGR)²⁾



TOBACCO CONSUMPTION IN SWEDEN 1970-2019 (VOLUME)³⁾



Smokeless tobacco is a small tobacco category compared to cigarettes.

Consumption of smokeless products (snus, nicotine pouches and moist snuff) in Scandinavia and the US has been growing over the past decade.

In Sweden, snus consumption has been growing while cigarette consumption has been declining.

¹⁾ Source: Euromonitor. The segment "All other tobacco products" includes e-cigarettes.
²⁾ Source: Swedish Match and industry estimates.
³⁾ Source: Swedish Match estimates.



OUR MARKETS

Snus and nicotine pouches in Scandinavia

The combined Scandinavian snus and nicotine pouch market is estimated to have amounted to approximately 470 million cans in 2019, up by more than 7 percent from previous year.¹⁾ Most of this growth came from the rapidly growing nicotine pouch category, which by the end of 2019 was approximately 9 percent relative to the snus category in volume terms. For snus, consumption has been migrating from traditional loose products to pouch products, which at the end of 2019 accounted for more than 86 percent of snus volumes in Scandinavia.¹⁾ Swedish Match holds the leading position of the combined snus and nicotine pouch market in Scandinavia with Sweden being the largest market. The Scandinavian market also includes pouch products with neither tobacco nor nicotine.

Main brands

Snus, Sweden: *General, Göteborgs Rapé, Kaliber, Kronan, Ettan, Grov, Catch*

Snus, Norway: *General, G.3, The Lab, Nick & Johnny*

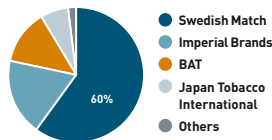
Nicotine pouches, Sweden and Denmark: *ZYN*

Nicotine pouches, Norway: *G.4*²⁾

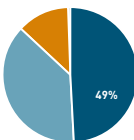
Pouch products with neither tobacco nor nicotine, Sweden and Norway: *Onico*

Competition

SWEDEN¹⁾

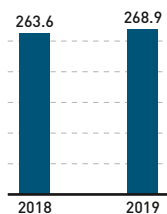


NORWAY¹⁾



Swedish Match shipment volumes (million cans)

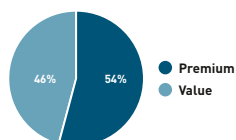
SNUS AND NICOTINE POUCHES



Segment

CONSUMPTION BY PRICE SEGMENT

SWEDEN¹⁾



NORWAY¹⁾



¹⁾ Swedish Match's estimate for the combined snus and nicotine pouch market using Nielsen data (excluding tobaccoconists for Sweden), full year 2019.

²⁾ Nicotine pouches are oral products that contain nicotine, but no tobacco. There are certain markets, like Norway, that do not currently allow nicotine pouches without tobacco. In those markets, nicotine pouches refer to products that contain small amounts of tobacco.

Snus and nicotine pouches outside Scandinavia

The main market for snus and nicotine pouches outside Scandinavia is the US. The US snus category is small, and volumes have been flat in recent years. In 2019, Swedish Match estimated the market to amount to around 60 million cans, with Swedish Match holding the number 3 position. A relatively new product category in the US is nicotine pouches. This category is growing at a rapid pace, and the market size in 2019 is estimated to have been approximately 60 million cans, up from approximately 13 million cans in 2018. Outside Scandinavia and the US, Swedish Match has been selling snus in Malaysia and certain other markets and has during the year started to sell snus in Switzerland, following the decision in May by the Swiss Federal Supreme Court stating that the ban on snus was illegal. During 2019, Swedish Match also sold nicotine pouches in a number of markets outside of Scandinavia and the US, and the Company's products were made available on a limited scale in stores in countries such as Austria, Croatia, the Czech Republic, Estonia, Germany, Greenland, Slovenia, and the UK.

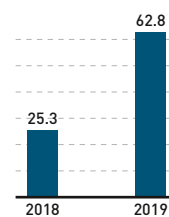
Main brands

Snus: *General*

Nicotine pouches: *ZYN, G.4*

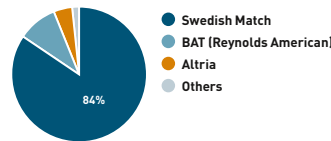
Swedish Match shipment volumes (million cans)

SNUS AND NICOTINE POUCHES OUTSIDE SCANDINAVIA²⁾



Competition

NICOTINE POUCHES IN THE US¹⁾



¹⁾ Swedish Match and industry estimates, full year 2019, on a can equivalent basis.

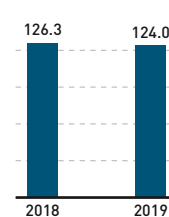
²⁾ Includes snus volumes for Gotlandssnus from acquisition date, August 22, 2018. Scandinavia refers to Sweden, Norway, and Denmark.

Moist snuff in the US

The moist snuff market in the US is concentrated in the southern and mid-Atlantic states. In 2019, the market is estimated by Swedish Match to amount to approximately 1.5 billion cans, with growth in the pouch segment offsetting declines for loose products. The pouch segment accounts for approximately 17 percent of the total moist snuff market. Swedish Match holds the number 3 position for moist snuff in the US.

Swedish Match shipment volumes (million cans)

MOIST SNUFF

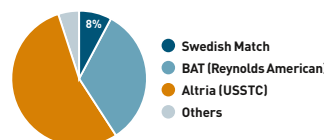


Main brands

Longhorn, Timber Wolf

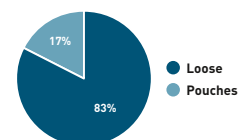
Competition

MOIST SNUFF¹⁾



Segment

MOIST SNUFF CONSUMPTION BY FORMAT¹⁾



¹⁾ Swedish Match and industry estimates, full year 2019, on a can equivalent basis.



Cigars in the US

Swedish Match estimates that the US machine made (mass market) cigar market, excluding little cigars¹⁾ (a segment in which Swedish Match does not participate), declined slightly in volume terms in 2019 and amounted to approximately 7.5 billion cigars. While the category volume decline was driven by the homogenized tobacco leaf (HTL) segment, the natural leaf segment continued to demonstrate growth. The market is highly competitive with extensive activity for low priced and promotional products. Swedish Match is the largest participant in the natural leaf segment and also participates in the HTL segment. For the total market of mass market cigars in the US, Swedish Match estimates that it holds the number 2 position based on shipments.

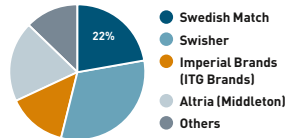
Main brands

Garcia y Vega, Game by Garcia y Vega, 1882, White Owl, Jackpot

¹⁾ Little cigars are typically filter tipped and packaged in packs of 20 (similar to cigarette packaging).
²⁾ Swedish Match and industry estimates for mass market cigars excluding little cigars, full year 2019.

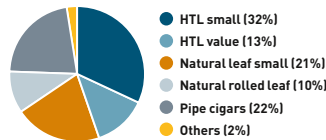
Competition

MASS MARKET CIGARS²⁾ (EXCLUDING LITTLE CIGARS)



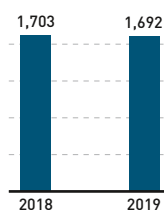
Segment

MASS MARKET CIGARS²⁾



Swedish Match shipment volumes (million sticks)

MASS MARKET CIGARS



Lights worldwide

Lights products include matches, lighters, and complementary products. The market for traditional match products has been declining in most markets over the past decade. Lighter use has shown growth in some markets, most notably in Asia. Swedish Match has a strong presence in Latin America, especially for matches in Brazil, as well as in large parts of Europe and Asia Pacific.

Main brands

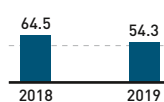
Matches: *Solstickan* (Sweden), *Nitedals* (Norway), *Fiat Lux* (Brazil), *Redheads* (Australia)
Lighters: *Cricket* (globally)

Competition

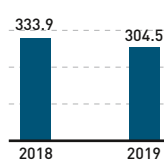
Match competition varies widely between markets. Lighter competitors include Bic, Tokai, Flamagas, and a number of asian manufacturers.

Swedish Match shipment volumes

MATCHES (billion sticks)



LIGHTERS (million units)



Chewing tobacco in the US and Europe

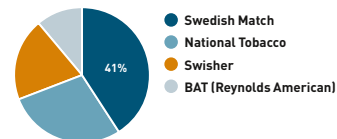
Swedish Match sells chewing tobacco in the US, as well as chew bags and tobacco bits in certain European markets. The US chewing tobacco market is in a long term state of volume decline and it is estimated that the market declined by approximately 5 percent in 2019, in line with the historical trend. Swedish Match holds the leading position for chewing tobacco in the US. The premium segment, where Swedish Match has a leading position, is estimated to have declined by approximately 11 percent. During the year, Swedish Match has been gaining share in both the premium and value segment with slower than industry volume declines. In Europe, the market for chew bags and tobacco bits is small but has been growing in several countries. Denmark is one of the larger markets and is estimated by Swedish Match to amount to more than 2 million cans. After acquiring V2 Tobacco during 2017 and House of Oliver Twist in 2018, Swedish Match has broadened its geographical footprint for its chewing products. Markets for chewing tobacco in Europe have more recently been adversely influenced by regulatory developments as well as a broader prevalence of nicotine pouches in certain markets.

Main brands

Chewing tobacco, the US: *Red Man*
Chew bags, Europe: *Thunder, General Cut*
Tobacco bits, Europe: *Oliver Twist*

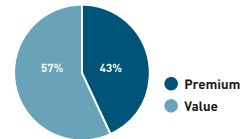
Competition

CHEWING TOBACCO IN THE US¹⁾



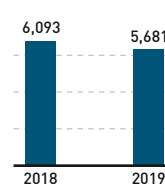
Segment

CHEWING TOBACCO IN THE US¹⁾



Swedish Match shipment volumes (thousand pounds)

CHEWING TOBACCO IN THE US²⁾



¹⁾ Swedish Match and industry estimates, full year 2019.
²⁾ Excluding contract manufacturing.



Strong growth

Markets for smokefree alternatives, driven in large part by innovative products have demonstrated attractive growth. As the market leader in Scandinavia and a rapidly growing player in the US, Swedish Match is well positioned for the future.

The development of the combined Scandinavian snus and nicotine pouch market remained strong in 2019 driven by modern and innovative products, and Swedish Match's volumes increased during the year in Sweden, Norway, and Denmark. In other parts of Europe, there is a potential for innovative smokefree products and Swedish Match has introduced nicotine pouches in several markets. In Switzerland, the ban on the sale and distribution of snus was lifted in 2019 and snus is now allowed to be sold on this market. In the US, Swedish Match became the first tobacco company to receive Modified Risk Tobacco Product (MRTTP) designations from the FDA for its portfolio of *General* snus products, including mint and wintergreen varieties. The US market for nicotine pouches continued to demonstrate an impressive growth trajectory, with Swedish Match building on its leading position. On the US moist snuff market, Swedish Match offers attractive alternatives in the fastest growing formats – pouches and tubs.

Strategy

Swedish Match's vision is a world without cigarettes, providing consumers enjoyable alternatives that are both satisfying and dramatically safer than smoking. Smokefree alternatives, including snus and moist snuff, as well as innovative products such as nicotine pouches play an important part in moving toward the vision. In Scandinavia, consumer preference for snus and nicotine pouches versus cigarettes has increased over the years. Swedish Match is dedicated to further developing the growing snus and nicotine pouch category in Scandinavia, the US, and certain other markets, thereby contributing significantly to improved public health.

The Company's major competitive strengths include its superior quality products, in depth know-how, and ability to quickly adapt to evolving consumer needs. The Company's strengths also include offering both traditional and modern high quality products with both well established and new brands, and its capabilities in the areas of analyzing the needs of consumers, conducting research, product innovation, and servicing customers.

Swedish Match will leverage its unique snus, nicotine pouch, and moist snuff platforms and continue to innovate and develop new and improved products with outstanding quality and value. Swedish Match endeavors to drive category growth and maintain its leading position in Scandinavia. In the US, we will focus on faster growing market segments such as nicotine pouches and moist snuff pouches, as well as snus. Swedish Match will explore opportunities for Swedish snus and other innovative smokefree products in both existing and new markets.

Financial development

Sales for the product segment during the year increased by 22 percent to 7,484 MSEK (6,127). Operating profit for the year grew by 25 percent to 3,477 MSEK (2,791). In the Scandinavian market, Swedish Match's sales grew on higher volumes and positive net price/mix effects. In the US, Swedish Match's moist snuff sales decreased in local currency. The total net operating result related to the sales of snus and nicotine pouches without tobacco outside Scandinavia improved significantly. The operating margin was 46.5 percent (45.6) for the year.



SCANDINAVIA

Swedish Match is the leading snus producer in Scandinavia and enjoys strong market positions in both Sweden and Norway. In Sweden, *General*, a premium product, is the largest brand on the market, while *Kronan* and *Kaliber* are among the leading brands in the value priced segment.¹⁾ In Norway, *General* is the largest Swedish Match snus brand on the market, including its *G.3* range. Swedish Match also offers nicotine pouches on the Scandinavian market. In Sweden, Swedish Match is marketing *ZYN*, its nicotine pouch product without tobacco. In Norway, the Company is marketing its *G.4* range, which contains a small amount of tobacco. Swedish Match also offers *Onico* in both Sweden and Norway, the number one brand in the segment for products with neither tobacco nor nicotine. In Denmark, Swedish Match is present in the growing nicotine pouch segment with *ZYN*.

Market

The combined Scandinavian snus and nicotine pouch market is estimated to have amounted to approximately 470 million cans in 2019, up by more than 7 percent from the previous year.¹⁾ Most of this growth came from nicotine pouches, which by the end of 2019 was approximately 9 percent relative to the snus category in volume terms.

Over the long term, snus consumption has been moving from traditional loose products to pouch products, which at the end of 2019 accounted for more than 86 percent of volumes in Sweden and Norway combined.¹⁾ More recently, consumption has been moving to more innovative pouch offerings. Swedish Match's Scandinavian shipment volumes measured in number of cans grew by more than 2 percent, while underlying organic volumes (excluding hoarding and year-end calendar effects as well as acquisition effects) are estimated to have increased by approximately 1 percent.

Sweden has more than 1 million snus consumers, and growing.²⁾ It is estimated that more than 24 percent of Swedish men and more than 7 percent of Swedish women use snus on a regular basis. The overall percentage of women using snus has been growing in recent years, while their use of cigarettes has declined.²⁾ The consumption of nicotine pouches is more skewed towards female consumers and it is estimated that in Sweden, more than half of nicotine pouch consumers are women.²⁾ The average nicotine pouch consumer is also somewhat younger than the average snus consumer.

The Swedish snus and nicotine pouch market is estimated by Swedish Match to have grown by approximately 7 percent in volume terms in 2019 versus the prior year. Nicotine pouches accounted for the majority of this growth, but the Swedish snus market also grew. The upward trajectory was mainly attributable to the premium segment.¹⁾ This development reflects the continued shift away from the more traditional and higher-priced pouch and loose products toward premium pouch products which are offered at somewhat lower consumer price points. While volumes also grew within the value segment of the Swedish snus market, the pace of growth was more modest than for the premium segment.¹⁾ Nicotine pouch volumes have been growing quickly and this segment was 6 percent relative to the snus market in Sweden.¹⁾ Nicotine pouches are innovative and modern products with price points in line with higher-priced premium snus. The fast growth of these products has contributed to a positive price/mix effect in the combined market for snus and nicotine pouches.

In Sweden, Swedish Match's market position is strongest within snus, and more specifically in the premium segment of the snus market. While the Company's premium volumes grew during the year, it however lost market share in this segment. Within the value segment of the snus market, competition remained intense during the year, and Swedish Match's volumes and market share declined. Swedish Match's market share within nicotine pouches is significantly lower than its share of the Swedish snus market, but the market share increased slightly compared to the prior year.

During the last 20 years, the Norwegian market has transformed from being a small traditional snus market to a large snus and nicotine pouch market with growth coming from nicotine pouches. In this time period, consumption of cigarettes has shifted to snus and nicotine pouches, especially among younger adults. The Norwegian market is an all premium market. As in Sweden, the majority of Norwegian nicotine pouch consumers are women, and the average age of both male and female nicotine pouch consumers is also younger than the average snus consumer.

The combined category for snus and nicotine pouches in Norway is estimated by Swedish Match to have grown by more than 5 percent in volume terms in 2019 versus the prior year. Nicotine pouches³⁾ grew, while the snus category declined. The size of the nicotine pouch segment in terms of volume was more than 19 percent relative to snus.¹⁾

In Norway, as in Sweden, Swedish Match's market position is stronger for snus than for nicotine pouches, and the Company is significantly underrepresented in this rapidly growing segment. While Swedish Match's snus market share in volume terms in Norway is estimated to have increased by approximately 1 percentage points, the Company's nicotine pouch market share is estimated to have declined by approximately 2 percentage points.¹⁾



¹⁾ Source: Swedish Match estimates of can volume using Nielsen data [excluding tobacconists in Sweden], full year 2019.

²⁾ Source: Ipsos Sweden, Market Report, 2019.

³⁾ In Norway, Swedish Match classifies nicotine pouches separately from snus. Under Norwegian regulation, nicotine pouches which contains only small amounts of tobacco are classified as snus.



Highlights

In recent years, Swedish Match has been successful in the premium segment of the Swedish snus market with its attractively priced *XR* and *One* ranges. These products have drawn consumers from both higher and lower priced products, and have supported volume growth for premium brands. In 2019, the Company continued to build on the strength of *XR* and launched new snus varieties under this product range, including *XR Göteborgs Rapé Sparkling Slim White*. In addition, Swedish Match repositioned *General Onyx*, snus products with a distinctive look coming from the onyx black pouches. With these premium offerings at attractive price points, Swedish Match was able to improve its competitive position helping to mitigate its share decline within the premium segment during the latter part of the year.

In the nicotine pouch market in Sweden, Swedish Match continued to expand the distribution of *ZYN*, a brand first launched on the US market prior to being offered in Sweden. The Company offers two formats of *ZYN* on the Swedish market, Slim and Mini Dry, with the main difference being *ZYN Slim* having a somewhat softer and fuller mouth feel. During the year, the Company extended the *ZYN* range with new products in both formats. New launches included Apple Mint, Ginger Blood Orange and Lemon Spritz in the Slim format as well as Spearmint and Espresso in the Mini Dry format. *ZYN* volumes increased during the year and Swedish Match gained some share in this rapidly growing category. The Company's ambition is to capture a higher portion of the category growth.

In Norway, Swedish Match estimates that all of the growth for the combined snus and nicotine pouch market is coming from nicotine pouches, while the snus category is declining in volume terms. Swedish Match gained market share in snus supported by the Company's *G.3* range of products, with functional properties such as a soft fit, minimal drip and a long-lasting snus experience. Volumes continued to decline for loose snus and for the more traditional pouch products.

In the rapidly growing nicotine pouch category in Norway, competition remained intense, and Swedish Match lost market share despite new product introductions during the year under the *G.4* brand, including *G.4 BLUSH*, *G.4 TACT*, and *G.4 FIZZY*. The *G.4* range, first launched in 2017, was developed utilizing state of the art technology and provides a soft mouth feel.

In Sweden, Swedish Match has six of its own stores which offer a unique consumer experience. At the Swedish Match stores, consumers can learn more about snus and nicotine pouches and the Swedish Match range of products. The stores are also an ideal venue to inform about new products. Starting with a store in central Stockholm at the end of 2012, the store concept now includes locations in Gothenburg and Lund, as well as in locations close to the Norwegian border – Strömstad, Åre, and Charlottenberg. Swedish Match also provides the store experience online through its e-commerce service.



THE US

In the US, Swedish Match sells nicotine pouches under its *ZYN* brand, and snus under its *General* brand. *ZYN* and *General* are priced in line with premium priced moist snuff products.

The Swedish Match brand portfolio for moist snuff is positioned in the value priced segment, with traditional loose products as well as pouch products. *Longhorn* is Swedish Match's largest brand in the US market.

Market

While nicotine pouches is a relatively new category on the US market, its growth rate has been impressive, and Swedish Match estimates that the US nicotine pouch market amounted to approximately 60 million cans in 2019, up from 13 million cans in 2018. During 2019, several competitors to Swedish Match entered this market by aggressively introducing their product offerings, a testament to the attractiveness of this category. The market growth potential for nicotine pouches is strong, as these products have a potential to appeal to a wide segment of the adult tobacco consuming population who desire a discrete and spitless alternative without tobacco.

The US snus market amounted to approximately 60 million cans in 2019, basically flat compared to the levels seen in recent years.¹⁾ Swedish Match estimates its market share by volume of the snus market to be approximately 10 percent.

Moist snuff is sold throughout the US and volumes are particularly strong in the southern and mid-Atlantic states. The vast majority of moist snuff users in the US are men. The moist snuff market is highly price competitive. In 2019, the US moist snuff market is estimated by Swedish Match to have declined by approximately 1 percent in volume terms compared to the previous year, and amounted to more than 1.5 billion cans, with the pouch segment accounting for approximately 17 percent of this market. Swedish Match's moist snuff volume measured in number of can equivalents was lower compared to last year. For the full year 2019, Swedish Match estimates its market share by volume of the moist snuff market to be approximately 8 percent.

¹⁾ Source: Swedish Match and industry estimates.



Highlights

During 2019, Swedish Match expanded the availability of ZYN nicotine pouches nationally from the Western region base. By the end of 2019, ZYN was available in more than 67,000 stores. While the distribution footprint for ZYN expanded more than fourfold during the year, growing volumes for ZYN were also attributable to increased sales volume per store. Shipments of ZYN in the US amounted to 50.4 million cans for the year, up from 12.7 million cans in the prior year. Market data indicates that the national rollout markets trend consistently with, or better than, how the established Western region market performed based on comparable time in market. To handle the increased distribution and higher in-store velocities, Swedish Match has invested significant resources into US production capacity of ZYN, a project that was initiated in 2017. While the first phase of the project was completed in early 2019 when the US production facility became operational, the second phase was completed towards the latter part of the year. The third phase of the project is expected to be completed in early 2021, effectively doubling currently installed capacity and bringing total US-based manufacturing capacity to somewhat more than 150 million cans annually. Given the market success of ZYN, Swedish Match has recently decided to once again expand capacity. The fourth phase, which is planned to be completed in 2022, will involve building expansion as well as processing and packaging lines that will increase annualized installed capacity to more than 200 million cans.

In the US, the Company markets the *General* snus brand – an authentic Swedish snus, available in tobacconists, convenience stores, and other select shops. In October, Swedish Match became the first tobacco company to be granted authorization from the US Food and Drug Administration (FDA) designating eight *General* snus varieties, including its mint and wintergreen varieties, as Modified Risk Tobacco Products (MRTP). In reaching its conclusion, the FDA found that the designated *General* snus products, as actually used by consumers, will significantly reduce harm and the risk of tobacco-related disease to individual tobacco users and benefit the health of the population as a whole taking into account both users of tobacco products and persons who do not currently use tobacco products. The MRTP designation will allow Swedish Match to market the products with the following modified risk description – “Using *General Snus* instead of cigarettes puts you at a lower risk of mouth cancer, heart disease, lung cancer, stroke, emphysema, and chronic bronchitis” – along with standard health warning statements required of all smokeless tobacco products.

For the US moist snuff market, while category volumes remained soft in 2019, growth in value terms increased. While the premium segment of the market declined, the value segment grew.¹⁾ There was continued intensive competitive activity among large competitors, especially in the value segment. While Swedish Match's volume and market share declined for its higher priced brands in the value segment, the Company has maintained its position with its *Longhorn* brand, as well as strengthened its position with pouch products in that growing segment. Approximately 83 percent of moist snuff in the US is sold in the traditional loose format¹⁾, but over the past several years, the percentage of moist snuff sold

in pouches has increased. Swedish Match estimates the growth in the pouch segment to have been approximately 3 percent in volume terms in 2019. While volumes declined for loose products, the Company experienced solid volume growth for its pouch assortment, again reaching an all time high market share of approximately 8 percent in the pouch segment.

GEOGRAPHIES OUTSIDE SCANDINAVIA AND THE US

Outside the Group's home markets, Swedish Match continues its efforts to establish snus and nicotine pouches in other countries, and the Company sees good opportunities for its snus and nicotine pouch products over the longer term.

In 2019, Swedish Match expanded the availability of ZYN on a limited scale to a number of markets outside Scandinavia and the US, and by the end of the year, the Company was present in stores in markets including Austria, Croatia, the Czech Republic, Estonia, Germany, Greenland, Slovenia, and the UK.

In addition to the rollout of nicotine pouches, Swedish Match is also continuing to establish a presence with snus in select markets. In 2019, Swedish Match has been selling snus in Malaysia and certain other markets and has during the year started to sell snus in Switzerland. Due to regulatory developments, the decision was made to exit the Canadian market for snus.

During 2019, the Swiss Federal Supreme Court ruled that the country's ban on snus was illegal and unconstitutional, making particular note of the fact that snus is less hazardous than other tobacco-based products allowed on the Swiss market. The decision was enforced with immediate effect, and Swedish Match now sells snus on the Swiss market.



¹⁾ Source: Swedish Match and industry estimates.



FACTS AND FIGURES

SNUS AND MOIST SNUFF HIGHLIGHTS

- Strong market volume growth for the combined Scandinavian snus and nicotine pouch market.
- Higher Swedish Match shipments for combined snus/nicotine pouches in both Sweden and Norway.
- The ban on snus was lifted in Switzerland.
- In October, the US FDA authorized modified risk tobacco status for eight General snus varieties.
- National store expansion for ZYN in the US, with increased velocities on a per store basis.
- Swedish Match launched ZYN in a number of markets outside of Sweden and the US.
- Share and volume growth for US moist snuff pouches.

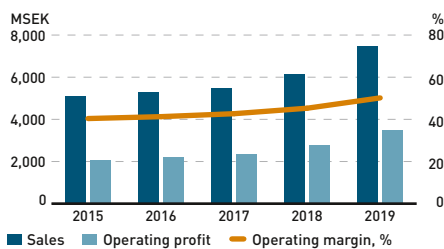
KEY DATA¹⁾

MSEK	2019	2018	2017 ²⁾
Sales	7,484	6,127	5,484
Operating profit	3,477	2,791	2,358
Operating margin, %	46.5	45.6	43.0
Investments in property, plant and equipment	536	518	211
Average number of employees	1,445	1,327	1,204

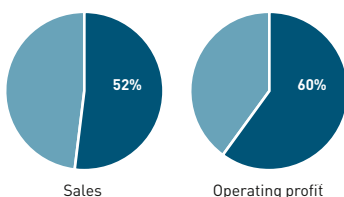
¹⁾ Excluding larger one-time items.

²⁾ Restated in accordance with IFRS 15.

SALES AND OPERATING PROFIT



SHARE OF PRODUCT SEGMENTS 2019



SNUS AND NICOTINE POUCHES IN SCANDINAVIA

Main brands:

Snus, Sweden: General, Göteborgs Rapé, Kaliber, Kronan, Ettan, Grov, Catch

Snus, Norway: General, G.3, The Lab, Nick & Johnny

Nicotine pouches, Sweden and Denmark: ZYN

Nicotine pouches, Norway: G.4

Pouch products with neither tobacco nor nicotine, Sweden and Norway: Onico

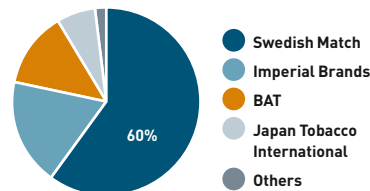
SWEDISH MATCH MARKET SHARES

Market shares (percent) ¹⁾	2019	2018	Change, pts
Snus, Sweden	61.5	64.2	-2.7
Snus, Norway	55.5	54.6	0.9
Nicotine pouches, Sweden	25.8	19.7	6.1
Nicotine pouches, Norway ²⁾	15.4	17.6	-2.2

¹⁾ Source: Swedish Match estimates using Nielsen data (excluding tobacconists and e-commerce): 13 weeks to December 29, 2019 and December 30, 2018, respectively. All figures for the Swedish market have been restated to reflect changes in Nielsen store measurements. Data for both the current and prior year periods include brands acquired in 2018.

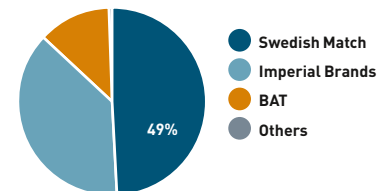
²⁾ Nicotine pouches in Norway contain a small amount of tobacco for regulatory reasons.

COMPETITION – SWEDEN



Source: Swedish Match estimates of can volume, using Nielsen data (excluding tobacconists), full year 2019.

COMPETITION – NORWAY



Source: Swedish Match estimates of can volume, using Nielsen data, full year 2019.

SNUS, NICOTINE POUCHES AND MOIST SNUFF IN THE US

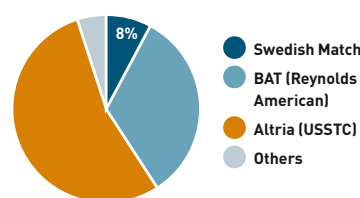
Main brands:

Moist snuff: Longhorn, Timber Wolf

Snus: General

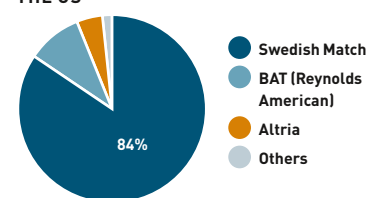
Nicotine pouches: ZYN

COMPETITION – MOIST SNUFF IN THE US



Source: Swedish Match and industry estimates, full year 2019, on a can equivalent basis.

COMPETITION – NICOTINE POUCHES IN THE US



Source: Swedish Match and industry estimates, full year 2019, on a can equivalent basis.

SWEDISH MATCH SHIPMENT VOLUMES SUMMARY

Shipment volumes (millions of cans)	2019	2018	Change, %
Snus and nicotine pouches, Scandinavia ¹⁾	268.9	263.6	2
Moist snuff, US	124.0	126.3	-2
Snus and nicotine pouches, outside Scandinavia	62.8	25.3	149

¹⁾ Includes snus volumes for Gotlandssnus from acquisition date, August 22, 2018. Scandinavia refers to Sweden, Norway, and Denmark.



Continued growth for natural leaf cigars

Sales for Other tobacco products primarily comes from cigars and chewing tobacco for the US market. Swedish Match also has a presence in Europe with chew bags and tobacco bits.

In the US, Swedish Match maintains a strong presence with its machine made cigars, especially within the natural leaf segment¹⁾ where the Company has the leading position, and holds the number one position for chewing tobacco. Swedish Match also sells other chewing products, such as chew bags and tobacco bits, in the European niche chewing tobacco market.

Strategy

In the product segment Other tobacco products, Swedish Match works to maximize long term profitability, leveraging its strong market presence and trusted brands.

For cigars, Swedish Match will drive profitable growth through strong sales and marketing execution, while maintaining strict cost discipline. The Company works to maintain its leadership by offering high quality products with outstanding value with a focus on products in growing segments.

For chewing tobacco in the US, Swedish Match will capitalize on its leading position in the category and continuously drive productivity improvements. By mitigating the impact of volume declines through cost focus and price leadership Swedish Match can ensure good profitability in this declining category. For chew bags and tobacco bits, Swedish Match will exploit opportunities in these niche segments.

Financial development

Sales for the product segment for the year increased by 8 percent to 5,679 MSEK (5,240), while operating profit increased by 8 percent to 2,113 MSEK (1,956). In local currencies, sales for Other tobacco products were flat, while operating profit declined by 1 percent, attributable in large part to chew bags. The operating margin for the product segment was 37.2 percent (37.3).



CIGARS

Swedish Match maintains a strong presence with machine made cigars in the US. Its portfolio of products is one of the broadest portfolios on the US market with flavored, natural, and sweet varieties available under well-known mass market brands such as *Game*, *White Owl*, *Jackpot*, and *Garcia y Vega*.

Market and highlights

The US machine made mass market cigar category has experienced significant growth over the past several years, but in 2019, the market is estimated by Swedish Match to have declined slightly in volume terms and amounted to approximately 7.5 billion cigars excluding little cigars²⁾. The category volume decline was driven by the homogenized tobacco leaf (HTL)³⁾ segment, and in particular for low priced flavored HTL cigars. The natural leaf segment continued to demonstrate growth. Swedish Match cigar volumes were down less than 1 percent compared to the prior year. During the year, the market remained highly competitive. Swedish Match estimates that the Company's share of market was approximately 22 percent in 2019. Swedish Match participates in both HTL, which is the largest segment, and in natural leaf, a smaller but growing segment in which Swedish Match holds the leading market position. Within the natural leaf segment, rolled leaf cigars have experienced rapid growth.

¹⁾ Natural leaf cigars: cigars which have binders and wrappers made of parts of selected tobacco leaves cut specifically to form the binders and/or wrappers. The main distinctions between natural leaf cigars and hand rolled cigars are that they contain short filler tobacco versus long filler tobacco and that machines are utilized in the later steps of the manufacturing process.

²⁾ Little cigars are typically filter tipped and packaged in packs of 20. Swedish Match does not participate in this market segment.

³⁾ Homogenized tobacco leaf (HTL) cigars: Cigars which have binders and wrappers made of tobacco leaves that have been ground, mixed with water, homogenized and rolled into sheets to ensure a consistency of look, feel, and quality.



The volume growth for *Game* and *Garcia y Vega* natural leaf cigars was particularly strong, and was a major contributing factor for increased sales and operating profit. The demand for the Company's rolled leaf cigars continued to be strong. While Swedish Match's rolled leaf volumes increased during the year, tightened tobacco supplies due to the high demand limited the volume growth of rolled leaf cigars. However, the Company made significant progress throughout the year in easing these constraints. Swedish Match's HTL volumes declined in 2019.

CHEWING TOBACCO

Swedish Match is the largest participant in the US chewing tobacco category, with the country's number one selling brand, *Red Man*. Swedish Match also sells chew bags, a form of chewing tobacco available in pouch format, in certain European markets and the largest brands are *Thunder* and *General Cut*. Swedish Match also has a presence with its *Oliver Twist* tobacco bits in Europe.

Market and highlights

The US market for chewing tobacco is in a long term state of volume decline. It is estimated by Swedish Match that the market in 2019 declined in line with historical trends. The overall volume decline for the total category was driven by premium products where Swedish Match has a leading position. Here, the decline was approximately 11 percent. The value segment of the market was stable in volume terms, with growth in the big bag format.

For Swedish Match, the US chewing tobacco business is an important and profitable part of the Other tobacco products portfolio with solid cash flow generation. Swedish Match's chewing tobacco shipments (excluding contract manufacturing volumes) declined slightly less than the market. Swedish Match has increased its share in both the premium and value segments. For Swedish

Match as for the industry, there has been a shift toward lower priced brands.

The Group's *Red Man* brand is by far the largest chewing tobacco brand in the US, accounting for approximately one third of all volumes sold on that market. Swedish Match products account for approximately 40 percent volume share of the market.¹⁾

With declining chewing tobacco consumption in the US market, Swedish Match works to reduce costs and maintain operating efficiency while also addressing pricing in order to ensure good profitability. For instance, Swedish Match has a contract manufacturing agreement with a third party, whereby Swedish Match produces the chewing tobacco range of this competitor in the Owensboro, Kentucky, US facility. Swedish Match's strong market share allows this business to remain highly cash generative. Also, as the market declines, Swedish Match is well positioned to maintain its share position over time in each of the pricing segments and packaging formats.

In Europe, chewing tobacco products, such as chew bags, are a viable smokeless alternative in some markets. In 2017, Swedish Match acquired V2 Tobacco, a manufacturer of both chew bags and snus with production in Silkeborg, Denmark. In 2018, Swedish Match acquired House of Oliver Twist A/S, a Danish manufacturer of tobacco bits made of processed tobacco strands under the brand *Oliver Twist*. The production facility is located in Odense, Denmark. The V2 Tobacco and House of Oliver Twist acquisitions have helped to broaden Swedish Match's footprint for these types of products in Europe and certain other markets. Swedish Match's brand portfolio includes *General Cut*, *Göteborgs Rapé*, *Thunder*, and *Oliver Twist*. In 2019, Swedish Match's chew bag products were available in a number of markets including the Czech Republic, Denmark, Germany, Slovenia, and Switzerland. In November 2019, judgements in court cases in Germany were presented which concluded that certain *Thunder* brand chew bag products as well as loose chew products sold in Germany are to be regarded as oral tobacco not intended for chewing and therefore not allowed to be sold in Germany. Following the recent judgements by the court in Germany and in view of changed market dynamics in certain markets, a non-cash impairment charge of 367 MSEK in the European chewing tobacco business was recognized as a larger one-time item during the fourth quarter 2019. The judgements of the German court have been appealed.



¹⁾ Source: Swedish Match and industry estimates, full year, 2019.



FACTS AND FIGURES

OTHER TOBACCO PRODUCTS HIGHLIGHTS

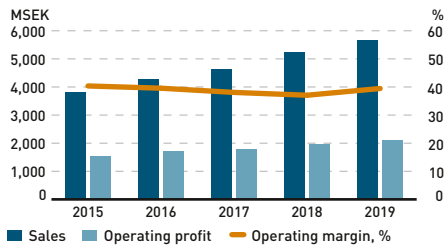
- After several years of growth, volumes of the overall US cigar market declined in 2019, driven by HTL cigars.
- Swedish Match's shipment volumes declined for HTL cigars but increased for natural leaf cigars.
- Swedish Match growth constrained by a shortage of cigar wrapper for rolled leaf cigars.
- Sales for US chewing tobacco and chew bags in Europe were down in local currencies.

KEY DATA¹⁾

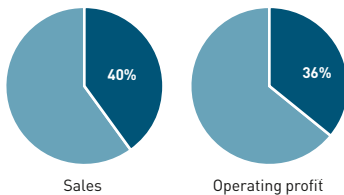
MSEK	2019	2018	2017
Sales	5,679	5,240	4,634
Operating profit	2,113	1,956	1,776
Operating margin, %	37.2	37.3	38.3
Investments in property, plant and equipment	109	74	88
Average number of employees	3,598	3,102	2,839

¹⁾ Excluding larger one-time items.

SALES AND OPERATING PROFIT



SHARE OF PRODUCT SEGMENTS 2019



CIGARS IN THE US

Main brands:

Garcia y Vega, Game by Garcia y Vega, 1882, White Owl, Jackpot

CHEWING TOBACCO IN THE US

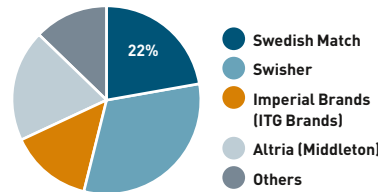
Main brand:

Red Man

SWEDISH MATCH US SHIPMENT VOLUMES

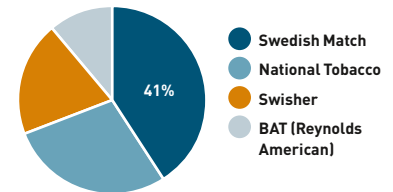
Shipment volumes	2019	2018	Change, %
Cigars, millions of sticks	1,692	1,703	-1
Chewing tobacco, thousands of pounds (excluding contract manufacturing volume)	5,681	6,093	-7

COMPETITION - US MASS MARKET CIGARS (EXCLUDING LITTLE CIGARS)



Source: Swedish Match and industry estimates, full year, 2019.

COMPETITION - US CHEWING TOBACCO



Source: Swedish Match and industry estimates, full year, 2019.

CHEWING TOBACCO IN EUROPE

Main brands:

Chew bags: Thunder, General Cut
Tobacco bits: Oliver Twist

SUSTAINABILITY:
REDUCE GREENHOUSE GASES

85%

OF TOTAL CIGAR CONSUMER PACKAGING CONVERTED TO FOIL WITH LOWER ALUMINUM CONTENT



Profit growth despite challenging conditions

Swedish Match's matches and lighters are sold across the globe and the most important markets are in Europe and Asia, as well as in Brazil and parts of Africa.

For lighters, Swedish Match manufactures and sells the *Cricket* brand, with its range of products for both household and outdoor lighting needs. *Cricket* lighters are well known for their quality, unique design and a number of safety features, such as a fixed flame technology, child safety mechanisms, and fire resistant lighter bodies.

Match brands tend to be local, with one brand being iconic in its own country. The Company's match assortment includes products for a wide variety of uses, in sizes and formats that fit every fire lighting need. Swedish Match also sells complementary products, mainly under the *Fiat Lux* brand in Brazil.

Strategy

With its portfolio of well-known brands and strong market positions, Swedish Match works for continuous operational excellence in the Lights product segment. The Company is committed to maintaining and improving its already efficient manufacturing operations as well as capitalizing on its market positions. With its high and demanding quality standards, fast and flexible production, and ongoing customer feedback, Swedish Match is able to provide consumers and customers with the quality products they demand at attractive prices. Swedish Match will work to grow its sales and profitability for both matches and lighters by tightly controlling costs and strengthening the overall presence for its premium lighter and match products. Swedish Match will also focus on further developing its business for complementary products.

Financial development

Sales for the Lights product segment for the year declined by 4 percent to 1,200 MSEK (1,246). Operating profit increased by 26 percent to 238 MSEK (189), positively impacted by the sale of

land and forestry assets in Brazil generating 34 MSEK of profit and an indirect tax benefit in Brazil from the favorable resolution of a dispute amounting to 37 MSEK. The operating margin was 19.8 percent (15.2).

Market and highlights

The match market is in a long term state of decline in most countries where Swedish Match has a presence. The largest Swedish Match markets are in Europe, Brazil, and parts of Africa. While match volume declines were in line with historical market trends in a number of markets, in certain markets (most notably Brazil) volumes were down significantly in 2019. One of the reasons for the sharp volume decline for matches in Brazil has been a significant reduction in purchases by wholesalers in an action to reduce inventory levels.

For lighters, market volumes are flat to declining in most developed markets, while growing in many developing countries. The largest Swedish Match markets are located in Asia and Europe, while it also has a presence in Brazil. Most markets for matches and lighters remain highly competitive.

Swedish Match also sells complementary products, such as light bulbs, batteries, razors, and certain other products. The main Swedish Match market for complementary products is Brazil, and similarly to matches, the Brazilian market for complementary products was in 2019 negatively affected by trade destocking.





MATCHES

Main brands:

Solstickan (Sweden), *Nitedals* (Norway), *Fiat Lux* (Brazil), *Redheads* (Australia)

During the year, Swedish Match maintained significant or leading market positions in its largest markets for matches, including Sweden (*Solstickan*), Norway (*Nitedals*), Brazil (*Fiat Lux*) and Australia (*Redheads*). Sales for matches declined, as positive price/mix effects could not fully compensate for the lower volumes. Operating profit was up, partly due to lower overheads and positive one time gains.

During 2019, Swedish Match continued its restructuring programs to reduce costs and improve efficiency in Sweden at the Tidaholm match factory and in Brazil, for its match manufacturing. The Brazilian head office in Rio de Janeiro was relocated during the year to Curitiba.

LIGHTERS

Main brand:

Cricket (globally)

Swedish Match offers a wide range of lighter products which include both premium disposable lighters and utility lighters. With its flexible and efficient manufacturing process, Swedish Match is able to quickly manufacture and deliver both mainstream and special order varieties to satisfy customer requirements for quality, reliability, design, and innovation.

The lighter business is characterized by variability in volumes and mix, depending on the timing and type of products delivered, geography, and currency fluctuations. Lighter sales increased despite lower volumes as a result of favorable market and format mix. Operating profit declined for lighters on higher nylon costs.

As part of its sustainability efforts to reduce both waste and resources, nylon use for lighter production has been reduced. In addition, recycled nylon is now being used at the Assen lighter factory.

COMPLEMENTARY PRODUCTS

Swedish Match offers a portfolio of complementary products mainly on the Brazilian market, including disposable razors, batteries and light bulbs under the *Fiat Lux* brand. Sales of complementary products decreased in 2019 compared to the prior year, negatively affected by trade destocking.

SUSTAINABILITY: REDUCE GREENHOUSE GASES REDUCE WASTE

REDUCED USAGE OF NYLON AND
INTRODUCED RECYCLED NYLON FOR THE
PRODUCTION OF LIGHTERS

FACTS AND FIGURES

LIGHTS HIGHLIGHTS

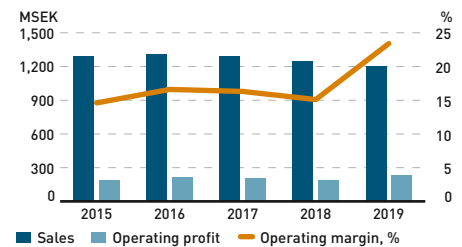
- Favorable portfolio price/mix effects offset volume declines for matches and lighters.
- Operating profit and margin for lighters were burdened by higher nylon costs.
- Operating profit for matches benefitted from land and forestry asset sales in Brazil.

KEY DATA¹⁾

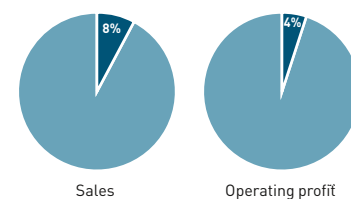
MSEK	2019	2018	2017
Sales	1,200	1,246	1,291
Operating profit	238	189	211
Operating margin, %	19.8	15.2	16.4
Investments in property, plant and equipment	43	40	47
Average number of employees	932	967	1,095

¹⁾ Excluding larger one-time items.

SALES AND OPERATING PROFIT



SHARE OF PRODUCT SEGMENTS 2019



SWEDISH MATCH SHIPMENT VOLUMES GLOBALLY

Shipment volumes	2019	2018	Change, %
Matches, billion sticks	54.3	64.5	-16
Lighters, million units	304.5	333.9	-9

COMPETITION

Match competition varies widely between markets. Lighter competitors include Bic, Tokai, Flamagas, and a number of asian manufacturers.



Regulation – nicotine containing products should be regulated according to their risk profile

Swedish Match believes that smokers should have access to viable, non-combustible tobacco and nicotine alternatives with dramatically lower negative health effects compared to cigarettes.

Swedish Match believes that tobacco regulation will continue to increase in scope and that global trends in tobacco regulation could play an important role in promoting shifts between different product categories in the overall nicotine and tobacco market. It is Swedish Match's aspiration to see a move from "one-size-fits-all" tobacco regulation to an approach that takes into account the differences between product categories and their accompanying risk profiles. We continue to advocate for rational and science-based regulatory frameworks that not only recognize the

important role that smokeless products can play in responsibly transitioning adult cigarette consumers to less harmful products, but also allow for continued innovations that will benefit adult consumers. Smokeless tobacco and nicotine regulation should ultimately be based upon standards which strive to ensure that consumers receive attractive products with the highest possible product quality with minimal risk i.e. product standards based on the same principles as food regulation.

Truly effective regulation must be evidence based and requires an exchange of knowledge and experience between governments and industry. Swedish Match believes that better regulation is achieved by maintaining focus on those who are directly affected by the regulation – consumers, customers/retailers and manufacturers. Swedish Match monitors relevant regulatory developments and is actively engaged with stakeholders in various ways, while recognizing that regulatory decisions will ultimately be at the discretion of the lawmaker.

Swedish Match monitors and evaluates the emerging scientific data and interacts with the scientific community. Swedish Match considers itself accountable to all stakeholders in addressing and informing them about the established science and relevant product information.

Swedish Match is also committed to preventing the availability of nicotine products to minors. The Company engages with retailers to ensure that they properly understand the need to enforce required age-verification upon purchase of nicotine products. Swedish Match also cooperates with retailers in order to reduce the growing volume of illicit products which raise risks of unregulated quality and distort competition on the market.



Fredrik Peyron, Senior Vice President, Regulatory Affairs and Group Communications, and Marie-Louise Heiman, Senior Vice President Group Legal Affairs.



REGULATORY DEVELOPMENTS IN EUROPE

Tobacco products for oral use, except those intended to be smoked or chewed, have been banned in the EU since 1992. As Swedish snus is neither smoked nor chewed, it is prohibited for sale. Upon Sweden's entry into the EU in 1995, the country was granted a permanent exemption from the sales ban on snus. Cigarettes and other types of traditional smokeless tobacco products (including certain Asian/African varieties, chewing tobacco and nasal snuff) continue to be sold within the EU. The revision process for the EU tobacco directive, which includes the ban on snus will start in 2021. Swedish Match remains committed to informing regulators about how the ban on snus is both discriminatory and contrary to their stated public health objectives.

During the year, the Federal Supreme Court of Switzerland ruled that the ban on snus, introduced in Switzerland in 1992, lacks judicial ground, and is illegal and unconstitutional. The court motivated their decision by saying that Swedish snus is less hazardous than other tobacco-based products allowed on the Swiss market. The decision had immediate effect and snus can now be marketed in Switzerland.

REGULATORY DEVELOPMENTS IN THE US

Cigarette consumption continues to decline rapidly in the US as consumers switch to less harmful alternatives. With the increasing popularity of e-cigarettes there has also been an increase in youth usage of these products. This is concerning and much of the regulatory policy discussion in the US has been focused on this development rather than on the overall public health benefits. Characterizing flavors with an alleged appeal to minors have been at the forefront of these discussions. This discussion has also spilled over on other categories where there is no corresponding increase in youth usage. In December 2019, the US congress passed legislation raising the minimum age of the purchase of all tobacco products, including smoking tobacco, smokeless tobacco, and e-vapor products, to age 21. On January 2, 2020 the FDA issued guidance stating that *companies that do not cease manufacture, distribution and sale of unauthorized*

flavored cartridge-based e-cigarettes (other than tobacco or menthol) risk FDA enforcement actions.

In 2015, Swedish Match became the first tobacco company to receive approval by the FDA to market new products through the pre-market tobacco application pathway for its *General* snus in the US. In 2019, Swedish Match became the first tobacco company to be granted Modified Risk Tobacco Product (MRTP) designations by the FDA for eight *General* snus products, permitting Swedish Match to more accurately communicate to adult consumers the relative health attributes of the *General* snus products compared to cigarettes. The MRTP decision is a great recognition for the Company and a testament to our vision and our commitment to product stewardship, public health and scientific evidence.



SWEDISH MATCH'S OPINION ON REGULATIONS:

- Regulation must take into account the relative risk among different tobacco products.
- The EU ban on Swedish snus is discriminatory, disproportionate, violates the free trade and subsidiarity principles and distorts the function of the internal market. It deprives EU consumers of access to a dramatically safer alternative to cigarettes.
- The EU Tobacco Products Directive (2014/40/EU) violates the fundamental consumer right to be informed about the product by banning product information disclosure on packages.
- All smokeless tobacco products should be subject to consistent and competition neutral product regulation based on product quality and consumer protection (i.e. similar to food standards).



Harm reduction is gaining traction worldwide

When cigarette smokers switch to safer nicotine containing products, they reduce their individual health risk. If enough smokers make the switch there is a public health gain that becomes clearly visible in public health statistics. This improvement in public health is what the scientists refer to as tobacco harm reduction. For many years, Sweden has been highlighted as the best example of tobacco harm reduction. There has been a trend of Swedish smokers switching to snus ever since the late 1960s and as a result Sweden has the lowest incidence of tobacco related death and disease in the western world. This is especially pronounced among males since the switch to snus has been more prevalent among men. The tobacco trend seen in Sweden is known around the world as the Swedish Experience.

In more recent years we have seen that harm reduction can also work in other countries. The switch from cigarettes to snus started to take off in Norway around the turn of the century and the decline in cigarette consumption has been very steep. Norway is the country with the second lowest smoking incidence in Europe and if the trends continue it may catch up with Sweden. The country in Europe with the third lowest smoking incidence is the UK where the government has embraced harm reduction as a means of reducing the toll taken by cigarettes. E-cigarettes, for example, has been promoted by the government as a safer way of consuming nicotine compared to cigarettes and cigarette consumers in increasing numbers have made the switch. Recently we have also seen declines of cigarette consumption in Japan as consumers have switched to alternative products, such as heated tobacco products. In many other countries, such as the US, there has been an increase in the use of innovative nicotine products mirrored by a decrease in cigarette consumption. All of these examples show that harm reduction

“Strategies should be pursued that encourage the use of the cleanest and safest form of nicotine delivery!”

Mitch Zeller, Director, Center for Tobacco Products, US FDA, May 2013

efforts can work and is no longer a phenomenon which applies only to Sweden. The Swedish Experience is becoming global.

At Swedish Match, tobacco harm reduction is at the core of what we do. We believe that by developing attractive products that are recognized as safer alternatives to cigarettes we can contribute to significantly improved public health and ultimately fulfil our vision of a world without cigarettes. Our recent success with ZYN nicotine pouches in the US shows that tobacco consumers are looking for alternatives and if we can develop products that fulfill their needs, they are willing to make the switch.

One of the fundamental prerequisites for successful harm reduction is that consumers understand the difference in risk. That is why we are proud that we were the first company to be granted Modified Risk Tobacco Product (MRTP) designation by the US Food and Drug Administration. This will allow us to educate US consumers about the difference in health risk between cigarettes and our US snus products under the *General* brand. Snus and ZYN, along with other forms of nicotine delivery products which have acceptable safety characteristics, have the potential not only to reduce harm caused by smoking but to eliminate it. Swedish Match does not believe that more rigorously enforced policies and regulations against cigarettes alone will get

us to a world without cigarettes, but that the availability of a wide range of high quality nicotine containing products that are deemed attractive and enjoyable by smokers will. The public spending to achieve this is minimal and the public savings are enormous.

“Nicotine itself is not especially hazardous, and if nicotine could be provided in a form that is acceptable and effective as a cigarette substitute, millions of lives could be saved.”

Harm reduction in nicotine addiction: Helping people who can't quit, British Royal College of Physicians, 2007

“To the extent that certain products are shown to be less harmful, they could help reduce the overall death and disease toll from tobacco use... This is a function of the existence of a continuum of nicotine-delivering products that pose differing levels of risk to the individual.”

Reducing harm from nicotine, Ann McNeill, British Royal College of Physicians, March 2012



Introduction to the Board of Directors Report

The Board of Directors Report comprises descriptions of Swedish Match strategic priorities, financial performance and risk management. The report also includes the Board's proposal for remuneration and dividend and information concerning the appointment of Board members, notice of Annual General Meeting and Swedish Match financial position. The Board of Directors Report is integrated into the annual report.

Strategic priorities

Driven by the vision of a world without cigarettes, Swedish Match strives to create value for its shareholders and other stakeholders by focusing on offering consumers enjoyable nicotine-containing products of superior quality in a responsible way. By providing products that are recognized as safer alternatives to cigarettes, we also believe that our business can contribute significantly to improved public health.

>> Read more on pages 29–30.

To continue to deliver attractive returns to our shareholders, our main strategic priorities are:

- High quality products and leveraging strong brands
- Efficient manufacturing and cost control
- Maintain strong cash flows from operations and clear priorities for the use of cash for growth opportunities
- Invest in our employees to ensure a strong and dynamic competence base to meet or exceed both short -and long-term challenges
- Compliance with laws and regulations

MANAGING RISKS

A part of conducting business

Swedish Match strives to ensure that the risks taken are deliberate. It is important for us to understand the risks to which our business is exposed and make informed decisions. Risks need to be managed efficiently in order for the Group to be competitive, to operate safely, and to maintain financial stability and growth. Important risks to address arise in the areas of competition, production, regulation, and finance among other areas.

>> Read more on pages 31–33.

FINANCIAL STRATEGY, SHAREHOLDER RETURNS AND FINANCIAL PERFORMANCE

A year of transformation

2019 will stand out as a transformational year for Swedish Match – a year in which we not only delivered record sales and operating profit from product segments, but also where the Company, aligned with our vision, established itself as the clear market leader for nicotine pouches in the United States and began offering nicotine pouches to markets outside of our core Scandinavian and US markets.

>> Read more under the following sections **Financial strategy** on page 30 and **Share information** on pages 63–64 and **Financial overview** on pages 68–72.

GUIDELINES FOR EXECUTIVE REMUNERATION

>> See pages 73–74.

PROPOSED DISTRIBUTION OF EARNINGS

>> See page 75.

The Board of Directors Report has undergone reasonable assurance engagement by Swedish Match auditors. See the Auditor's Report on pages 122–125.

Swedish Match has decided, in accordance with the Swedish Annual Accounts Act chapter 6, §11 and §8, to produce a separate Sustainability Report and a separate Corporate Governance Report instead of including these reports in the Board of Directors Report. The Sustainability Report is presented on pages 34–59 and the Corporate Governance Report is presented on pages 130–142 in this publication. The Corporate Governance Report includes information on internal control over financial reporting, see further on page 138. The Sustainability Report and the Corporate Governance Report are also available on the Company's website www.swedishmatch.com. The Sustainability and Corporate Governance reports have been reviewed by the auditors.



STRATEGY AND RISK MANAGEMENT





Vision

A WORLD WITHOUT CIGARETTES

We create shareholder value by offering consumers enjoyable nicotine-containing products of superior quality in a responsible way. By providing products that are recognized as safer alternatives to cigarettes, we can contribute significantly to improved public health.

Operational strategy

Smokefree businesses

To achieve our vision, we leverage our unique smokefree platform with a focus on product development, quality and consumer satisfaction based on thorough consumer insights.

- In Scandinavia, we will lead the development of the snus and nicotine pouch categories through product innovation and by complementing our traditional products, brands and sales channels to meet changing consumer demands.
- In the US, we will focus on faster growing market segments such as nicotine pouches, moist snuff pouches, as well as snus.
- Outside Scandinavia and the US, we will continue to expand our presence with innovative smokefree products.
- In our chewing tobacco businesses, we will protect profitability in the US by mitigating the impact of volume declines through cost focus and price leadership. For chew bags and tobacco bits, we will continue to exploit opportunities in these niche segments.

Other businesses

To support our vision and to maximize long term value, we leverage our strong market positions and brands by capitalizing on synergies and operational efficiencies.

- In our cigars business, we will selectively invest in growth segments with an objective to maximize long term profitability and cash generation.
- In our lights businesses, we will continue to focus on operational excellence while selectively investing in profitable growth markets and product segments.



Financial strategy

Swedish Match's operations are characterized by strong cash flows. The financial strategy is based on capital efficiency, and continually optimizing the balance sheet, with due consideration for flexibility and stability requirements.

Net debt

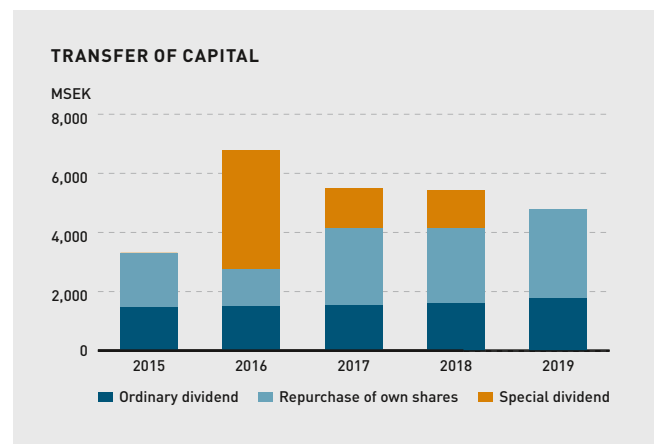
The Board of Directors has determined that the Group will strive to maintain a net debt that does not exceed 3 times EBITA. The actual level of net debt will be assessed against:

- anticipated future profitability and cash flow
- investment and expansion plans
- acquisition opportunities
- development of interest rates and credit markets

The Board of Directors' goal is to maintain an investment grade rating from Standard & Poor's and Moody's.

Shareholder distribution

Swedish Match has the ambition to continuously grow dividend per share with a payout ratio normally within 40–60 percent of the earnings per share, subject to adjustments for larger one-time items. Excess funds shall be returned to shareholders through dividends and share repurchases.



► This section is part of the Board of Directors Report.

Sustainability strategy

Our sustainability strategy is founded on two basic principles – focus and organizational ownership.

Through this strategy, we emphasize six areas – greenhouse gases, waste, ethical business practices, equal opportunity, public health and child labor – areas where we believe we have the ability to directly or indirectly influence meaningful outcomes or where adverse developments could have a negative impact on our businesses.

Our Code of Conduct forms a foundation for our sustainability approach and efforts throughout the Group. It represents the commitment of Swedish Match and all of our employees to conduct business activities in a responsible manner, demonstrating integrity and respect to our stakeholders and society as a whole.

FOCUS AREAS

- Improve public health
- Ensure ethical business practices
- Equal opportunity
- Reduce greenhouse gases
- Reduce waste
- Eliminate child labor



Managing risks – a part of conducting business

Swedish Match strives to ensure that the risks taken are deliberate. It is important for us to understand the risks to which our business is exposed and make informed decisions. Risks need to be managed efficiently in order for the Group to be competitive, to operate safely, and to maintain financial stability and growth.

BEING COMPETITIVE

- Performance oriented culture
- High quality products
- Leveraging strong brands
- Thorough consumer insights
- At the forefront of product innovation and development
- Efficient manufacturing
- Knowledgeable and agile sales force

OPERATING SAFELY

- Ethical business conduct
- Strict supplier requirements
- Thorough workplace safety and loss prevention programs
- Appropriate insurance program
- Meeting regulations by being well prepared and in active dialogue with governments and regulatory agencies
- Compliance with laws and regulations

BEING FINANCIALLY STABLE

- Strict financial policies in place and monitoring by Board of Directors
- Limited currency transaction risk as production and sales to large extent are in the same countries and currency blocks
- Clearly prioritized use of cash, ensuring that the fulfillment of commitments is not jeopardized

Risk management within Swedish Match

Swedish Match applies a systematic risk management model, which includes risk reviews as well as loss prevention, continuity planning, crisis management and insurance programs.

The Swedish Match Board of Directors determines the Group's strategic plans and associated risks based on recommendations from the Group Management Team (GMT). The Board of Directors oversees the Group's risk management processes and on a recurring basis is informed about the existing and emerging risks as well as on related mitigation activities. Each division, as well as Corporate functions, is responsible for managing the risks associated with their plans, and if required, coordinating risk management activities with other units. Appropriate competencies in the organization and a governance

structure with clear responsibilities set the prerequisites for risk management at the local level. The Code of Conduct further ensures an organizational culture that helps to prevent taking those risks deemed to be unacceptable.

To efficiently manage risks, existing and potential risks need to be known. Swedish Match strives to establish a broad understanding among its employees of the concepts and importance of risk management. Employees in all parts of the organization are encouraged to identify and report events and circumstances which are indications of risks. Existing and potential risks are regularly discussed within the divisional management teams and the GMT. A framework of policies is in use to ensure that the responsibilities are communicated and understood and that the management teams have the right tools to drive risk management.

Annual ERM process

To identify and assess the major risks to which the Group is exposed, an annual Enterprise Risk Management (ERM) process is conducted and consolidated at division level. This is part of the strategic planning process. The resulting risks, including probability, impact, interrelations with other risks, mitigation activities and monitoring, are presented to the GMT. The GMT presents risks identified at division level, alongside a consolidated picture for the entire Group, to the Board of Directors. This process helps to ensure that appropriate actions are taken to reduce, prevent or mitigate undesired risks. Based on ERM results, strategies are developed to manage new or changed risks. Risk responses include risk avoidance, risk reduction, risk sharing or risk acceptance.



RISK AREAS

Important risks to address arise in the areas of competition, production, regulation, and finance among other areas.

Competition

Swedish Match operates in highly competitive markets, which require an agile organization in a continually changing environment. There is a risk of lost sales from volumes and/or price in the event that Swedish Match cannot provide a better offering to the consumer than competitors. Swedish Match continuously monitors the competitive environment and assesses changing consumer needs. To meet these consumer needs, the Company conducts consumer and market research and closely follows market trends. This insight forms the basis for product positioning, product portfolio decisions and product development and ensures consumers are offered high quality products that meet their needs.

Production

Production facilities are exposed to risk of various harmful incidents such as fires and machinery breakdown, as well as potential natural disasters and other catastrophic events, along with effects related to climate changes. Such incidents may affect both production facilities and employees. Production interruptions could cause quality or delivery problems. In order to avoid delivery problems or other production interruptions, Swedish Match has implemented a loss prevention and continuity planning program. Periodic inspections are conducted by an independent third party at production facilities that are identified as critical. These inspections assess to what level the production facilities meet the risk management standards of Swedish Match and determine whether there are investments or actions required to reduce risk. The purpose of the continuity planning is to minimize any negative impact of an incident.

Suppliers

A loss of a key supplier or a supplier's non-compliance with regulations or unethical behavior could be harmful to the Group. Potential consequences are delivery or quality problems or difficulties in the interaction with other stakeholders including sales to consumers. Selected suppliers of production inputs are reviewed by the procurement departments on a recurring basis. The suppliers' own financial stability and risk management systems are an important consideration for Swedish Match. As a complement to the internal reviews, at times an independent third party conducts risk inspections at critical suppliers.

Swedish Match strives to work with suppliers who have a healthy, long term financial position and who support our values. Our Supplier Code of Conduct specifies what we expect and require from our suppliers in terms of employment and labor practices, workplace practices, ethical business practices and environmental management practices.



The Supplier Code of Conduct forms the basis for our relationship with suppliers and is an integral part of our significant business agreements. Risk assessment forms the basis for our efforts to identify and mitigate specific risk in dialogue with prioritized suppliers. We have procedures in place, and under continuous development, to further emphasize sustainable supply chain management.

Regulation

Swedish Match is exposed to a high degree of regulation from various authorities. Regulations could have restricting impact on how the Group can operate its business and interact with its stakeholders or direct financial impact in the form of increased taxes or imposed fees. Regulations, many related to the Group's involvement in the tobacco industry, concern among other issues, tobacco excise taxes, marketing, packaging, warning labels, ingredients, reporting to authorities, product approvals, and introduction of new products. Many authorities have and continue to implement various forms of restrictions on sales and usage of tobacco and other nicotine containing products. Swedish Match closely monitors the development of tobacco regulation and regularly shares information and opinions with governments and other regulatory agencies on issues that affect the Group's operations.

Most importantly Swedish Match needs to continue to provide consumers with less harmful alternatives to cigarettes and strive toward the vision of a world without cigarettes, with evidence based regulations for our products. A critical activity is to educate and inform decision makers about Swedish Match's tobacco products, especially snus and its dramatically less harmful health characteristics compared to cigarettes. More information on harm reduction can be found on page 26.

Currency and interest rate risks

The dynamic financial market conditions are continuously changing with changing currency exchange rates, interest rates and availability of funds. A weakening of certain major currencies, such as the USD versus the SEK, could cause lower financial results presented in SEK from

the translation of foreign operations. The transaction exposure is relatively low as most production is located in the country where sales are conducted. Higher interest rates could have a negative impact on net finance expense.

Swedish Match has a large part of its business being conducted outside Sweden with a significant part in the US. The currency exchange rate development is not in the control of Swedish Match. Acknowledging that there is a speculative element in hedging the currency translation exposure, Swedish Match has decided to normally not hedge this exposure. However, Swedish Match is mindful of the cash impact from currency rate changes and strives to regularly distribute dividends from its foreign subsidiaries to the Swedish parent company.

Swedish Match is a highly cash generative company with a stable financial policy. Excess cash not needed by Swedish Match is distributed to shareholders by means of both dividends and share repurchases. Swedish Match is optimizing its cost of capital by ensuring an appropriate leverage. In order to manage interest rate risk and refinancing risk, the Group strives to have an even spread of maturities. In addition, Swedish Match shall as a general rule secure financing for the coming twelve months before any share repurchases are executed. More information on financial risks can also be found in the *Note 28 Financial instruments and financial risks* to the Group Consolidated Financial Statements.

Sustainability risks

Major sustainability risks include, but are not limited to, climate risk and inability to adhere to plans and targets in Swedish Match's focus areas including for example Eliminate child labor.

Child labor risk

The risk of child labor has been identified as one of Swedish Match main sustainability risks and therefore is one of our focus areas. According to estimations from ILO, as of 2019, 152 million children are engaged in child labor, about 70 percent of the children involved in child labor are primarily concentrated in agriculture and almost 73 million children are reported in

hazardous work. Swedish Match engages in various programs aiming at mitigating child labor issues, such as raising awareness and educating contracted tobacco growers, as well as reducing the volume of tobacco purchased from suppliers who do not interact directly with individual farmers. We have systems and procedures in place to monitor adherence to our Supplier Code of Conduct. The monitoring is most advanced and proactive for the raw tobacco purchases for our snus products. For the raw tobacco for other smokeless products, the monitoring is more compliance oriented. The major due diligence tools for the raw tobacco supply chain are the Sustainable Tobacco Program (STP) and associated procedures. The monitoring for direct material other than raw tobacco, has been enhanced through group-common procedures. We work to maintain a proactive dialogue on prioritized sustainability issues with relevant significant suppliers of direct material.

Climate risk¹¹

Climate change is a risk to our business operations and primarily concerning tobacco supplies. It is estimated that changes in precipitation patterns, soil content and heat patterns could negatively affect our tobacco suppliers. Swedish Match sources from a broad geography, thus reducing its risk exposure from climate change which may occur in any single geographic area. Swedish Match is also mitigating this risk through various activities such as collection of data and information from our tobacco suppliers through STP and we have committed to Science Based Targets initiative (SBTi) targets to do our part in reducing greenhouse gas emissions in our entire value chain. Other risks include for example flooding and rise of sea level that can affect transports and production facilities.

¹¹ Swedish Match's value chain is exposed to various climate-related risks, such as extreme weather events, changes in precipitation patterns as well as reputational risks. Climate risks are identified through other risk assessment processes covering production, suppliers, regulation and financial aspects. Where climate risks are identified to be substantial and call for action, Swedish Match addresses the risks with the same priority as other financial and operational risks.



SUSTAINABILITY





CEO comment

“ At Swedish Match, our approach to sustainability and the development of our own business go hand in hand.”

Our success as a business is highly dependent on making continuing improvements in addressing our six focus areas, outlined in this sustainability section of the annual report. I am pleased to state that a great deal of progress has been made during the past year, providing tangible benefits not only to our own business and financial performance, but also in strengthening our platform with regard to key sustainability issues. We must bear in mind that there is always room for improvement when addressing social, environmental, and governance topics, and we are committed to our responsibilities as an organization. The benefits, both financial and non-financial, can be great. Below I will highlight two focus areas – Improve public health and Reduce greenhouse gases. More information on these and other focus areas can be found on our website and in the following pages.

During 2019, we took big steps toward our vision of a world without cigarettes. In October, the FDA granted Swedish Match an order designating our General snus products sold in the US as Modified Risk Tobacco Product (MRTP). Swedish Match is the first company, and as of the publication of this report, the only company to receive such designation. With this authorization, Swedish Match will be able to help consumers make better informed decisions, taking into account the relative lower risk for identified diseases and other negative health consequences compared to smoking cigarettes. The MRTP decision is a great honor for the Company and a testament to our commitment to product stewardship, to public health and scientific evidence. Swedish Match has also greatly expanded its presence of its nicotine pouch product without tobacco, ZYN, on the US market as well as in certain markets in Europe. While ZYN contains nicotine, an addictive compound, this product contains far lower levels, and, in many cases non-detectable levels of the undesired compounds that you would find in products that contain tobacco.

With regard to our focus on reducing greenhouse gases, our science-based climate targets were approved in the beginning of the year by the Science Based Targets initiative as being aligned with the Paris Climate Agreement. The target aims for 41 percent emissions reductions in our value chain by 2030 and 75 percent by 2050. This crucially aligns our climate work with international efforts by contributing toward the below 2-degree target set by the Paris Agreement, and will guide our business decisions in a sustainable way. Achieving our targets in 2050 will enable us to eliminate the need for almost 150 thousand metric tons of CO₂



versus our baseline in 2017. I'm pleased that great initiatives are being taken across all divisions in optimizing our processes and working together with suppliers in order to reduce our total greenhouse gas emissions. Significant efforts in 2019 were taken to identify and begin implementing initiatives to reduce the CO₂-equivalent effects from our packaging materials, especially plastic and aluminum. We have also initiated several projects to further strengthen internal knowledge at the local operating level and began to integrate recently acquired companies in our environmental framework.

During the past year, we continued to reinforce the importance of business ethics in the daily conduct of our business. We strengthen this focus area through various internal e-learning programs (e.g. anti-corruption/anti-bribery and anti-money laundering) as well as through third-party supplier audits to ensure that our business partners share the same values.

During 2019, Swedish Match actively participated in the development of Sustainable Tobacco Program 2.0 (STP 2.0) which will be launched in 2020. The aim of the program is to improve our environmental and social footprints, to contribute to the UN Sustainable Development Goals (UN SDGs) and to enable transparent communication of responsible practices within our supply chain. STP 2.0, a cross industry collaborative effort, will have several touchpoints with our focus areas, not the least of which being work directed toward the elimination of child labor.

Overall, we are pleased with the progress we have made this year in our sustainability efforts and we look forward to continuing the journey towards our targets and vision.

Lars Dahlgren
President and CEO



Our approach to sustainability

Swedish Match's vision is a world without cigarettes. Offering tobacco consumers alternative products to cigarettes is at the core of what we do. Pursuing our vision represents a great commercial opportunity as well as a significant contribution to society. This is where we are likely to have the largest positive impact on society. We can also have a positive impact through how we manage our business, work with our suppliers and customers, and produce our goods.

Our sustainability strategy is founded on two basic principles – focus and organizational ownership. Through this strategy, we emphasize six areas – greenhouse gases, waste, ethical business practices, equal opportunity, public health and child labor – areas where we believe we have the ability to directly or indirectly influence meaningful outcomes or where adverse developments could have a negative impact on our businesses. Our Code of Conduct forms a foundation for our sustainability approach and efforts throughout the Group. It represents the commitment of Swedish Match and all of our employees to conduct business activities in a responsible manner, demonstrating integrity and respect to our stakeholders and society as a whole.

In our focus area **Improve public health**, we intend to displace cigarettes with attractive sources of nicotine for recreational use (such as Swedish snus and other nicotine containing products like ZYN), which, apart from their addictive character, have little or no adverse health effects. We strive to develop products that are attractive to cigarette consumers and to inform them about the relative health risks of different nicotine containing products, to allow them to make an informed choice.

In our focus area **Ensure ethical business practices**, our Code of Conduct provides the basic platform for the way we do business. We work diligently to keep the Code of Conduct top of mind through training and dialogue within the Company and with third parties. The Company also has procedures in place to ensure adherence to both its own Code of Conduct and expectations set forth in our Supplier Code of Conduct.

In our focus area **Equal opportunity**, we are dedicated to having an open and inclusive environment where all employees have equal opportunities to achieve their full potential. We have zero tolerance for discrimination.

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

In our focus area **Reduce waste**, we work systematically to reduce waste in our production. We enhance the effectiveness of our work by sharing best practices across the Group.

OVERALL GOALS AND OBJECTIVES



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



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



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



Reduce greenhouse gases. Our goal is to reflect the commitments outlined in the Paris Agreement and thereby reduce emissions of greenhouse gases in our value chain.



Reduce waste. Our goal is to reduce waste generated at our own production facilities.



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

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

Group-common roadmap

Our focus areas form the basis for our common roadmap; this is where we put extra effort and coordinate external reporting of our progress. Swedish Match is a global company made up of largely autonomous operating units. We take a common group approach in our focus areas, while maintaining a number of sustainability initiatives above and beyond these focus areas with tailored targets and actions at the divisional/operating unit levels. Sustainability work spans across a broad array of topics, and for best impact and transparency we believe that group-wide efforts and reporting are most effective if concentrated to key areas of focus. More on our approach may be found on page 56 in the Sustainability Governance section.



Our contribution to the UN SDGs

Our six sustainability focus areas and our overall sustainability strategy contribute to eight of the UN Sustainable Development Goals (SDGs). These are the areas that are material to the Company and where we believe we can have a positive impact.

Focus areas	Annual report page(s)	How Swedish Match contributes to the SDGs 2030 targets	SDGs 2030
<p>IMPROVE PUBLIC HEALTH</p> <p>Swedish Match is committed to displacing cigarettes by continuing to develop and to commercialize other alternative sources of nicotine – which will improve public health.</p>	41–43	<p>We work to reduce the premature mortality by offering cigarette smokers attractive and dramatically safer alternative tobacco and nicotine products. (Goal 3.4)</p> <p>We work to ensure that our “Adult only tobacco and nicotine” policy is followed. (Goal 3.A)</p> <p>We inform consumers about the health effects of our products and the addictive nature of nicotine. (Goal 3.A)</p>	
<p>ENSURE ETHICAL BUSINESS PRACTICES</p> <p>Swedish Match is committed to sound business ethics in all our business activities and relations with stakeholders, both within our own operations and regarding outside parties.</p>	44–45	<p>We do not tolerate any form of corruption or bribery. (Goal 16.5)</p> <p>We work to protect labor rights and ensure safe and secure working environments. (Goal 8.8)</p>	
<p>EQUAL OPPORTUNITY</p> <p>At Swedish Match we put equal opportunities first and foremost in our work toward non-discrimination and diversity.</p>	46–48	<p>We do not tolerate any kind of discrimination including discrimination based on gender. (Goal 5.1)</p> <p>We work towards having at least 40 percent of each gender in senior management. (Goal 5.5)</p> <p>We are working to ensure equal opportunities and to prevent discrimination. (Goal 10.3)</p>	
<p>REDUCE GREENHOUSE GASES</p> <p>We commit to do our part in addressing climate change and have set science-based targets for our business’ value chain.</p>	49–50	We take action to combat climate change. (Goal 13.1)	
<p>REDUCE WASTE</p> <p>At Swedish Match we work continuously and systematically to assess risk and reduce the negative impact on the environment.</p>	51–52	We are working to substantially reduce our waste generation at our own production facilities. (Goal 12.5)	
<p>ELIMINATE CHILD LABOUR</p> <p>Swedish Match does not consent to child labor anywhere in our value chain.</p>	53–55	<p>We take action to eliminate child labor in all its forms in our value chain. (Goal 8.7)</p> <p>We partner in multi-stakeholder initiatives to work toward common goals. (Goal 17.16)</p>	



Our Code of Conduct

Our policies on practices regarding employment and labor, ethical business, the environment and workplace are based on the principles of the UN Global Compact. These policies are outlined in our Code of Conduct and underpinned by Group principles/procedures and local policies.

Our Code of Conduct represents the commitment of Swedish Match and of all its employees to conduct business activities in a responsible manner, consistent with applicable laws and regulations. It applies to all employees within the Swedish Match Group, regardless of location or role. Our Code of Conduct forms the foundation for our sustainability approach and efforts. It is reviewed internally and approved by the Swedish Match Board of Directors on an annual basis.

Our Code of Conduct covers, among other things, our commitment to and guidance on respect for human rights and internationally proclaimed human rights conventions and guidelines¹⁾, including non-discrimination and fair treatment, employment terms, freedom of association, the right to collective bargaining and the elimination of forced or compulsory labor as

well as of child labor. The Code of Conduct includes guidance on anti-corruption and anti-bribery practices, as well as gifts, loans and hospitality, responsible marketing practices and fair competition. It also includes guidance on eco-efficiency and the importance of following a precautionary principle in environmental management, as well as occupational health and safety, competence development, talent management, and supplier due diligence.



To be successful as a company we must act both responsibly and effectively. The Code of Conduct spells out the main principles on how we conduct business.”

Lars Dahlgren
President and CEO

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

www.swedishmatch.com



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

CODE OF CONDUCT TABLE OF CONTENTS

1 INTRODUCTION	
1.1 Why do we have a Code of Conduct?	3.5 Gifts, loans and hospitality
1.2 Who must comply with the Code?	3.6 Fair competition
1.3 What is my responsibility?	3.7 Privacy
1.4 What happens if I violate the Code?	3.8 Marketing
1.5 How and to whom do I raise a concern?	3.9 Political activity and payments
1.6 What happens when a concern is raised?	3.10 Community engagement
2 OUR PEOPLE: Employment and labor practices	
2.1 Non-discrimination and fair treatment	4 OUR ENVIRONMENT: Practices and internal procedures
2.2 Working hours, remuneration and contracts (employment terms)	5 OUR JOB AND WORKPLACE: Practices and important procedures
2.3 Freedom of association and the right to collective bargaining	5.1 Occupational health and safety
2.4 Child labor	5.2 Competence development and talent management
2.5 Forced or compulsory labor	5.3 Business travel
2.6 The grandparent principle and approval from local HR	5.4 Procurement of goods and services
3 OUR BUSINESS RELATIONSHIPS: Ethical business practices	5.5 Protection of Company assets
3.1 Conflicts of interest	5.6 Confidential information
3.2 Export control and sanctions	5.7 Cyber security
3.3 Anti-corruption and anti-bribery	5.8 Inside information
3.4 Anti-money laundering	5.9 Internal and external communication
	5.10 Reliability of records and reports
	5.11 Legal matters
	6 GLOSSARY

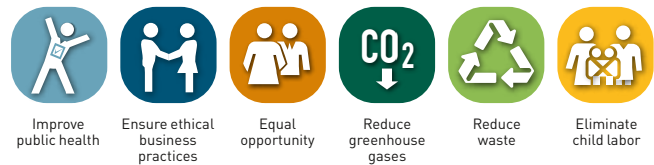


Our value chain

Swedish Match manufactures snus, nicotine pouches, moist snuff, chewing tobacco, cigars, matches and lighters at 15 facilities – in Sweden, the US, the Dominican Republic, Denmark, the Netherlands, the Philippines and Brazil.

The value chain for our products includes research and development of new and refined products, raw material sourcing and production, processing at suppliers, manufacturing at Swedish Match's facilities, transportation and distribution between the various value chain stages, and sales through retailers (customers) as well as consumer use and final disposal of product.

FOCUS AREAS



Raw materials for our products come from many geographies and are mostly sourced through outside parties. There are strict requirements in sourcing. The Company owns forestry plantations in Brazil. It does not own any other farms other than for forestry.

With the GOTHIA TEK® quality standard for snus, thorough testing of the tobacco takes place at several stages of the value chain, and selection of raw tobacco. Testing often starts at the farm level. This way of working has influence on how we engage with other raw material supplies.



For the Swedish market, and for distribution to the Norwegian market, Swedish Match has its own distribution company, SMD Logistics. In other parts of Europe, products are distributed primarily through own and third party distributors. Distribution for the US market is primarily via third party distributors. Lights products are distributed through a wide network of partners, worldwide.



The primary sales channels for our products are convenience stores, tobacconists, gasoline stations, and supermarkets. Other channels include bars, restaurants, airports, and ferries, along with e-commerce, and our own dedicated stores in various markets.



Our Supplier Code of Conduct forms the basis of our relationship with suppliers. Our risks and potential for improvements in these stages of the value chain, relate to ethical business practices, child labor and human rights, as well as greenhouse gas emissions. These specific sustainability focus areas are prioritized in our supplier due diligence and ongoing dialogue with suppliers. To reach our goals in several focus areas we are dependent on fruitful collaboration with our suppliers and sub-suppliers.



The policies that guide us in our daily operations are outlined in our Code of Conduct, which applies to all employees within the Group. Our employees drive the ideas, innovation and methods to be a more successful company. Their opportunities to develop to their full potential are an important component in this success and in our sustainability efforts.



We are committed to providing attractive alternatives to cigarettes, such as snus and nicotine pouches, contributing to improved public health. Our products are intended for adult consumers only. We use a structured approach to consumer insight, assessing consumers' needs, trends and brand values to influence innovation. Our R&D facilities work to develop new products and to monitor and improve existing products in line with the GOTHIA TEK® quality standard for example (for snus).

Code of Conduct The Code of Conduct represents the commitment of Swedish Match and of all employees to conduct business activities in a responsible manner and consistent with applicable laws and regulations.

Supplier Code of Conduct The Supplier Code of Conduct, reflects Swedish Match's own Code of Conduct and specifies what the Company expects and requires from its suppliers.



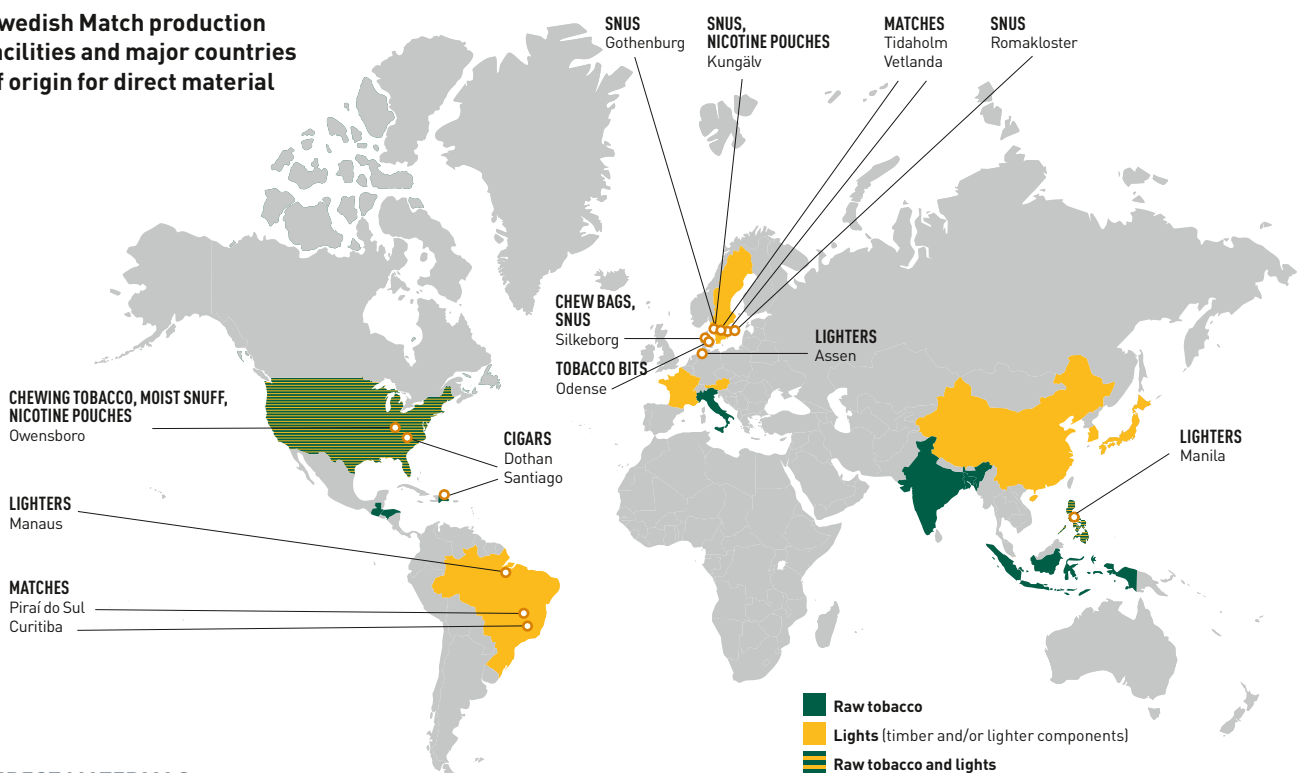
OUR FACILITIES

Snus is produced in our factories in Kungälv, Gothenburg and Romakloster, Sweden, as well as in Silkeborg, Denmark. Nicotine pouches are produced in Kungälv, Sweden and Owensboro, Kentucky, the US. Chew bags are produced in our factory in Silkeborg, Denmark. Tobacco bits are produced in our factory in Odense, Denmark. Moist snuff and US chewing tobacco are produced in our factory in Owensboro. Cigars are produced in our factories in Dothan, Alabama, the US, and in Santiago, the Dominican Republic. Matches are manufactured in our factories in Vetlanda (splint) and Tidaholm (matches and fire starters), Sweden, and Pirai do Sul (splint) and Curitiba (matches), Brazil. Lighters are manufactured in our factories in Assen, the Netherlands, Manila, the Philippines and Manaus, Brazil.

Permits and obligatory reporting

All plants satisfied the requirements of their permits during 2019. The snus and nicotine pouches plants in Gothenburg and Kungälv in Sweden are subject to obligatory reporting in accordance with the Swedish Environmental Code. The plant in Vetlanda, Sweden produces splint and boxes with striking surface that are used in match production. These operations require a permit in accordance with the Environmental Protection Act. The permit is valid indefinitely. Noise levels, storage of timber and solvent emissions are regulated. The plant in Tidaholm, Sweden produces matches and firestarters. These operations require permit according to the Environmental Protection Act. The permit entitles the plant to increase production up to certain levels and specifies limits for wastewater, the dust content in ventilation outflows and noise levels. For plants in other countries where Swedish Match has production operations, the Group has permits in accordance with the legislation in each country.

Swedish Match production facilities and major countries of origin for direct material



DIRECT MATERIALS

The main direct materials are raw tobacco, timber, nylon and lighter components, as well as packaging material such as cardboard, plastics and metalized films. Materials are sourced from different parts of the world.

Raw tobacco

Raw tobacco for snus, moist snuff, chewing tobacco, and cigars are sourced through major international suppliers. Swedish Match does not own tobacco plantations and sources raw tobacco from 21 countries. Eight of these countries (pictured in map above) account for 87 percent of Swedish Match's raw tobacco purchases. The largest sources come from India, Indonesia, and the US.

Timber

Timber for our match production is sourced locally, close to our factories in Sweden and Brazil. Approximately 99 percent of the timber for production of matches in Brazil is grown in Swedish Match's own plantations. The remaining volume is sourced from local suppliers. Our plantations consist of roughly

4,700 hectares of planted poplar and pine in the south of the Paraná state and in the north of the Santa Catarina state. Our plantations adhere to strict growing requirements beyond those levels set by local laws and regulations. Aspen used for the production of matches in Sweden is sourced from the southern part of Sweden in the vicinity of our splint factory and is primarily sourced through major timber suppliers. Relatively small quantities are also sourced directly from individual forest owners. Swedish Match Industries AB, the entity producing matches in Sweden, is certified according to FSC's standards for Chain of Custody and Controlled Wood.

Nylon and lighter components

Raw material and components for lighters consist of nylon and liquefied petroleum gas, as well as spark wheels, flint stones, and top caps, made of various metals, e.g. aluminum, steel and brass. These materials are mainly sourced from suppliers in China, South Korea, and the US.

Core values



PASSION



OWNERSHIP



INNOVATION



QUALITY

Quality standards

- *GOTHIA*TEK® for snus
- *MATCH*TEK® for matches produced in Sweden



IMPROVE PUBLIC HEALTH

OUR COMMITMENT

Swedish Match's vision is a world without cigarettes. The company is committed to displacing cigarettes by continuing to develop and commercialize alternative and dramatically safer sources of nicotine – which will improve public health. Although nicotine has the potential for addiction, the individual and the societal harm is caused by the way nicotine is most commonly delivered. Cigarette smoking is the dominant delivery device of nicotine, and it causes death and diseases among users, due to the combustion of tobacco. While youth and certain vulnerable consumer groups should not use nicotine products, nicotine, just like caffeine, is in general terms safe to use.



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

OUR GOAL

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

- Increased consumer awareness and geographic reach of snus and nicotine pouches.
- Increased consumer awareness of the difference in relative risk between cigarettes and smokefree tobacco and nicotine products.
- Increased understanding among regulators of the role that snus and nicotine pouches can play in improving public health.
- Development and commercialization of new nicotine harm reduction products.

OUR APPROACH

Product strategy

Swedish Match provides a wide range of enjoyable alternatives to cigarettes that are both satisfying and dramatically safer than smoking. Our smokefree portfolio consists of snus, moist snuff, chewing tobacco¹⁾ as well as innovative products such as nicotine pouches. The vast majority of our R&D efforts and capital expenditures are dedicated to our smokefree business and all the acquisitions made in recent years have been done to strengthen our smokefree portfolio. Currently our smokefree business accounts for more than 80 percent of total Swedish Match volumes of tobacco and nicotine products. Our goal is that this percentage shall continue to grow.

Product appeal is highly important in order to successfully encourage people to switch from cigarettes to other nicotine containing products with favorable risk profiles. At the core of Swedish Match's research and development efforts are quality, reduction of potentially harmful constituents and the needs of the adult tobacco consumer. We have been acknowledged around the world for the work we have done in reducing potentially harmful components in our snus products, and with nicotine pouches we have managed to come below the levels that can be detected for many of them – a longstanding aim of Swedish Match. However, it doesn't matter how much we reduce the risks related to our products if the cigarette consumers don't want to use them. Therefore, behavioral, sensorial and other needs expressed by tobacco users are carefully assessed and incorporated in our product development processes. We know that flavor is an important part of product appeal to cigarette consumers and finding the right flavors for them is important.

Product quality and safety

As far back as in year 2000, Swedish Match decided to make its GOTHIA TEK® quality standard available to our consumers and other relevant stakeholders. The objective of the GOTHIA TEK® quality standard, applied to our Swedish snus products, is to eliminate or reduce harmful or potentially harmful constituents, naturally found in tobacco (and other common crops), to a level that meets comparable food standards. The standard sets maximum levels in finished products for sixteen unwanted constituents of which three have also become regulated by the Swedish Food Act. For a list of constituents and current levels, please visit the Company's website.

Nicotine pouch products represent a further step in Swedish Match's work to reduce undesirable constituents in our products. No traces of the three unwanted constituents regulated by the Swedish food standard for snus can be found in ZYN.

Swedish Match conducts limited scientific studies on its own, but monitors and compiles scientific advancements continuously in a systematic manner. A summary of relevant scientific evidence on snus is available on our Company website and this will be complemented by science on nicotine pouches as it becomes available.

¹⁾ All chewing tobacco products sold by Swedish Match are sold in Europe and in the US and are in general low in tobacco-specific nitrosamines and other relevant harmful and potential harmful constituents, compared with the chewing varieties that are sold in the other parts of the world.



Consumer accessibility

To encourage consumers to switch to reduced risk alternatives, easy accessibility is essential. Swedish Match is committed to investing in capacity expansion and expanded distribution for our smokefree portfolio, both in our key markets as well as markets where we currently have no or low presence.

Openness and transparency

Most smokers are unaware of the wide differences in risk profiles among various tobacco and nicotine containing products. The consequence is that smokers are left only with the option “quit or die”, and far too many of those who find it difficult to quit will die prematurely.

Consumers are seeking and have a right to factual information about product options available to them. That implies that manufacturers, including Swedish Match, must be open and transparent about what we know about our products, including scientific findings regarding health impacts. We should communicate this to consumers where we are legally allowed to do so. We should also encourage authorities to give factual and unbiased information about the relative harm of different tobacco products and encourage legislatures and regulators to regulate tobacco products differently based on their risk profile. During the year, we have actively encouraged regulators in Sweden and a number of other European countries to introduce legislation on nicotine pouches that would limit marketing, cap nicotine levels and perhaps most importantly make the sale of the products to non-adults illegal. In the US, our regulatory focus has been on making sure that our harm reduction products can be sold to adult tobacco users in flavors that are appealing to them.

Protecting vulnerable consumer groups

All products are not for everyone and some consumer groups should not use certain products. This is particularly true for tobacco and other nicotine containing products which are intended for adult use only. Certain other consumer groups are also deemed vulnerable. A total abstinence from all forms of nicotine is advised to pregnant women for the entirety of gestation as nicotine may impact pregnancy outcomes including lower birth weights.

“Adult only Tobacco and Nicotine” policy

For tobacco and nicotine containing products, Swedish Match has an “Adult only policy” which firmly states that all such products shall only be marketed and sold to adults of legal tobacco age in each market. If the legal tobacco age in any market is below 18, Swedish Match shall still adhere to a policy of 18 years of age or over. This means that we shall not direct any marketing, advertising or promotion of tobacco and other nicotine containing products to persons under the age of 18 or the legal tobacco age if it is higher. We are committed to educating, informing and cooperating with retailers, distributors and public officials to prevent the underage use of tobacco and other nicotine containing products. Where it is legal, we may sell and market our products online and use face to face marketing and sampling, but only to age verified adults.

Source: Swedish Match Code of Conduct

OUR PROGRESS

HIGHLIGHTS 2019

- The FDA granted Swedish Match an order designating our *General* snus products sold in the US as a Modified Risk Tobacco Product (MRTP).
- ZYN was launched nationally in the US from April, 2019. Store availability increased throughout the year in the US, Sweden, as well as on a limited scale in a number of other European markets.
- Ongoing engagement in public awareness campaigns with the objective of increasing understanding of the health benefits of snus and ZYN compared to cigarettes.

Progress update

In October 2019, the FDA granted Swedish Match an order designating our *General* snus products sold in the US as MRTP. In making this judgment, the FDA stated that our application contained scientific evidence sufficient to determine that switching from smoking to *General* snus reduces individual risk. The FDA also determined that granting us an MRTP order for *General* snus benefits the health of the overall population. This is the first time a public health agency – anywhere in the world – has determined that communication of relative risk for a tobacco product can benefit public health.

During the year, Swedish Match has continued to increase the presence and availability of ZYN, which demonstrates our commitment to being at the forefront in offering a modern and safe alternative to smoking. In 2019, Swedish Match extended the ZYN range in Sweden with new products in both the Slim and Mini Dry formats. In addition, we have increased our range of products under the G.4 brand in Norway with the aim of reaching cigarette consumers who have previously rejected more traditional snus.

In the US, Swedish Match expanded the availability of ZYN nicotine pouches nationally from the Western region test. By the end of 2019, ZYN was available in more than 67,000 stores. During the year, Swedish Match has also launched ZYN on a limited scale in a number of European markets outside of Scandinavia, and by the end of the year, the Company was present in stores in markets such as Austria, Croatia, the Czech Republic, Estonia, Germany, Greenland, Slovenia, and the UK. Driven by the efforts mentioned above, the contribution from our smokefree portfolio to the total group has further increased during 2019. Currently our smokefree business accounts for 83 percent of total Swedish Match volumes of tobacco and nicotine products, and 68 percent of corresponding sales.

In 2019, we also continued to invest heavily behind our smokefree products to fuel future growth. Out of our total R&D expenditure, 96 percent was related to smokefree products. These expenditures include the costs related to scientific studies, facility and machinery development and prototypes. We will continue to engage with the scientific community to verify the public health benefits of our products and allocate investments accordingly. Similar as previous years, we have committed more than 90 percent of our capital expenditure to our smokefree portfolio. In 2019, we have further scaled up the investment of ZYN production capacity in the US to support the strong growth.



During the year, we have also seen an increasing consumer appeal of our smokefree products. In Sweden and Norway, Swedish Match defines success of our product attractiveness by tracking the share decline of daily smokers among total daily tobacco users. In Norway, the share of daily cigarette users among total daily tobacco users decreased to 39 percent in 2019¹⁾ (50 percent in 2018). This means that Norway is now approaching Sweden in terms of converting cigarette consumers to snus usage. In the group of legal age consumers below the age of 25 measured, snus has almost completely replaced cigarette consumption. Only two percent among the men are daily cigarette users and only one percent among the women. In North America, Swedish Match defines success in terms of volume growth of its smokefree products and in 2019, it was 35 percent.

Educating consumers about the difference in health effects between smokefree products and cigarettes continues to be a difficult task. This difference is probably best understood in Sweden and Norway, but there is widespread misunderstanding even in these markets. In the general population in Sweden, 32.9 percent believes that snus is at least as dangerous as cigarettes or answers that they don't know. In Norway the same number is 34.5 percent. Only 20.8 percent of the Swedish population believes that snus is much less dangerous than cigarettes and in Norway this number is only 19.5 percent. Thus continuous efforts to further increase consumer awareness will remain a focus going forward.

¹⁾ Source: Statistics Norway (Statistisk Sentralbyrå).

Smokefree ¹⁾ , % of total tobacco/nicotine products ²⁾	2019	2018	2017
Volumes	83.1	81.5	80.8
Net sales	67.7	65.8	65.8
Capital expenditure including acquisitions	92.1	96.5	93.9
R&D cost	95.7	96.2	94.5

¹⁾ Smokefree consists of snus, nicotine pouches, moist snuff and chewing tobacco.
²⁾ Group total excluding lights division and SMD Logistics.

Product attractiveness among adult users of tobacco	2019	2018	2017
Share of daily cigarette smokers among daily tobacco users in Sweden ¹⁾ , %	39	39	45
Share of daily cigarette smokers among daily tobacco users in Norway ²⁾ , %	39	50	48
Volume growth of smokefree products in North America, %	35	8	0

¹⁾ Based on a survey done every other year (latest in 2018). 2019 and 2017 figures are therefore from prior year.
 Source: The Public Health Agency of Sweden (Folkhälsomyndigheten).

²⁾ Source: Statistics Norway (Statistisk Sentralbyrå).

Going forward:

- Continued expansion of nicotine pouches both within and outside our existing markets.
- Efforts to increase consumer awareness of snus and nicotine pouches.
- Continued efforts to increase understanding among regulators of the role that snus and nicotine pouches can play in improving public health.
- Development and commercialization of new nicotine harm reduction products.





ENSURE ETHICAL BUSINESS PRACTICES

OUR COMMITMENT

Swedish Match is committed to sound business ethics in all our business activities and relations with stakeholders, both within our own operations and when interacting with third parties. We build relationships through honesty and integrity and, at a minimum, comply with all laws and regulations in the countries in which we operate. We believe that business relationships, when built on common values, mutual respect and trust, are important to our long term success.



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

OUR GOAL

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

- All employees are aware of, understand and act according to our Code of Conduct.
- All significant suppliers confirm that they share Swedish Match values as stated in our Supplier Code of Conduct.

OUR APPROACH

Our Code of Conduct

Our Code of Conduct represents the commitment of Swedish Match and of all its employees to conduct business activities in a responsible manner, consistent with applicable laws and regulations. It applies to all employees within the Swedish Match Group, regardless of location or role.

As part of our activities to help ensure awareness of the Code of Conduct and to find out whether our employees have reviewed or been informed about the Code, we conduct periodic employee surveys. Mandatory training on the Code of Conduct is done through e-learning to supplement town hall meetings and similar events. Employees without e-mail accounts, hourly employees and consultants receive training related to the Code of Conduct in group sessions. All employees are to participate in the training on an ongoing basis. Matters addressed in the Code of Conduct are continuously communicated to employees through, for example, the Company's Intranet.

Business Ethics Council and Procurement Council

The Business Ethics Council and Procurement Council target enhancement within general business ethics matters and assurance of adherence to our Supplier Code of Conduct. With the responsibility of the sustainability area decentralized to the Company's divisions, the councils are designated to assist in the coordination of activities and best practice sharing.

Corruption and bribery

At Swedish Match we have zero tolerance towards corruption and bribery. Swedish Match shall not participate in, or through third parties, endorse any corrupt practices. This is clearly stated in the Code of Conduct. Raising awareness and knowledge in these areas within our organization is of high importance and targeted employees are required to complete a specific e-learning on the subject. The e-learning is also open to anyone else within the organization.

Fair competition

It is our belief that healthy competition contributes to increased business opportunities, improvement of economic performance and the reduction of cost for products and services. Competition between competitors shall be conducted in a fair manner and in compliance with competition laws. Our legal departments support the divisions on compliance with the relevant legislation when entering into agreements with our counterparties and performing market activities.

All employees within sales and marketing as well as management teams throughout the Group are continuously trained within fair competition through face-to-face training. E-learning programs and tailor-made compliance manuals are also used to educate personnel within this area and will continue to be used targeting employees within e.g. sales and marketing, procurement as well as research and development.



www.swedishmatch.com 
More information is available on the Company website www.swedishmatch.com/code-of-conduct.



Anti-money laundering

Money laundering is prohibited by Swedish Match in line with the anti-money laundering laws of various countries. Money laundering is a global problem with potentially very serious consequences. Swedish Match remains vigilant to this concern in our business relations and acts diligently to prevent our products from being used for money laundering. At the end of 2019, Swedish Match launched an e-learning which will be required for targeted employees within the organization.

Raising concerns and the whistleblower function

To further secure sound business ethics within the organization, we encourage all employees to speak up if they become aware of behavior that is not in line with the Code of Conduct. When raising a concern, employees can always contact their managers, their manager's immediate manager, division heads, or the HR or legal departments. Swedish Match also has a whistleblower function that provides every employee with the opportunity to report suspicion of non-compliance with the Code of Conduct to the Chairman of the Audit Committee. A concern can be raised anonymously. All raised concerns are treated seriously and investigated. Appropriate actions are taken in cases of misconduct. All expectations raised and actions are reported to the Audit Committee. External auditors are also present at the time of these reports. During 2019, 20 issues have been raised and evaluated. Some of these issues required actions and that new routines be put in place, while others were found unsubstantiated and required no further actions.

Our Supplier Code of Conduct

Our Supplier Code of Conduct reflects Swedish Match's Code of Conduct and specifies what we expect and require from our suppliers in terms of employment and labor practices, workplace practices, ethical business practices and environmental management practices. Requirements are based on and comply with international conventions and guidelines¹⁾. The Supplier Code of Conduct forms the basis for our relationship with suppliers and is an integral part of most of our significant business agreements.

Swedish Match strives to work with suppliers who have a healthy long-term financial position and chooses suppliers who also support Swedish Match's requirements regarding ethical business practices and other sustainability aspects.

We are in increasingly frequent and recurring dialogue with our suppliers on our fundamental values. Activities include communication of requirements in the Supplier Code of Conduct, follow-up on adherence through supplier assessments and audits as well as further dialogue on priority issues to ensure continued improvement. The overall aim is to proactively increase our further dialogue with suppliers on topics pertaining to sustainability.

www.swedishmatch.com

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

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

OUR PROGRESS

HIGHLIGHTS 2019

- The European General Data Protection Regulation (GDPR) entered into force in May 2018. Swedish Match is committed to handling personal data responsibly and in accordance with the legislation. During the year, employees and consultants have been trained through workshops and e-learning in order to understand the what GDPR means for Swedish Match and how to comply with the regulation.
- Third party audit of high-risk suppliers of direct material other than raw tobacco, covering a regulatory and legal compliance audit on child labor, employment and labor practices as well as ethical business practices.
- Money laundering is a serious global problem and for Swedish Match it is of utmost importance that our businesses are not used as a means for criminals to use the profits of their crimes. During the year, Swedish Match has launched an e-learning in anti-money laundering for targeted employees to spread knowledge on warning signals and how to act in situations when money laundering is suspected.
- Ethical business practices flourish in a workplace free from harassment and discrimination. During the year a Fair and Friendly project started within Europe Division and Corporate Functions and an anti-harassment/discrimination training was launched for all employees within the US Division.

Progress update

Ethical business practices	2019	2018	2017
Share of employees that have completed training on our Code of Conduct ¹⁾ , %	97	96	95
Share of targeted employees that have completed fair competition e-learning, %	90	80	N/A
Share of targeted employees that have completed training on anti-money laundering, %	81	N/A	N/A
Share of targeted employees that have completed training on GDPR, %	82	79	N/A
Share of significant suppliers of direct material that share the same values as Swedish Match, %	99	98	96

¹⁾ Relates to individual training for employees with personal e-mail accounts as well as group session training performed for employees in factories without personal e-mail accounts.

Going forward:

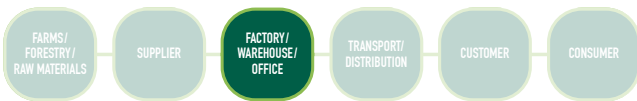
- Continued focus on awareness of different parts of the Code of Conduct throughout the organization; tailor-made education and trainings.
- Continued third party audits of high-risk suppliers of direct materials, covering regulatory and legal compliance audits on child labor, employment and labor practices as well as ethical business practices and taking actions on potential findings.



EQUAL OPPORTUNITY

OUR COMMITMENT

At Swedish Match we put equal opportunities first and foremost in our work toward non-discrimination and diversity. We are dedicated to having an open and inclusive work environment where all our employees shall have equal opportunities to achieve their full potential, regardless of personal status. We work diligently to ensure there is zero tolerance for discrimination. As such, we take a proactive approach against structural discrimination and toward increased diversity at all levels within our company.



The scope of this focus area is our own operations.

OUR GOAL

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

- No employees should feel that they are, or could be, the subject of discrimination at the workplace.
- To have at least 40 percent of each gender in senior management.
- To increase diversity in cultural backgrounds.



OUR APPROACH

Decentralized functions for Human Resources

At Swedish Match, we have a decentralized Human Resources (HR) organization as regulations and societal context vary between countries. Many initiatives are taken each year to ensure that we create and maintain an inclusive work environment. For example, we provide access to ongoing training, gender equality programs, equal pay analyses and equal employment opportunity efforts. Through the HR Council, we provide a platform to facilitate a common ground within the Group. The primary focus is on exchanging ideas and knowledge. Employee well-being is tracked through a global employee opinion survey.

Zero tolerance for discrimination

We are committed to non-discrimination in all employment practices, policies, benefits and procedures. Neither employees, nor potential employees, should feel that they are or could be the subject of discrimination at Swedish Match. All violations are taken seriously. Procedures are in place to ensure that swift action is taken to investigate and resolve employee concerns without fear of retaliation. There are several different ways in which an employee may raise a concern, including talking to the employee’s manager, or the manager’s immediate manager, division heads, or the HR or legal departments. The employee may also file a complaint anonymously through the whistleblower function which is available on the Company’s Intranet. The global employee opinion survey includes parameters on discrimination.

Diversity

We are convinced that a diverse workforce and diverse management groups are positive for our business. Diversity adds value in and of itself, and a balanced workforce improves our chances of recruiting the best talent. We believe that gender and cultural background are the areas where there may be a higher risk for potential discrimination and/or areas where the Company could benefit most from an increased focus.

We work with our Company culture to make sure that it is inclusive and promotes diversity. This includes tangible initiatives, that are recognized to address diversity relating to gender and cultural background. We follow all applicable laws related to discrimination and the protection of minorities and we look for and react forcefully to any indications of discrimination, including with regard to salary. We also work to make sure we find the best candidates, and that also means that in external recruitments we shall always seek out diversity in the candidate pool.

To encourage greater diversity at the management level and for employees throughout the organization, KPIs have been established for the US and Sweden to track and report externally on the number and percent of managers and other employees who fall under certain classifications. Since 2017, our businesses in both the US and Sweden are required to present status reports within their organizations, on both a total unit level and with regard to management, pertaining to protected groups and those from other cultural backgrounds or country of origin.



In Sweden, information is being gathered to identify the number of employees who are either born in Sweden, in countries outside of Sweden, or who have two parents born in another country. In the US, ethnic or racial background is a factor which is reviewed.

Gender balance

We believe that gender diversity at all levels of the organization benefits the Company in many ways. Gender balance targets are set locally striving for greater balance over time, particularly with regard to more senior levels within the organization. As such, we have a Group goal of having at least 40 percent of each gender in senior management¹⁾.

Since 2017, all divisions as well as corporate functions are required to present status and changes in gender balance within their organizations, on both a total unit level and with regard to management. These status updates are reviewed by the Group Management Team and provide greater awareness and involvement in the organization.

Equality Plan

An Equality Plan, including comprehensive efforts on several actions for the Company's operations in Sweden, Norway, Belgium and Switzerland is in place. Actions include various knowledge-enhancing activities, talent development programs, an Equal Opportunity Council, ensuring correct salary processes, and communication on role models. The action plan is based on the seven grounds of discrimination covered by Swedish law (sex, ethnicity, religion or other belief, disability, transgender identity or expression, sexual orientation, and age) and covers five areas: working conditions, salaries and other terms of employment, recruitment and promotion, training and other skills development, as well as work and parenting.

¹⁾ Defined as participants in the Group Long Term Incentive Plan, composed of 41 individuals in 2019.

Fair and Friendly

The Fair and Friendly program is Swedish Match's way of working for a fair and friendly work environment within the Europe Division and Corporate functions. The program is based on three cornerstones; fairness, inclusion and business value. The concept of Fair and Friendly encompass that Swedish Match should be and be perceived as a company that promotes diversity, is free from discrimination and where competence, performance, and attitude is what matters in recruiting, retaining and developing employees. The Fair and Friendly Council works with a mission to support the action plan by designing overall activities and ensuring that local activities help to promote a fair, welcoming and competitive Swedish Match. While the council works in an overarching manner to ensure a commonality of approach for this initiative, five local Fair and Friendly Teams, each team with a representative in the Council, work with initiatives to promote inclusion at a local level. Updates on actions and results are regularly published on the Company's intranet.

Affirmative Action Plan in the US

In the US, all employers are required by law to ensure equal employment terms. In addition to the US legal requirements, Swedish Match completes Affirmative Action Plans annually to analyze and monitor equal opportunity initiatives. An Affirmative Action Plan is a strategic tool to ensure that we as a company are taking proactive steps to attract, hire, train, promote and retain protected groups, ensuring equal pay for equal work and establishing "Good Faith" efforts to move toward fuller representation. In this analysis, we compare our workforce to the relevant labor force, establish goals and timetables for correcting areas of opportunity, develop plans to reduce areas that are not fully utilized with minorities and women and monitor our progress.





OUR PROGRESS

HIGHLIGHTS 2019

- Fair and Friendly Council, within the Europe Division and Corporate functions, has developed guidelines for welcomed behaviors. The guidelines clearly show how we work together to create a workplace environment where we respect each other and take advantage of our diverse perspectives.
- Within our US operations, a field sales recruiter has been employed to more actively pursue a more diverse workforce.
- An anti-harassment/discrimination training has been launched (on-site) for all employees in the US, completed by 97 percent of the employees.
- Successful recruitment and retention of females in our facilities in the Dominican Republic, helping to ensure that an equal number of males and females interview for job openings, while also strengthening processes to help ensure salaries are paid by position and promotions determined by performance on the job.
- Continued focus on female applicants within SMD Logistics (Sweden) to help ensure an improved balance between female and male employees.
- An equality compensation in the event of parental leave introduced in the Company's Swedish operations when sharing the parental leave evenly with the child's other custodian (when there is one) to promote equitable parental leave.
- Working opportunities provided for people who have difficulties accessing the regular labor market, at Swedish Match Lighters BV, in Assen (the Netherlands) by working closely with the Social Workplace which employs people with different disabilities. These employees are formally employed by the Social Workplace, but by working on site, they are regarded as any other Swedish Match employee.

Progress update

Senior management gender representation ¹⁾	2019	2018	2017
Total number of senior management	41	42	46
Share of female members in senior management, %	17	21	15
Share of male members in senior management, %	83	79	85

¹⁾ Defined as participants in the Company's Long Term Incentive (LTI) program.

Group management and Board of Directors ¹⁾	2019	2018	2017
Total number of members in Group management	8	8	9
Share of female members in Group management, %	13	13	22
Total number of members in Board of Directors ¹⁾	10	10	10
Share of female members in Board of Directors ¹⁾ , %	30	30	40
Total number of members in Board of Directors appointed by the Annual General Meeting	7	7	7
Share of female members in Board of Directors appointed by the Annual General Meeting, %	43	43	43

¹⁾ Swedish Match AB, including employee representatives.

Employees	2019	2018	2017
Total number of employees ¹⁾²⁾	6,712	6,036	5,240
Share of female employees, %	40	41	39
Share of female managers ³⁾ , %	26	27	22
Share of female white-collar employees, %	34	34	32
Share of female blue-collar employees, %	43	43	45

¹⁾ The figure for total number of employees represents figures at December 31. Due to differences in methodologies, this figure does not correspond to the figure for average number of employees in *Note 6 Personnel*, page 91.

²⁾ Including temporary employees.

³⁾ Managers with direct reports.

Employees on discrimination ¹⁾	2018	2016	2014
Share of employees who agree that their working group is free from discrimination at work, %	92	94	92

¹⁾ The Group employee survey is conducted regularly. In 2016 the question was if the employee was free from discrimination at work. In 2018 the question was broadened to refer to the employees working group.

	Share of affected group ¹⁾ , %		
	2019	2018	2017
Cultural background			
Employees			
Sweden	24	26	25
The US	16	17	17
Managers²⁾			
Sweden	11	13	12 ³⁾
The US	10	10	10

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

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

³⁾ Revised in 2018 due to adjusted data from SCB, Statistiska centralbyrån.

Going forward:

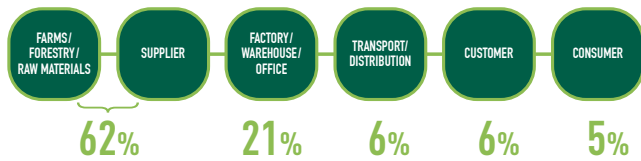
- Efforts and actions on local plans within Fair and Friendly Council and teams will continue.
- Efforts on making the facilities in the factory in the Dominican Republic completely accessible for people with disabilities.



CO₂ ↓ REDUCE GREENHOUSE GASES

OUR COMMITMENT

The effects of climate change pose a risk to all of us. At Swedish Match, we acknowledge the severity of this issue and we welcome the rising ambitions within the corporate sector at a global scale. We commit to do our part in addressing climate change supported by science-based targets for our business' value chain.



The scope of this focus area is the entire value chain. Emissions of greenhouse gases (GHG) are distributed across the value chain stages as depicted above.

OUR GOAL

Our goal is to reflect the commitments outlined in the Paris Agreement and thereby reduce emissions of greenhouse gases in our entire value chain.

Reduce emissions of greenhouse gases by 75 percent by 2050, with 2017 as the base year, in our value chain (Scopes 1, 2 and 3), resulting in:

- A commitment to reduce GHG emissions by 4 percent per year, every year, until 2050.
- A reduction target of 12 percent by 2020, and by 41 percent by 2030.

OUR APPROACH

Accounting for GHG emissions in our value chain¹¹⁾

We report GHG emissions from our own facilities (Scope 1 direct emissions), emissions from purchased energy used in our own operations (Scope 2 indirect emissions), and emissions in our full value chain according to the Corporate Value Chain Standard (Scope 3) of the Greenhouse Gas Protocol³⁾.

Swedish Match's direct emissions (Scope 1) and indirect emissions (Scope 2) account only for 16 percent of the total GHG emissions. The remaining 84 percent includes emissions both upstream and downstream (Scope 3) in our value chain where we believe we can have the most positive impact. A large part of the Scope 3 emissions stem from the extraction and production of raw materials, e.g. tobacco, timber and nylon, as well as packaging material.

Latest generic emission factors have been used to a large extent to calculate emissions⁴⁾. All six GHGs covered by the Kyoto Protocol⁵⁾ are included in the calculations, assumptions and emission factors have followed a conservative approach.

Reducing GHG emissions in a science-based manner

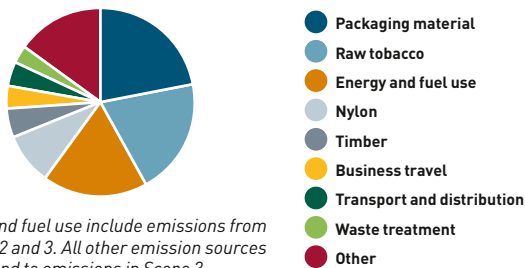
We have developed an emission reduction strategy with science-based targets, based on the revised measurement made in 2016. Science-based targets are in line with the level of decarbonization required to keep the rise in global temperature below 2°C compared to pre-industrial levels⁶⁾. In this process we have been guided by the methodology of the Sectoral Decarbonization Approach⁷⁾ (Other Industry⁸⁾ pathway) and made use of the associated calculation tool to form a basis for our decision.

Our targets were set through the Science Based Targets Initiative (SBTi) and approved in March 2019.

Our GHG reduction targets have been set by the Group Management Team and approved by the Swedish Match AB Board of Directors. The responsibility to achieve the targets has been delegated to heads of our divisions. This organizational approach ensures that targets are integrated into, and continuously followed-up upon, as part of normal business operations and review processes.

In the process of setting targets, we have identified a wide range of actions to be taken in pursuit of reducing our value chain emissions. Action plans have been set and responsibilities have been distributed across the Group for main sources of emissions. Initial actions include revisiting procurement practices and replacing materials and energy sources with alternatives of lower carbon intensity, using resources more efficiently, engaging with business partners, and, in the longer term, developing products with lower carbon intensity. We will also continuously aim to enhance our accuracy in the GHG accounting, which will help us to find further potential for reduction and to set the right priorities for our actions.

MAIN SOURCES OF GHG EMISSIONS



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

CDP

Swedish Match annually reports information on governance, risk and opportunities and climate data to CDP⁹⁾.

By reporting to CDP, our stakeholders are provided with more information about Swedish Match's initiatives and their results. In 2019, we have improved our overall CDP score to B- from C in 2018. We have also received A- for Supplier Engagement Rating.

¹¹⁾ Figures described in this section are based on best available information and are subject to revision. Revised figures will be presented on the Company's website when available.

²⁾ Data excludes newly acquired Gotlandssnus facility.

³⁾ International standard for calculating and reporting climate impact from business activities.

⁴⁾ Main sources of reference for emission factors include DEFRA, Ecoinvent and IEA.

⁵⁾ IPCC Fourth Assessment Report.

⁶⁾ As described by the Intergovernmental Panel on Climate Change (IPCC).

⁷⁾ Sectoral Decarbonization Approach (SDA): A method for setting corporate emission reduction targets in line with climate science (2015). www.sciencebasedtargets.org.

⁸⁾ The "Other industry" sector includes all industries that cannot be allocated to the industry sectors Iron & steel, Cement, Aluminum, Pulp & paper and Chemicals & petrochemicals, e.g. food, beverage and tobacco processing.

⁹⁾ CDP (formerly Carbon Disclosure Project) is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.



OUR PROGRESS

HIGHLIGHTS 2019

Employing a science-based approach and a commitment to the Paris Agreement, Swedish Match has actively pursued programs to reduce GHG emissions.

- Installation of biomass bed and solar panels at the Kungälv factory (Sweden).
- 22 percent reduction of plastic use in can lids used for moist snuff pouch products at the Owensboro factory (US).
- Continued programs to reduce carbon intensity in the US facilities: 85 percent of total cigar consumer packaging converted to lower aluminum content.
- All three factories in the US Division converted to LED lighting.
- "Green" electricity employed at 100 percent at the Assen factory (the Netherlands) since the fourth quarter 2019.
- Introduced recycled nylon in the manufacturing of lighters at the Assen factory.
- Reduced nylon usage for lighter production at the Assen factory.
- Additional solar panels installed at the Manila factory (the Philippines).
- Introduced new match head composition with lower use of chemicals.
- SMD Logistics (Sweden) has implemented eco driving system for internal fleet of vehicles and those of our Road Cargo partner.
- SMD Logistics have installed solar panels in the facility in Sweden.

Progress update

The GHG emissions across the value chain amount to 197,648 tons CO₂-equivalents (CO₂e) for the year 2019, which resulted in 0.8 percent reduction compared to 2018. Scope 1 and Scope 2 emissions have increased slightly driven by a capacity expansion in our Owensboro facility in the US, where currently most of the energy is sourced from natural gas. Total Scope 3 emissions have decreased year over year supported by reduction of packaging materials in the US, as well as lower amount of nylon and timber used by our Lights Division. Our emissions per unit of production have increased primarily driven by declines in match volumes, which has relatively lower carbon intensity compared with the rest of our portfolio. In constant volume mix for our portfolio, our emissions per unit of production was down by close to 2 percent. Measured per unit of net sales in local currency terms, our emission were reduced by more than 8 percent.

We acknowledge that it remains challenging to reach our 2020 target of 12 percent reduction versus the 2017 baseline, recognizing that we have a growing business within for instance nicotine pouches and it takes time to fully implement all the planned initiatives. As our greenhouse gas reduction target is set based on a long-term view, continuous efforts will be made to deliver a year over year improvement. To further reinforce our commitment to the target, it has been decided to include an additional performance metric in the Long Term Incentive plan for 2020 based on our ambitions to reduce GHG emissions in line with the Paris agreement.

We continue to shift towards fossil free energy used in our factories and offices. This year we have seen an increasing share of energy consumption generated by fossil free sources for our Scandinavian and lights operations, achieving 81 and 65 percent respectively of their total energy used. The remaining focus is on our US facilities, where currently only 6 percent of the energy used is fossil free.

In 2019, we have initiated a review of emission factors. Most of the emission factors have been updated according to the latest

publication from UK Department of Environment, Food and Rural Affairs (DEFRA). We have started a pilot project to engage our suppliers more in the data collection process, in order to provide more specific and accurate data throughout the value chain. This year, collaboratively with the vendor, we identified an emission factor for our nicotine source, which is used in most of our nicotine pouch products. On a per can basis, the carbon footprint for nicotine salt usage in our ZYN product is lower compared with that for tobacco usage in our snus product. While the growth of ZYN will increase our total CO₂e emissions, it has a positive impact on our Improve Public Health focus area.

To further strengthen internal knowledge in the area of GHG accounting and reporting, we have initiated a series of webinars for all divisions, based on the GHG Protocol.

In order to streamline the reporting process and improve visibility and control, we have started implementation of a sustainability reporting system to be used by our divisions and suppliers.

As part of the overall update and continued refinement of our GHG accounting, Swedish Match has engaged in conversations with some of our main tobacco suppliers that are in the forefront of GHG emission reduction, ITC and Universal Leaf. Together we aim to identify the main sources of emissions for Swedish Match tobacco and further develop a more accurate emission accounting.

Greenhouse gas emissions (metric tons CO ₂ e) ¹⁾	2019	2018 ²⁾	2017 ²⁾
Scope 1	9,564	9,434	10,082
Scope 2	22,029	21,744	20,632
Scope 3	166,055	168,132	167,764
Total emissions	197,648	199,309	198,478
Percent change total emissions	-0.8	0.4	N/A
Total emissions per MSEK sales³⁾⁴⁾	13.8	15.0	16.4
Percent change per MSEK sales	-8.5	-8.3	N/A
Total emissions per unit of production⁵⁾	73.6	71.1	70.6
Percent change per unit of production	3.5	0.8	N/A

¹⁾ Data excludes newly acquired Gotlandssnus facility.

²⁾ Figures restated due to refined data collection.

³⁾ Figures restated following further analysis.

⁴⁾ Net sales from product segments in local currency terms with the 2019 average exchange rates.

⁵⁾ Unit of production uses weighted average based on millions of cigars, matches, lighters and cans of snus and thousands of pounds of chewing tobacco.

Energy use in our own operations (MWh) ¹⁾	2019	2018 ²⁾	2017 ²⁾
Direct energy use	87,430	87,240	90,893
Indirect energy use	89,656	89,697	87,680
Total energy use	177,086	176,938	178,573
Total energy use per MSEK sales³⁾⁴⁾	12.3	13.4	14.8
Total energy use per unit of production³⁾	65.9	63.1	63.5
Percent of fossil free energy	44.7	44.5	45.0

¹⁾ Data excludes newly acquired Gotlandssnus facility.

²⁾ Figures restated due to refined data collection.

³⁾ Figures restated following further analysis.

⁴⁾ Net sales from product segments in local currency terms with the 2019 average exchange rates.

Going forward

- Continued shift to fossil free energy sources for heating in our factories and offices.
- Actively seek new opportunities to reduce our carbon footprint in plastic for consumer packaging.
- Continued shift to low emission vehicles across the Group.
- Additional projects have been initiated to review tobacco and wood emission factors in depth, incorporating suppliers' input to further improve our GHG accounting visibility and to better guide our emission reduction efforts. We plan to finalize the review in 2020.
- Global implementation of the sustainability reporting system to be completed ahead of 2020 annual reporting.

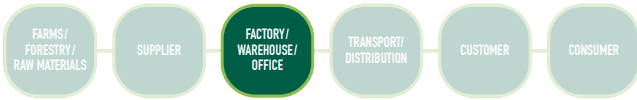
¹⁾ Business travel is allocated to Scope 3 in the GHG accounting but has been included in our own operations in the distribution of emissions across our value chain stages.



REDUCE WASTE

OUR COMMITMENT

At Swedish Match we work continuously and systematically to assess our internal processes, work efficiently and reduce impacts we have on the environment.



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

OUR GOAL

Our goal is to reduce waste generated at our own production facilities.

- Keep total waste, per unit of production, generated at our facilities constant.¹⁾
- Reduce hazardous waste by 10 percent, per unit of production, on an annual basis, and by 50 percent by 2025 compared to baseline 2017.
- Reduce waste to landfill by 10 percent, per unit of production, on an annual basis, and by 50 percent by 2025 compared to baseline 2017.

¹⁾ The goal description was changed to per unit of production versus per unit of sales in 2018.

OUR APPROACH

Reducing waste

The results from our material flow analysis for all our facilities have led us to conclude that, as for our Group-wide focus on environmental issues other than greenhouse gases, we focus on reducing waste generated in our own operations. We have set Group-common targets for waste at our own facilities as well as treatment of this waste. One target is to keep total waste per unit of production constant, other targets aim to push waste away from landfill and towards recovery and recycling, as well as to reduce hazardous waste per unit of production. This work is driven locally and, to a large extent, in close dialogue with local authorities and other stakeholders.

We continuously work to reduce the use of packaging material and other materials associated with our products. We are also looking for alternative materials that are partly renewable and/or recycled, and with lower carbon intensity. We are exploring the possibilities of increasing the recycling rate for consumer packaging materials at the end of their product life.

Managing environmental performance

The majority of our production facilities (9 of 15) are ISO 14001 certified. Non-certified factories include our match factories in Curitiba and Pirai do Sul, Brazil, lighters factory in Manaus, Brazil, and businesses acquired²⁾ since 2017.

²⁾ Pertains to V2 Tobacco (August 31, 2017), House of Oliver Twist (April 3, 2018), and Gotlandssnus (August 22, 2018).





OUR PROGRESS

HIGHLIGHTS 2019

Swedish Match has initiated several new programs to reduce waste, including hazardous waste, in our production facilities.

- Europe Division has started in-line labelling to minimize purchased items and scrap.
- Improved the sorting process for plastic cans at production lines within Europe Division.
- US Division initiated several projects to reduce waste to landfill:
 - Incineration of waste for power production in Dothan facility (US), 50 percent of the project finalized in 2019.
 - Ongoing recycling programs implementation for packaging materials, such as cardboard, cartons as well as metals in US and Dominican Republic facilities. Initiated evaluation of recycling vendors.
 - Reduced chemicals and other hazardous waste in Dothan (US) and Santiago (Dominican Republic) facilities, by changing oil-based machine cleaners to organic cleaners.
- The Lights Division has significantly reduced landfill by composting of boiler ashes in the Pirai do Sul facility (Brazil).

Progress update

Similar to previous years, approximately 97 percent of our waste comes from non-hazardous waste. Recovery, including energy recovery, remains a main waste treatment method for the Group, covering 73 percent of total waste. Total waste per unit of production is largely unchanged compared to 2018. However, hazardous waste and landfill per unit of production has increased largely driven by factors of temporary nature related to capacity expansion in the Owensboro facility in the US. This year we have also seen an increasing share of our waste being recycled, reaching close to 10 percent of the total. Waste to landfill is largely concentrated in the US and several initiatives are being investigated to explore the recovery possibilities.

Total waste (metric tons) ¹⁾	2019	2018 ²⁾	2017 ²⁾
Non-hazardous waste	25,022	26,309	27,187
Hazardous waste	790	588	693
Hazardous waste per unit of production ^{3) 4)}	0.29	0.21	0.25
Total waste	25,812	26,897	27,880
Total waste per MSEK sales^{4) 5)}	1.80	2.03	2.31
Total waste per unit of production^{3) 4)}	9.61	9.60	9.92

¹⁾ Data excludes Gotlandssnus facility.

²⁾ Figures restated due to refined data collection.

³⁾ Unit of production uses weighted average based on millions of cigars, matches, lighters and cans of snus/nicotine pouches and thousands of pounds of chewing tobacco.

⁴⁾ Figures restated following further analysis.

⁵⁾ Net sales from product segments in local currency terms with the 2019 average exchange rates.

Treatment method (metric tons) ¹⁾	2019	2018 ²⁾	2017 ²⁾
Recovery, including energy recovery	18,829	20,731	22,024
Landfill	3,606	3,295	2,981
Landfill per unit of production ^{3) 4)}	1.34	1.18	1.06
Recycling	2,276	2,008	1,957
Hazardous waste treatment	781	588	693
Composting	320	274	224

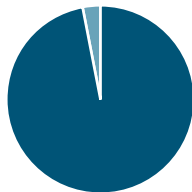
¹⁾ Data excludes Gotlandssnus facility.

²⁾ Figures restated due to refined data collection.

³⁾ Unit of production uses weighted average based on millions of cigars, matches, lighters and cans of snus/nicotine pouches and thousands of pounds of chewing tobacco.

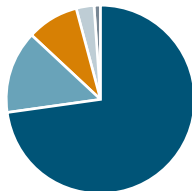
⁴⁾ Figures restated following further analysis.

WASTE BY TYPE



- Non-hazardous
- Hazardous

WASTE BY TREATMENT METHOD



- Recovery, incl. energy recovery
- Landfill
- Recycling
- Hazardous waste treatment
- Composting

Going forward

- New equipment to be installed to support flexible sizes of batches for snus production.
- Pre-study initiated to eliminate a number of colors used in plastic can packaging.
- Continued implementation of recycling program in our facilities.
- Continued trials to minimize landfill from our match production.
- Continuous improvement of procurement and production efficiency.



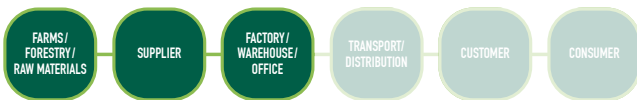
ELIMINATE CHILD LABOR

OUR COMMITMENT

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

We respect universal human rights and support internationally proclaimed human rights conventions and guidelines. We recognize the role we play in respecting these rights and in making sure that they are upheld and respected for the people impacted by our business, in the areas where we operate and from which we source materials.

Consistent with the UN Convention on the Rights of the Child and the ILO Convention 138 on the minimum age for admission to employment and work, Swedish Match adheres to the principle that the minimum age for work should be above the age for finishing compulsory schooling, which is generally 15 years of age, or 14 years according to exceptions for developing countries. If relevant national legislation has set a higher age, this age applies. Work that is likely to be hazardous or harmful to the child's health as well as physical, mental, spiritual, moral or social development or that interferes with the child's education shall not be performed by young workers – children between 15 or 18 years of age. In the case of family farms, children of farmers between the ages of 13 and 15 years or above the minimum age for light work as defined by the country's law, whichever affords greater protection, can do light work on their own family's farm, as long as it does not threaten their health and safety, or hinder their education or vocational orientation and training.



The scope of this focus area is our own production facilities and our suppliers and, for tobacco, the farmers who provide tobacco to suppliers.

OUR GOAL

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

- Improve our ability to identify, prevent and mitigate child risks and other sustainability risks in our supply chain.
- 100 percent child labor free tobacco.

OUR APPROACH

Assessing risk related to business integrity and human rights¹⁾

Swedish Match is dependent on raw material from agriculture and other sources for our products. According to the International Labor Organization, ILO, approximately 152 million children are involved in child labor worldwide; 71 percent of these children are found in agriculture. With tobacco being an agricultural product, there is a significant risk of child labor. The issue of child labor is extensive and complex; it requires commitment from us as well as from farmers and suppliers that contract with farmers, other suppliers, governments and other manufacturers.

We assigned external expertise to refine our previous assessment of risk related to business integrity and human rights in our value chain in 2016. This risk assessment forms the basis for our efforts to assess and mitigate specific risk in dialogue with prioritized suppliers. The risk landscape in relation to all suppliers of direct material was reassessed based on manufacturing country or origin of raw material, known category and industry risks²⁾ as well as annual level of spending. A more in-depth social impact assessment was pursued at industry-level, to identify potential and specific human and labor rights risks for a limited number of higher risk categories of direct material.

Out of our 124 significant suppliers of direct material³⁾ a total of 73 suppliers⁴⁾ are classified as high risk based on industry and/or country of origin. The majority of resulting high risk suppliers are suppliers of raw tobacco. The remaining part are suppliers of lighter components or finished products primarily sourced from Asia. These results confirm our long-term focus on suppliers of raw tobacco in our efforts to manage our supply chain more sustainably. These results also confirm our continued focus on child labor and child rights, with child labor and women and child risks rated as the top specific human rights risks for the tobacco category.

Supplier due diligence

We have systems and procedures in place to monitor adherence to our Supplier Code of Conduct. The monitoring is most advanced and proactive for the raw tobacco purchases for our snus products. For the raw tobacco for other smokeless products, the monitoring is more compliance oriented. The major due diligence tools for the raw tobacco supply chain are the Sustainable Tobacco Program (STP) and associated procedures. Swedish Match sources its raw tobacco primarily from global suppliers (such as Alliance One, ITC and Universal Leaf) who in turn source tobacco from individual farmers. The monitoring for direct material other than raw tobacco, has been enhanced through standard group procedures. We work to maintain a proactive dialogue on prioritized sustainability issues with relevant significant suppliers of direct material.

¹⁾ Data excludes facilities acquired in 2017 and 2018; V2 Tobacco, House of Oliver Twist, and Gotlandssnus.
²⁾ Classification of risk has been done based on geographical location and the Corruption Perception Index of Transparency International (CPI), cross-referenced with Maple Croft's Human Rights Index and complemented with specific industry-related risk of human and labor rights violations.
³⁾ A significant supplier of direct material is defined as a supplier with which Swedish Match has an annual spend of above 400,000 USD. Suppliers below this spend limit that belong to an industry classified as high risk in relation to business integrity and human rights violations have been included regardless of spend. This includes all suppliers of raw tobacco.
⁴⁾ Includes all suppliers of raw tobacco regardless of country of origin.



Sustainable Tobacco Program (STP)

The STP is a due diligence program for sustainability aspects in tobacco growing and manufacturing. It was jointly developed by the tobacco industry in 2015 and includes annual supplier self-assessments and compliance oriented third-party reviews in a three-year cycle. The first review cycle was completed at the end of 2018. The program covers our tobacco suppliers for the production of snus, moist snuff and US chewing tobacco, 55 percent of our purchased raw tobacco volumes, and includes known sustainability aspects for the agricultural value chain, such as human rights, labor practices, health and safety, as well as environmental issues.

Several criteria relating to child labor and child risks in the tobacco growing and manufacturing supply chain have been under assessment and review through the STP. These include, but are not limited to, employment or recruitment of child labor and performance of dangerous or hazardous tasks within the supplier facilities; employment of children on supplying farms, identification of dangerous and hazardous work on supplying farms, exposure to hazards on supplying farms for persons below the age of 18 years old, and farmer's children helping out with light work on supplying family farms as well as their school attendance along with the identification of prompt action issues and procedures to address them.

During 2019, Swedish Match and six other manufacturers have been engaged in the development of an STP 2.0 Platform with the aim to move towards a focused and impact oriented STP based on relevant assessments. Read more under section Going forward on the next page.

Sustainability audits on tobacco leaf suppliers for cigars

During 2018, several raw tobacco suppliers for cigars participated in a pilot review conducted by a third-party supplier. The review mapped principles and criteria used within the STP, which are applicable for Swedish Match sustainability focus areas. Dialogue with tobacco suppliers is ongoing and all suppliers audited have been provided a risk reduction plan and corrective action plan based on their results and specifically targeting Swedish Match's six sustainability focus areas. In 2020, we plan to visit all the key leaf suppliers for cigars and continue with the audit and assessment process.

Conducting dialogue with suppliers

Our Leaf Operations departments evaluate risk and tailor the continued dialogue on the basis of self-assessments, third party reviews and resulting action plans for improvement. Suppliers and farmers are visited regularly to strengthen relationships and to pursue a proactive dialogue, including follow-up on action plans. The proactive nature and structure of this dialogue varies depending on vendor location and size. We have worked on systemizing, and structuring documentation of, this dialogue in a consistent way for raw tobacco covered in STP and have defined a procedure on how to interpret, measure, take action and follow up on STP results.

Direct material other than raw tobacco

The due diligence for direct materials other than raw tobacco builds on our Supplier Code of Conduct. At present this process primarily covers tier one suppliers¹⁾. The tier one suppliers are continuously screened for compliance and risk in relation to ethical business practices, including child labor issues. In addition to this, we encourage our suppliers to develop their own supplier standards and monitoring procedures.

During the year we have continued implementation of the standard group procedure, developed in 2017. Our significant suppliers base is identified and monitored, and we continuously assess supplier adherence to requirements set forth in our Supplier Code of Conduct. The procedure includes self-assessment and desktop screening. Based on the assessment results, further dialogues have been initiated during the year and suppliers have also been subject to audits conducted by a third party auditor. These audits cover child labor, employment and labor practices and ethical business practices.

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

ECLT Foundation

Swedish Match is a member of and represented on the board of the ECLT Foundation – Eliminating Child Labour in Tobacco Growing. The foundation is committed to pursuing collaborative solutions for children and their families that combat the root causes of child labor in tobacco-growing communities. Founded in 2000, this multi-stakeholder initiative brings several stakeholders from different parts of the tobacco industry together toward a common goal. Since 2011, the ECLT Foundation has helped over 700,000 children, farmers and families in tobacco-growing communities and they are currently implementing projects in Guatemala, Indonesia, Malawi, Mozambique, Tanzania and Uganda.

Our involvement provides us with a platform to continuously keep the issue high up on the agenda, exchange experience and knowledge within this field, and follow projects to tackle the issue on the ground. For more information on ECLT Foundation, see the ECLT Foundation's website, www.eclt.org.





OUR PROGRESS

HIGHLIGHTS 2019

- Active participation in an industry-wide collaboration to move towards a focused and impact-oriented STP 2.0 based on relevant assessments.
- Co-funding of the “Let’s PLAY” After School Program by supporting three schools (449 pupils) in selected communities in the Philippines to mitigate the risk of child labor.
- Third party audit on high risk suppliers of direct material other than raw tobacco, covering regulatory and legal compliance on child labor, employment and labor practices and ethical business practices.
- Continued audit process with our most critical suppliers of raw tobacco for cigars resulting in risk mitigation and corrective action plans in place relative to our focus areas.
- Increased number of farm visits, thus strengthening the relationship with suppliers and farmers of raw tobacco.

The “Let’s PLAY” After School Program

In complement to our due diligence we have supported an after-school program in the Philippines for two consecutive years. This is a project under Universal Leaf’s “Let’s PLAY” program, providing after school activities in selected communities where children have been observed to participate in harvest activities, giving children an alternative to working and allowing them to thrive in new activities. Along with conducting interesting alternative activities and improving the quality of the children’s health and education, the objective is also to increase awareness of parents, teachers and community leaders on child labor prevention. This project complements other activities, implemented by this supplier, to mitigate the risk of child labor. Swedish Match’s engagement in this project complements our own efforts to manage our supply chain sustainably. Learnings from participating in the program also provide us with enhanced understanding of conditions on the ground in areas from which we source raw tobacco. Assessment of the program has shown an increased community awareness of the tobacco industry fight against child labor as well as no incidences of child labor in the identified areas of the after-school activities. Swedish Match will continue to support the program in 2020.

Progress update

Supply chain management ¹⁾	2019	2018	2017
Total number of significant suppliers of direct material	124	130	118
Raw tobacco			
Number of raw tobacco suppliers ²⁾	58	57	51
Number of farms visited by Swedish Match Leaf Operations	264 ³⁾	119	123
Share of raw tobacco volumes included in STP, %	55	47	53
Number of self-assessments performed by raw tobacco suppliers	N/A ⁴⁾	27	24
Number of third party reviews performed on raw tobacco suppliers during the 2016–2018 review cycle	N/A	29	12
Direct materials other than raw tobacco			
Number of high risk suppliers of direct material other than raw tobacco	15	22 ⁵⁾	19
Number of third party audits performed on high risk suppliers of direct material other than raw tobacco	5	N/A	N/A

¹⁾ Data excludes facilities acquired in 2017 and 2018; V2 Tobacco, House of Oliver Twist, and Gotlandssnus, with the exception of 2019 data on raw tobacco where V2 Tobacco and Gotlandssnus are included.

²⁾ Raw tobacco suppliers are viewed as individual suppliers per country. All raw tobacco suppliers are classified as high risk regardless of country of origin.

³⁾ Number of visits increased partly due to change in definition and the inclusion of V2 Tobacco and Gotlandssnus acquired in 2017 and 2018.

⁴⁾ The information is not available due to ongoing development of the STP 2.0 Platform.

⁵⁾ Figure restated following further analysis.

Going forward

- During 2019, Swedish Match has been involved in the development of the STP 2.0 Platform. The aim of STP 2.0 is to improve our environmental and social footprints, to contribute to the UN Sustainable Development Goals (UN SDGs) and to enable transparent communication of responsible practices across our supply chain. The process in STP 2.0 will follow a cycle of continuous improvement in five steps: identify, prioritize, respond, measure, and report.

STP 2.0 builds on the UN Guiding Principles on Business and Human Rights (UNGPs) as well as the five Step Framework for risk-based due diligence along agricultural supply chains set out by the OECD-FAO¹⁾ Guidance for Responsible Agricultural Supply Chains. A blueprint has been created and agreed upon. The overall goal of this platform is to improve the resilience of the leaf supply chain and to demonstrate positive impact in relation to the UN Sustainable Development Goals in a credible way. The new platform will include a technical system, a guidance integrated into the technical system, as well as a process with set stages following a standardized continuous improvement cycle. It is anticipated that the first self-assessments, using STP 2.0, will begin during 2020.

- Continued support of the “Let’s PLAY” After School Program in the Philippines.
- Continued third party audits of high-risk suppliers of direct material other than tobacco and actions on potential findings.

¹⁾ OECD, Organisation for Economic Co-operation and Development – FAO, Food and Agriculture Organization of the United Nations.



Governance

INTEGRATING SUSTAINABILITY

Sustainability is embedded in our value proposition and is a significant driver of our long term success. It is managed and driven from the highest levels of our organization. The Group Management Team (GMT) has the overall responsibility for Swedish Match's efforts on sustainability. The GMT and other leaders within the Group are committed and involved in the process to define and further develop the strategy. The CFO reports to the Board of Directors on progress. Division heads are responsible for implementing the strategy.

We have worked to ensure that ownership and action in our sustainability work is strongly supported at the local operating level within each division, where efficient and creative ideas and

solutions are best placed and followed through. In addition to the financial and operational reporting, the divisions are now responsible to provide quarterly activity and progress updates regarding the focus areas to the CEO and CFO, providing a positive forum for discussion of opportunities and risks. At the Group level, the sustainability function, headed by the CFO, facilitates implementation of Swedish Match's strategy by establishing systems and frameworks to gather, compile, analyze and report relevant information regarding our sustainability focus areas to interested stakeholders. In 2019, Sustainability planning was for the first time integrated with the financial long range planning process (three year time horizon) at the divisional and Group levels.

STAKEHOLDER ENGAGEMENT

We engage with our prioritized stakeholders¹⁾, including but not limited to our employees and investors, as part of our normal way of doing business. Through internal channels, such as townhall meetings and intranet communications, we share examples of where we are and where we can make a difference in our focus areas. We also meet with sustainability representatives of various shareholders, to learn more about their issues, and to help them to better understand our efforts and rationale.

Ongoing discussions are held with our suppliers with regard to codes of conduct as well as topics related to our focus areas. We also are actively engaged with our customers, in helping to address mutual concerns and needs, including but not limited to relevant focus areas.

¹⁾ Employees, customers/retailers, consumers, suppliers, legislators/regulators and the scientific/health community as well as investors/financial analysts.

ASSESSING MATERIALITY

Swedish Match most recent materiality analysis was conducted in 2016 and formed the basis for our identified focus areas. The process was directed by the GMT. Key internal stakeholders, representing all divisions, as well as external stakeholders and expertise provided input to the analysis.

In 2016, a list of sustainability topics that could be considered when defining the most material issues to address for Swedish Match were identified from several sources, including the UN Sustainable Development Goals and associated targets, UN Global Compact, GRI G4 framework. Out of 243 topics identified, 49 sustainability issues were considered the most potentially critical for Swedish Match and were assessed for materiality through a survey conducted by the GMT and a handful of key internal stakeholders. Materiality was assessed based on the severity of issues in the global

context, the Company's actual impact, our potential to directly or indirectly influence the issue, as well as its impact on the long term viability of our business. The results of the survey were presented and discussed by the GMT in May 2016 and led up to an agreement to focus the sustainability strategy on six areas – public health, ethical business practices, equal opportunity, greenhouse gases, waste, and child labor.

During 2020, Swedish Match plans to conduct a new materiality analysis and risk assessment to confirm and/or redefine current sustainability focus areas. Based on the reviewed materiality analysis, the Company will ensure that the confirmed/redefined focus areas are still in line with identified material SDGs and report on those going forward.



AUDITOR'S REPORT ON THE STATUTORY SUSTAINABILITY REPORT

To the general meeting of the shareholders in Swedish Match AB (publ), corporate identity number 556015-0756.

Engagement and responsibility

It is the Board of Directors who is responsible for the statutory sustainability report for the year 2019-01-01 – 2019-12-31 on pages 34–59 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard *RevR 12 The auditor's opinion regarding the statutory sustainability report*. This means that our examination of the statutory sustainability report is substantially different and less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

Opinion

A sustainability report has been prepared.

Stockholm, March 5, 2020

Deloitte AB

Peter Ekberg
Authorized Public Accountant



Employer of choice

Swedish Match promotes a culture of openness and trust, and a healthy work environment. Our employees are actively engaged and demonstrate the Company’s core values of passion, ownership, innovation and quality. Every decision the Company makes supports our strong corporate culture helping to drive a successful organization.

Human Resources: How HR works

The majority of the Group’s HR activities are handled locally within the Group’s divisions. Local units are represented by dedicated HR professionals, who ensure clear communication and coordination of efforts relating to the Company’s employees.

The HR organizations support the Company’s efforts in managing talent and leadership development, work to provide clear and consistent documentation of activities, and uphold employee practices consistent with the Code of Conduct and local laws and regulations, among other tasks.

Retaining and developing talent: Keeping the right people by meeting their needs

Recruitment is just the first phase of an employee’s career at Swedish Match. Keeping that talent and momentum going is challenging but also very rewarding – for the employee, the manager, the department and for Swedish Match. We believe there are key areas requiring continual effort to ensure employee satisfaction and engagement.

Communication

In order to be effective, communication must go two ways – both to and from the employee. Swedish Match believes that it is crucial to the success of the Company that employees be allowed and encouraged to share ideas, observations and suggestions. Additionally, we conduct confidential employee opinion surveys globally

through an outside agency that allows our employees the opportunity to rate their job and company satisfaction on a regular basis. Survey results are utilized by the Company to follow up on and improve where there are areas of opportunity within the organization.

Feedback and recognition

Clear expectations are set by managers, so that employees understand what they are working toward and what they need to do to meet those expectations. Performance discussions are held and can be initiated at any time by either the manager or the employee. Both managers and employees are expected to actively participate in this process by both giving and receiving feedback. At Swedish Match, recognition is regular, targeted to real successes and used to reinforce our values and reward positive, desired behaviors.



Talent recruitment:

GETTING THE RIGHT PEOPLE, IN THE RIGHT PLACES AT THE RIGHT TIME

We aim to attract and retain a diverse workforce of top talent, in which we all benefit from different perspectives, varying experiences and unique ideas that will drive our business. In order to obtain the best talent, Swedish Match focuses on being the best employer. Swedish Match utilizes many methods to ensure that we are sourcing the best talent, including Employer Branding efforts and internal talent programs and are confident that our efforts will continue to ensure a strong and dynamic competence base to meet or exceed both short and long term challenges.





Support

Employees are given the necessary tools to do their job well. We strive to ensure that workloads are manageable, obstacles to success are removed, supplies and equipment are readily available, and there are enough people to do the work. Support also comes in the form of personal and medical leaves when appropriate, health and retirement plans, employee assistance programs and commitment to work/life balance.

Empowerment

Employees of Swedish Match are empowered to make decisions about and take responsibility for how they do their jobs. Employees are encouraged to be involved in the Company, make suggestions, be innovative, serve on committees and work teams and attend appropriate meetings and offer input on work processes that affect their job.

Leadership

It is of importance that all Swedish Match employees believe in the Company's vision and its core values and understand how their daily work and embracing these values contribute to the Company's vision. It is equally important that employees see how leadership exemplifies our core values and our Code of Conduct each and every day. Successful leadership continues to be a main focus. We remain committed to growing leaders at all levels of the organization to ensure current and future success.

Professional development

Employees have access to training and development, through on-the-job training, internal training, external seminars and training programs, and tuition reimbursement. During this past year, nearly all senior management vacancies were also filled internally.

Teamwork

Swedish Match believes that employees should be able to work in a supportive environment. At Swedish Match, we remain focused on issues and encourage employees to be proactive problem solvers. To do this, we recognize that employees must feel that it is acceptable to make mistakes. We support team efforts and encourage teamwork. No one at Swedish Match works completely independently – from boards to management teams, departments, cross-functional teams, committees, and more. We all have the opportunity to learn from each other and to share experiences that can benefit us all.

Compensation and benefits

Swedish Match compensation philosophy and practice is to offer competitive salaries and flexible benefit programs that meet the needs of our most important asset – our employees. The benefit package includes internally equitable and externally competitive salaries, as well as such benefits as paid time off for holidays and vacations, insurances, retirement benefits and support to various other quality of life programs.

Work environment

Swedish Match works diligently to ensure that all employees work in an inspiring work environment, free from any type of harassment or discrimination. We are likewise dedicated to providing ergonomically sound workplaces, free from health and safety hazards. Health

and safety committees and structures are in place in all operating units and safety training and wellness programs are in place at the various workplaces. Potential safety and health concerns are of primary importance. Factory audits are conducted both internally and by external parties. Additionally, Swedish Match supports the International Labour Organization (ILO) Core Conventions regarding labor rights and believes that all employees should be free to form associations and to engage in collective bargaining. According to Swedish Match's Code of Conduct, all employees should be free to join or form (non-violent) assembly or associations.

www.swedishmatch.com

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



Pride

We believe that our core values not only shape our workplace, but also affect the way we interact with one another – both personally and professionally – inside and outside of work. Swedish Match is well known for being a good corporate citizen and is firmly anchored to the communities in which we operate.



SHAREHOLDER INFORMATION





Shareholder communication

SWEDISH MATCH'S INFORMATION CHANNELS



COMPANY WEBSITE

The Swedish Match Company website – swedishmatch.com – is the principal source of information about the Group and provides a broad range of information which is relevant to both the financial community and other stakeholders. The website provides current and historical financial information as well as information about the Group's product segments, vision and strategy, corporate governance, sustainability efforts, and much more. It also includes both historic and current share price information. Telephone conferences in English are held in connection with Swedish Match's interim and year-end reports and can be accessed live on the website. Press releases, presentations, downloadable annual and interim reports, as well as information about the Annual General Meeting, can be found in the "Investors" section. There is also a subscription service for receiving press releases and financial reports by e-mail.



FINANCIAL REPORTS

Swedish Match's financial reports are available on the Company's website. It also includes an archive of annual reports dating back to 1996, when Swedish Match became a listed company, as well as interim reports dating back to 1997. As from 2017, all financial reports are exclusively distributed in electronic format.

Shareholders can subscribe to financial reports via e-mail through our subscription service. The subscription may be cancelled at any time via the "Unsubscribe" link at the end of any subscription e-mail. For any questions, you can contact us by e-mailing investorrelations@swedishmatch.com or by writing to Swedish Match AB, Investor Relations, SE-118 85 Stockholm, Sweden.

www.swedishmatch.com

Visit Swedish Match subscription service:
www.swedishmatch.com/subscribe



CALENDAR

March 27, 2020:
Record date for Annual General Meeting

April 2, 2020:
Annual General Meeting

April 3, 2020:
Ex-dividend date

April 6, 2020:
Proposed record date for dividend

April 9, 2020:
Proposed date for dividend payment

April 27, 2020:
Interim report January–March

July 17, 2020:
Half year report January–June

October 27, 2020:
Interim report January–September

February 5, 2021:
Full year report 2020

March, 2021:
Annual report for 2020



IR ACTIVITIES

Swedish Match's Investor Relations department is responsible for providing relevant company and financial information to shareholders, investors, analysts and the financial media.

Regular investor and analyst meetings provide ongoing information about the Company, current events and operational changes. Presentations of Swedish Match's results, operations and activities are made for investors and analysts in conferences, and on roadshows generally after the release of the interim report.

During 2019, in addition to quarterly reporting and telephone conferences, Swedish Match conducted a number of international roadshows, and presented in conferences, reaching a broad range of investors and analysts who want to learn more about the Group. Presentations and meetings for investors and the financial community were held in, among other cities, Boston, Edinburgh, Frankfurt, Geneva, London, Madrid, Milan, New York, Paris, Stockholm, and Zurich. Some of the topics that were of particular interest to investors and analysts during 2019 included growth of nicotine pouches (i.e. ZYN) – particularly in the US, the regulatory

outlook for cigars in the US, the competitive dynamics and market share performance for snus as well as nicotine pouches – particularly in Sweden and Norway, along with regulatory developments in the US, Sweden, the rest of the EU, and Norway.

During 2019, Swedish Match held a number of presentations for non-institutional shareholders organized by the Swedish Shareholders' Association (Aktiespararna), an independent organization working in the interests of private individuals who invest in stocks, mutual funds and other stock related securities. Founded in 1966, the organization has approximately 70,000 members and is represented throughout Sweden. Swedish Match participated in events hosted in Lund and Stockholm. The main focus with the presentations has been on providing a brief overview of Swedish Match, as well as providing more details on certain topics that are of high relevance to shareholders of Swedish Match.

ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of Swedish Match AB (publ) will be held on April 2, 2020, at 3.30 p.m. CET at the Skandia cinema, Drottninggatan 52, in Stockholm, Sweden. Doors to the AGM will open at 2.30 p.m. For more information about the Annual General Meeting 2020, please refer to the Governance Report on page 132.

Right to participate in the Meeting

In order to participate in the Meeting you need to be registered as a shareholder in the share register kept by Euroclear Sweden AB on Friday March 27, 2020. In addition, you need to notify Swedish Match of your intention to participate in the Meeting no later than Friday March 27, 2020, at which time the notification shall have been received by Swedish Match. Shareholders who wish to be accompanied by one or two assistants at the Meeting shall also inform Swedish Match thereof within the appointed period of time.

Voting right registration

Shareholders whose shares are nominee registered and who wish to participate in the Meeting must temporarily re-register such shares in their own name (i.e. voting right registration). Request for re-registration shall be submitted to the nominee in sufficient time to allow the re-registration to be effective at Euroclear Sweden AB no later than Friday March 27, 2020.

Dividend

The Board of Directors proposes an increased dividend per share of 12.50 SEK (10.50). The proposed record date for entitlement to receive a cash dividend is April 6, 2020. If the AGM approves the Board's proposal, the dividend is expected to be paid through Euroclear Sweden AB on April 9, 2020.

www.swedishmatch.com

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



CONTACTS

Investor Relations

Emmett Harrison

Tel: +46 70 938 0173

investorrelations@swedishmatch.com

Emmett Harrison is responsible for Investor Relations matters, financial communication to media, shareholders, analysts, and other stakeholders.



External Communications

Djuli Holmgren

Tel: +46 70 326 1145

contactus@swedishmatch.com

Djuli Holmgren is responsible for the development of the Swedish Match annual report and the Company website along with other external communications activities.





The share

LISTING: NASDAQ STOCKHOLM, LARGE CAP SYMBOL: SWMA MARKET CAP AT YEAR END³⁾: 78.8 BILLION SEK NO. OF SHARES AT YEAR END: 169,950,000 ISIN CODE: SE0000310336

The Swedish Match share is listed on Nasdaq Stockholm. Total share capital on December 31, 2019 amounted to 390 MSEK, distributed among 169,950,000 shares with a quotient value of 2.2919 SEK each. Each share carries one vote.

Turnover¹⁾

Total turnover in 2019 amounted to 165,324,040 Swedish Match shares on Nasdaq Stockholm, with an average daily volume of 0.7 million shares. The turnover velocity of the share on Nasdaq Stockholm, was 98 percent during the year, compared with the average turnover velocity of 45 percent for Nasdaq Stockholm.

Trading platforms²⁾

During 2019, 32 percent of total trading volume of Swedish Match was handled through the Nasdaq Stockholm trading platform. The distribution of trade between other exchanges in number of shares traded during the year was: 54 percent for Cboe, 5 percent for London Stock Exchange, 3 percent for Turquoise and 6 percent for other exchanges.

Share price development and market capitalization¹⁾

Swedish Match's market capitalization at year-end 2019 amounted to 78.8 billion SEK, an increase of 19.4 billion compared

with December 31, 2018.³⁾ The share price rose by 38 percent during the year, while the OMXS30 Index rose by 26 percent. The lowest price paid during the year was 342.90 SEK on January, 3 and the highest price paid was 490.80 SEK on May, 10.

Ownership structure^{3) 4)}

At year-end, ownership outside of Sweden corresponded to 83.2 percent of total share capital, an increase of 4.7 percentage points compared with 2018. Swedish ownership interests, totaling 16.8 percent, were distributed among institutions with 3.9 percent of the share capital, mutual funds with 1.7 percent, and private individuals with 11.2 percent.

Dividend

The Board of Directors proposes to the Annual General Meeting an increased dividend, amounting to 12.50 SEK per share (10.50). 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 19 percent from the prior year's dividend, and equals a payout ratio of 49 percent (51) of the adjusted earnings per share for the year.

The proposed dividend amounts to 2,040 MSEK based on the 163.2 million shares outstanding at the end of the year.

Repurchase of own shares

Swedish Match complements dividends with share repurchases to distribute excess cash to its shareholders. Repurchase of own shares is in principle a reverse new share issue, and provides the opportunity to continuously work to optimize the capital structure. The size and scope of the share buy-backs depend on Swedish Match's financial position, net profit, anticipated future profitability, cash flow, investments, and expansion plans. Other factors that influence buybacks are efficient availability of credit, the Group's interest and tax expenses as well as the earnings available for distribution. For more information about the Swedish Match share repurchase program, please refer to *Note 22 Equity* in the Group financial statements.

¹⁾ Source: Nasdaq Stockholm.

²⁾ Source: Bloomberg Finance L.P./Fidessa.

³⁾ Excluding shares held in treasury by Swedish Match AB, which corresponded to 3.9 percent of the total number of shares as per December 31, 2019.

⁴⁾ Source: Monitor by Modular Finance AB, data derived from various sources including Euroclear Sweden AB and Morningstar. Certain shareholders may, through custodial accounts, have had different holdings than are apparent from the shareholders' register.

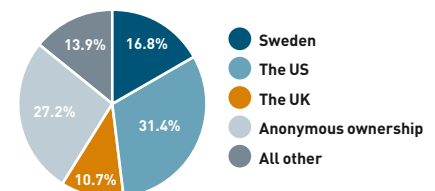
LARGEST SHAREHOLDERS

Largest shareholders ¹⁾	Number of shares	Holding in percent	Votes in percent
BlackRock	7,490,837	4.4	4.6
Fidelity International (FIL)	6,115,226	3.6	3.7
Cedar Rock Capital	5,794,235	3.4	3.5
Invesco	5,481,197	3.2	3.4
Vanguard	5,181,460	3.0	3.2
Nordea Funds	4,523,760	2.7	2.8
Gabelli/GAMCO	3,763,800	2.2	2.3
Cantillon Capital Management	3,190,000	1.9	2.0
Aberdeen Standard Investments	2,422,774	1.4	1.5
Goldman Sachs Asset Management	2,360,886	1.4	1.4
Subtotal 10 owners	46,324,175	27.3	28.4
Other	116,904,138	68.8	71.6
Subtotal	163,228,313	96.0	100.0
Shares held by Swedish Match	6,721,687	4.0	0.0
Total	169,950,000	100.0	100.0

¹⁾ Registered direct ownership and ownership through trustees. Certain shareholders may, through custodial accounts, have had different holdings than are apparent from the shareholders' register.

Source: Monitor by Modular Finance AB, data derived from various sources including Euroclear Sweden AB and Morningstar, as of December 31, 2019. Totals may be affected by rounding.

OWNERSHIP STRUCTURE – SHARE CAPITAL BY COUNTRY



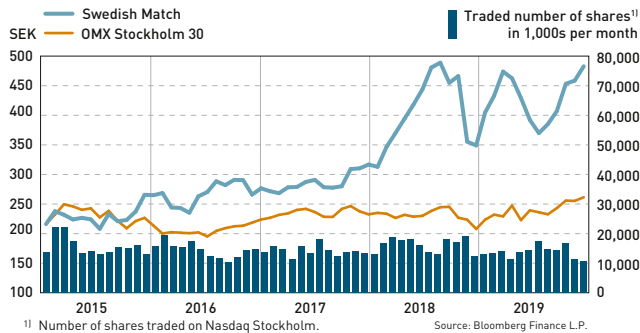
Source: Monitor by Modular Finance AB, according to Euroclear Sweden AB, as of December 31, 2019. "All other" also includes shareholders with 500 shares or less in the US, UK, and Sweden. Note that shares held by Swedish Match in treasury are excluded.

www.swedishmatch.com

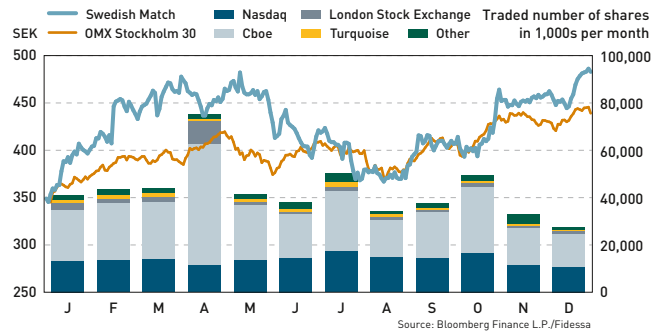
More information is available on the Company website www.swedishmatch.com/investors.



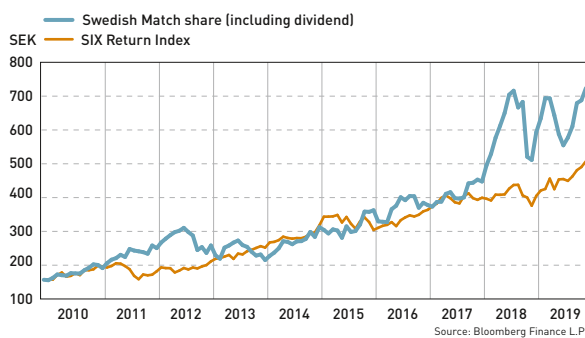
SHARE PRICE AND TURNOVER 2015–2019



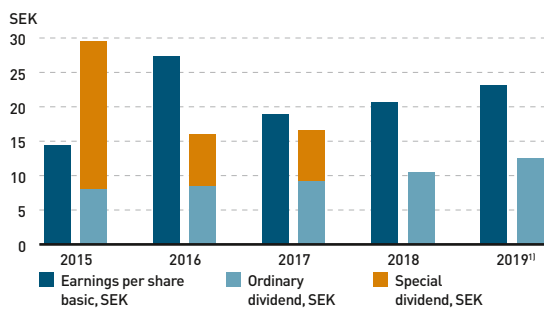
SHARE PRICE AND TURNOVER 2019



TOTAL RETURN 2010–2019



EARNINGS AND DIVIDEND PER SHARE 2015–2019



TRANSFER OF CAPITAL TO SWEDISH MATCH'S SHAREHOLDERS

MSEK	2019	2018	2017	2016	2015	Total
Dividend paid	1,777	2,911	2,908	5,522	1,464	14,583
Repurchase of own shares, net	2,989	2,512	2,590	1,249	1,854	11,194
Total	4,766	5,423	5,498	6,771	3,318	25,777

Dividend proposed for calendar year 2019 to be paid in 2020 is 2,040 MSEK, based on the number of shares outstanding at the end of 2019.

SHARE DISTRIBUTION¹⁾

Size of holding	No. of owners	No. of owners, %	No. of shares	Holding, %	Votes, %
1 – 1,000	60,940	93.8	9,376,669	5.5	5.7
1,001 – 5,000	3,343	5.2	6,688,341	3.9	4.1
5,001 – 20,000	376	0.6	3,404,170	2.0	2.1
20,001 – 50,000	91	0.1	3,001,220	1.8	1.8
50,001 – 100,000	41	0.1	3,056,948	1.8	1.9
100,001 – 1,000,000	87	0.1	29,123,500	17.1	17.8
1,000,001 –	22	0.0	64,191,027	37.8	39.3
Subtotal	64,900	100.0	118,841,875	69.9	72.8
Anonymous ownership	–	–	44,386,438	26.1	27.2
Shares held by Swedish Match	1	0.0	6,721,687	4.0	0.0
Total	64,901	100.0	169,950,000	100.0	100.0

¹⁾ Including shares held by Swedish Match as well as custodial ownership.

Source: Monitor by Modular Finance AB, data derived from Euroclear Sweden AB as of December 31, 2019. Totals may be affected by rounding.

SHARE DATA

	2019	2018	2017 ⁴⁾	2016	2015
Earnings per share, basic, SEK					
Including larger one-time items ¹⁾	23.22	20.63	18.88	27.38	14.48
Including larger one-time items and excluding income from STG	23.22	20.63	18.38	26.44	12.62
Excluding larger one-time items and income from STG	25.41	20.63	16.40	14.39	12.79
Earnings per share, diluted, SEK					
Including larger one-time items ¹⁾	23.22	20.63	18.88	27.38	14.48
Including larger one-time items and excluding income from STG	23.22	20.63	18.38	26.44	12.62
Excluding larger one-time items and income from STG	25.41	20.63	16.40	14.39	12.79
Dividend per share, SEK ²⁾	12.50	10.50	16.60	16.00	29.50
Dividend yield at year-end ²⁾ , %	2.59	3.01	5.14	5.52	9.83
Dividend pay-out ratio, excluding larger one-time items ²⁾ , %	49	51	101	104	205
Market price at year-end, SEK	482.80	349.10	323.20	289.80	300.20
Market capitalization at year-end, billion SEK ³⁾	78.8	59.4	56.9	53.5	56.7
P/E ratio ⁵⁾	20.8	16.9	17.1	10.6	20.7
EBIT multiple ⁵⁾	17.1	14.6	14.2	9.6	16.1
Total return, %	41.5	12.7	17.6	6.9	26.2
Average number of shares, basic	167,779,742	173,445,540	180,096,690	187,116,474	193,506,546
Average number of shares, diluted	167,779,742	173,445,540	180,096,690	187,116,474	193,530,266
Number of shareholders	64,901	57,370	54,682	54,046	49,806

¹⁾ Full year 2017 includes dividends received from the investment in STG.
²⁾ Dividend for 2019 is the Board's proposal. 2017, 2016 and 2015 includes special dividends of 7.40 SEK per share, 7.50 SEK per share and 21.50 SEK per share respectively.

³⁾ Excluding shares held by Swedish Match.

⁴⁾ Restated in accordance with IFRS 15.

⁵⁾ Earnings include larger one-time items and income from STG up until disposal in 2017.



FINANCIAL REPORTS





CFO comment

“ This past year was impressive for Swedish Match across a number of financial metrics. Increasingly, companies are struggling in their quest to deliver organic sales growth and, at times, companies must sacrifice operating margins and cash flows in pursuit of growth. What makes 2019 particularly rewarding is that Swedish Match demonstrated growth across all three measures reporting sales growth of 8 percent in local currencies, expanding its operating margin from product segments by 150 basis points, and significantly improving its cash conversion ratio (measured as cash flows from operating activities less capital expenditures divided by net profit).

The contribution to sales growth and operating margin expansion was largely attributable to the Snus and moist snuff product segment following the success of our US national launch of ZYN in April. It is fair to acknowledge that the year-on-year comparability of our operating margin for the Snus and moist snuff product segment was favorably influenced by scale benefits from the growth of ZYN in the US and as well as by costs savings for ZYN from US manufacturing. We expect that the nicotine pouch categories in all markets will remain intensely competitive as competitors respond to the growth opportunities within this attractive category, and that such an environment may result in increased investments in support of Swedish Match brands.

Earnings per share (EPS) for the year amounted to 23.22 SEK, an increase of 13 percent compared to the prior year, and an increase of 23 percent when adjusted for larger one-time items. Our adjusted EPS growth benefited from higher operating profit, lower finance costs as well as a reduction in the number of shares outstanding.

The reported corporate tax rate in 2019 was 23.0 percent compared to 21.0 percent in 2018. When adjusted for the impairment charge and non-recurring tax items, the underlying tax rate in 2019 was 21.8 percent. While we benefited from a reduction in the Swedish corporate tax rate during the year, higher relative income from our US operations resulted in a slight increase in our tax rate on an underlying basis. Please refer to our Outlook for guidance as to our expected effective corporate tax rate for 2020.

Much like 2018, 2019 was a year where we invested significantly in future growth. Purchases of property, plant and equipment increased to 720 MSEK in 2019 and much of this investment was directed at increasing capacity for our Snus and moist snuff product

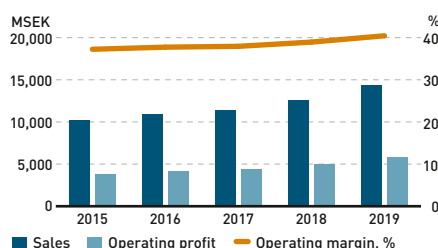


segment. The growth of nicotine pouches in all markets represents an exciting growth opportunity and Swedish Match's aim is to consistently position itself, with the necessary production capacity, to pursue this growth. For this reason, we recently announced a further plan to expand manufacturing capacity for ZYN in the US, and as noted in our 2020 Outlook, we expect capital expenditures in 2020 to be considerably above capital expenditures in 2019.

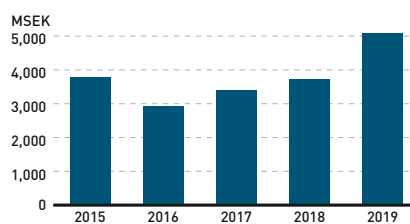
We remain committed to our financial policy and to our investment grade credit ratings. Cash not required within our operations or for strategic investments is returned to shareholders. In 2019, Swedish Match distributed excess cash to our shareholders of 4,766 MSEK, consisting of an ordinary dividend of 1,777 MSEK and share repurchases of 2,989 MSEK. We also look to maintain financial flexibility and manage financial risks by spreading our bond maturities out over many years. The weighted average interest rate of our bond portfolio at December 31, 2019 was 2.08 percent compared to 2.18 percent at the end of 2018. The capital duration of our bond portfolio was 3.7 years at December 31, 2019 and 98 percent of our portfolio is subject to fixed interest rates. We remain well positioned to provide the necessary funds to support our businesses and for investments needed for further growth, while continuing to return strong cash returns to our shareholders.

Thomas Hayes
CFO

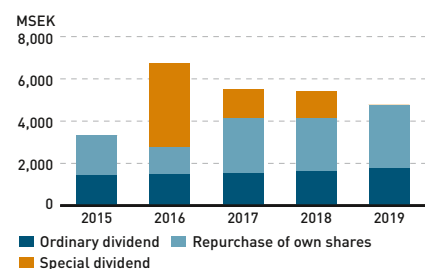
SALES AND OPERATING PROFIT FROM PRODUCT SEGMENTS 2015-2019¹⁾



NET CASH FROM OPERATING ACTIVITIES 2015-2019



CASH TRANSFERRED TO SHAREHOLDERS 2015-2019



¹⁾ 2017 has been restated in accordance with IFRS 15 and sales for 2015-2016 have been restated to reflect revenue recognition in accordance with agent accounting under IFRS 15.



Content

Financial overview	68
Guidelines for executive remuneration	73
Proposed distribution of earnings	75

Consolidated financial statements

Consolidated income statement	76
Consolidated statement of comprehensive income	76
Consolidated balance sheet	77
Consolidated statement of changes in equity	78
Consolidated cash flow statement	79
Notes for the Group	80
Note 1 Accounting principles	80
Note 2 Critical estimates and judgements	87
Note 3 Segment information	88
Note 4 Business combinations	91
Note 5 Other operating income and expenses	91
Note 6 Personnel	91
Note 7 Audit fees	94
Note 8 Operating expenses classified by nature	94
Note 9 Net finance cost	94
Note 10 Income tax	95
Note 11 Earnings per share	96
Note 12 Intangible assets	96
Note 13 Property, plant and equipment	97
Note 14 Forest plantations	97
Note 15 Leases	98
Note 16 Investments in associated companies	99
Note 17 Other non-current receivables and other current receivables	99
Note 18 Inventories	99
Note 19 Trade receivables	100
Note 20 Cash and cash equivalents	100
Note 21 Assets held for sale	100
Note 22 Equity	100
Note 23 Interest bearing liabilities	101
Note 24 Post-employment benefits	101
Note 25 Provisions	104
Note 26 Other liabilities	105
Note 27 Accrued expenses and deferred income	105
Note 28 Financial instruments and financial risks	105
Note 29 Pledged assets	108
Note 30 Commitments and contingent liabilities and assets	108
Note 31 Group companies	109
Note 32 Supplementary information to cash flow statement	109
Note 33 Related parties	110
Note 34 Subsequent events	110
Note 35 Information about the Parent Company	110

Parent Company financial statements

Parent Company income statement	111
Parent Company statement of comprehensive income	111
Parent Company balance sheet	112
Statement of changes in Parent Company equity	113
Cash flow statement for the Parent Company	114
Notes for the Parent Company	115
Note 1 Sales	115
Note 2 Audit fees	115
Note 3 Other operating income and expense	115
Note 4 Financial items	115
Note 5 Appropriations	115
Note 6 Income tax	115
Note 7 Tangible assets	116
Note 8 Group companies	116
Note 9 Other non-current receivables	117
Note 10 Other receivables	117
Note 11 Prepaid expenses and accrued income	117
Note 12 Equity	117
Note 13 Untaxed reserves	117
Note 14 Other provisions	118
Note 15 Bond loans	118
Note 16 Other liabilities	118
Note 17 Accrued expenses and deferred income	118
Note 18 Carrying value and fair value of financial instruments	118
Note 19 Derivatives under netting agreements	119
Note 20 Operating lease agreements	120
Note 21 Pledged assets and contingent liabilities	120
Note 22 Distribution of earnings	120
Note 23 Related parties	120
Note 24 Supplementary information to cash flow statement	120
Note 25 Post-employment benefits	121
Note 26 Subsequent events	121
Auditor's report	122



Financial overview

Swedish Match develops, manufactures, and sells quality products with market leading brands. The Group's product segments for 2019 were *Snus and moist snuff*, *Other tobacco products* and *Lights*.

Swedish Match's performance in 2019 showed strong growth, with record sales and operating profit from product segments.

Group sales increased by 14 percent to 14,739 MSEK (12,966) and sales from product segments also increased by 14 percent to 14,363 MSEK (12,612). Currency translation positively affected the comparability of sales from product segments by 711 MSEK and in local currencies, sales from product segments increased by 8 percent.

Operating profit from product segments increased by 18 percent to 5,828 MSEK (4,936). In local currencies the operating profit from product segments increased by 13 percent with increases for the *Snus and moist snuff* and *Lights* product segments, and a slight decline for the *Other tobacco products* segment.

During the fourth quarter of 2019, a non-cash impairment charge for the European chewing tobacco business of 367 MSEK was recognized as a larger one-time item following the judgement by the Bavarian Administrative Court and changed market conditions (for more information see below).

Group operating profit, including larger one-time items, amounted to 5,307 MSEK (4,812). Currency translation favorably affected the comparison of the operating profit by 251 MSEK. The Group's profit for the period amounted to 3,896 MSEK (3,578).

Operating margin from product segments for the year, was 40.6 percent (39.1). Operating margin including larger one-time items for the Group was 36.0 percent (37.1).

Sales and operating profit from product segments

For the year, sales for *Snus and moist snuff* increased to 7,484 MSEK (6,127). In local currencies, sales for the product segment grew by 18 percent and operating profit was higher for snus and nicotine pouches in Scandinavia and for snus and nicotine pouches outside of Scandinavia (primarily driven by ZYN in the US). Moist snuff operating profit declined in local currency.

In Scandinavia, the Swedish and Norwegian markets continued to demonstrate volume growth during the year, led by rapid gains for nicotine pouches in both countries, as well as continued growth for snus in Sweden. In Scandinavia, Swedish Match's shipment volumes grew by close to 2 percent. Swedish Match estimates that its underlying organic Scandinavian snus and nicotine pouch volumes (excluding Gotlandssnus acquired in August 2018 and adjusted for calendar effects) increased by approximately 1 percent. Operating profit for snus and nicotine pouches in Scandinavia grew on higher sales.

In the US, sales for moist snuff in local currency declined as a consequence of the accounting effects of a new retailer merchandising program as well as from effects relating to changes in pricing/promotional programs. In the beginning of 2019, a new retailer merchandising program was implemented, that incorporates all of our US businesses. The retailer merchandising program is designed to expand product distribution across our US portfolio and results in certain program costs which were previously classified as marketing expense to be reported as a reduction to sales. Adjusted for this retailer merchandising program, sales would have increased by 9 percent in local currencies. For snus and nicotine pouches outside Scandinavia, the favorable financial development resulted from higher volumes, improved pricing, and lower manufacturing costs, partially offset by increased marketing expenses and sales allowances tied to the national rollout of ZYN in the US. Shipments of ZYN in the US amounted to 50.4 million cans for the year, up from 12.7 million cans in the prior year.

For *Other tobacco products*, total sales for the year amounted to 5,679 MSEK (5,240). In local currencies, sales for Other tobacco products were flat, while operating profit declined by 1 percent, attributable in large part to chew bags.

Cigar shipment volumes declined by 1 percent and reported sales in US dollars were flat. Average prices improved, but reported sales were negatively impacted by accounting consequences of an enhanced retailer merchandising program in the US beginning January 1, 2019. Operating profit for cigars grew in local currency.

Sales and operating profit by product segment

MSEK	Sales		Operating profit	
	2019	2018	2019	2018
Snus and moist snuff	7,484	6,127	3,477	2,791
Other tobacco products	5,679	5,240	2,113	1,956
Lights	1,200	1,246	238	189
Sales and operating profit from product segments	14,363	12,612	5,828	4,936
Other operations	376	353	-153	-124
Impairment charge - European chewing tobacco business	-	-	-367	-
Total	14,739	12,966	5,307	4,812

Summary of consolidated income statement

MSEK	2019	2018
Sales	14,739	12,966
Operating profit	5,307	4,812
Net finance cost	-247	-281
Income tax expense	-1,165	-953
Profit for the year	3,896	3,578
<i>Attributable to:</i>		
Equity holders of the Parent	3,895	3,578
Non-controlling interest	0	0
Profit for the year	3,896	3,578
Earnings per share, basic and diluted, (SEK)	23.22	20.63



For chewing tobacco, sales in local currencies were down for US chewing tobacco and chew bags in Europe. These declines were partially offset by additional revenue for Oliver Twist tobacco bits which was acquired in the second quarter of 2018. Operating profit in local currencies was lower, mainly due to declines for chew bags in Europe.

For *Lights*, total sales for the year amounted to 1,200 MSEK (1,246). Sales declined by 4 percent, primarily as a result of the weak development for matches during the second quarter and for complementary products over the last three quarters. Lighter sales increased despite lower volumes as a result of favorable market and format mix. Operating profit declined for lighters on higher nylon costs and for complementary products on lower sales. Operating profit for matches increased benefiting from forestry and asset sales amounting to 34 MSEK, as well as to income relating to favorable resolution of indirect tax disputes relating to the Brazil operations amounting to 37 MSEK (for more information, see *Note 30 Commitments and contingent liabilities and assets*). Absent these gains, operating profit for matches declined somewhat year on year. The operating profit in the prior year included restructuring costs in Brazil of approximately 12 MSEK during the first quarter, while restructuring charges of a similar magnitude were incurred during the second quarter of 2019.

Significant events during the year

Impairment charge – European chewing tobacco business

On November 28, 2019, the Bavarian Administrative Court in Germany announced its judgements in relation to the legality of certain of V2 Tobacco's Thunder chew bag products and loose chew products sold in Germany. In the court's opinion these products are to be regarded as oral tobacco not intended for chewing under the EU Tobacco Directive (Directive 2014/40/EU) and therefore, not allowed to be sold under German tobacco legislation. For more information on the judgement from the Bavarian Administrative Court, see below section "Other events". Following the judgement by the Bavarian Administrative Court and in view of changed market dynamics in certain markets, management has 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. An impairment test is based on a number of different assumptions regarding the future performance of the operations, which involve uncertainties.

For more information on the Group's accounting principles and methodology for impairment testing, see *Note 1 Accounting principles* and *Note 12 Intangible assets*.

Investment in associated company – OTP d.o.o

During the third quarter 2019, Swedish Match invested in a 49 percent ownership interest in a newly established tobacco distribution company in Slovenia, OTP d.o.o. Also during the third quarter, OTP d.o.o. acquired two distribution companies, one in Slovenia and one in Croatia.

Continued investments in ZYN production capacity

During 2019, continued investments in ZYN production capacity in the US has been made and the second phase of our broader US manufacturing capacity plan for ZYN was completed in the fourth quarter of 2019. In early 2021, we expect to complete the third phase of the project, effectively doubling currently installed capacity and bringing total US-based manufacturing capacity to somewhat more than 150 million cans annually. Given the market success of ZYN, a decision has been made to once again expand capacity. The fourth phase, which is planned to be completed in 2022, will involve building expansion as well as processing and packaging lines that will increase annualized installed capacity to more than 200 million cans.

Larger one-time items

During the fourth quarter of 2019, a non-cash impairment charge for the European chewing tobacco business of 367 MSEK was recognized as a larger one-time item following the judgement by the Bavarian Administrative Court and changed market conditions.

Taxes

Income tax expense amounted to 1,165 MSEK (953), corresponding to a corporate tax rate of 23.0 percent (21.0). When adjusted for the impairment charge and non-recurring tax items the underlying tax rate was 21.8 percent (21.7).

Summary of consolidated balance sheet

MSEK	2019	2018
Non-current assets	7,750	7,113
Other current assets ¹⁾	4,117	3,989
Cash and cash equivalents	2,370	2,886
Total assets	14,237	13,987
Equity	-6,308	-5,595
Non-current financial liabilities and provisions	3,369	2,742
Non-current loans	12,130	12,282
Current liabilities and provisions	3,745	3,329
Current loans	1,300	1,229
Total equity and liabilities	14,237	13,987

¹⁾ 2019 includes assets held for sale of 16 MSEK.

Summary of consolidated cash flow statement

MSEK	2019	2018
Net cash generated from operating activities	5,080	3,707
Net cash used in investing activities	-815	-1,206
Net cash transferred to shareholders	-4,766	-5,423
Net cash from other financing activities	-38	1,726
Net decrease in cash and cash equivalents	-539	-1,195
Cash and cash equivalents at beginning of the year	2,886	3,998
Effects of exchanges rate fluctuations on cash and cash equivalents	23	83
Cash and cash equivalents at end of year	2,370	2,886



Earnings per share

For the full year, basic and diluted earnings per share amounted to 23.22 SEK (20.63). Adjusted EPS, excluding larger one-time item, increased by 23 percent to 25.41 SEK (20.63).

Liquid funds

Cash and cash equivalents amounted to 2,370 MSEK at the end of the period, compared to 2,886 MSEK at December 31, 2018. As of December 31, 2019, Swedish Match had 1,500 MSEK in unutilized committed credit lines.

Cash flow and financing

Cash flow from operating activities for the full year 2019 amounted to 5,080 MSEK (3,707). The increase was driven by the stronger EBITDA development from product segments, timing of income tax payments and improved cash flow from working capital.

Investments in property, plant and equipment increased to 720 MSEK (649). 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 companies in Eastern Europe. These acquisitions have been financed by a loan from Swedish Match of 58 MSEK, see *Note 16 Investments in associated companies*.

Net finance cost for the year declined to 247 MSEK (281). This improvement is mainly related to lower interest rates on debt and improved returns on excess cash which were partly offset by higher interest cost from increased average debt levels compared to 2018.

During 2019, new bond loans of 999 MSEK were issued and bond loans, including loan hedge derivatives, amounting to 1,092 MSEK have been repaid. As of December 31, 2019, Swedish Match had 12,935 MSEK of interest-bearing debt excluding retirement benefit obligations but including the recognition of lease liabilities from the adoption of IFRS 16 of 253 MSEK. The Group's interest-bearing debt, excluding retirement benefit obligations at December 31, 2018 amounted to 12,705 MSEK. During 2020, 1,300 MSEK of the bond debt falls due for payment. For further detail on the maturity profile of the debt portfolio, please see Swedish Match's website. Net retirement benefit obligations increased to 1,360 MSEK as of December 31, 2019, from 1,024 MSEK at December 31, 2018 mainly due to decreases in discount rates.

The net debt as of December 31, 2019 amounted to 11,925 MSEK compared to 10,843 MSEK at December 31, 2018.

Other events

FDA draft guidance on flavors in cigars

On March 13, 2019, the FDA released a draft guidance document which includes the stated intent to move forward with a proposed rule to ban flavors in cigars. Under the revised compliance policy, the draft guidance also states that 30 days after the guidance is finalized, any flavored cigars (other than tobacco-flavored) that were on the market on August 8, 2016, and that meet the definition of a new tobacco product, would be subject to enforcement absent Substantial Equivalence (SE) preauthorization. The draft guidance would make it impractical for manufacturers to comply with the accelerated SE authorization timeline and was subject to a comment period. The form of the final guidance as well as its implementation timeline remain uncertain. The comment period concluded at the end of April. In January 2020, the US FDA issued guidance relating to flavors in cigars. For more information see below section Events after the reporting period.

Swiss ruling on snus

On May 27, 2019 the Federal Supreme Court of Switzerland ruled that the ban on snus, which was introduced in Switzerland in 1992, lacks judicial ground, and is illegal and unconstitutional. The court motivated their decision by saying that Swedish snus is less hazardous than other tobacco-based products allowed on the Swiss market today, and that Swedish snus should be considered as a stimulant that does not pose an immediate or unexpected risk to health when consumed as normal. The decision had immediate effect and snus can now be marketed in Switzerland.

Public Health Groups versus FDA in Maryland Federal Court

Various public health groups challenged the FDA in a Federal District Court in Maryland regarding the FDA's decision to extend the compliance dates under the Deeming Rule to allow Electronic Nicotine Delivery Systems (ENDS) and cigars to remain on the market without filing of path to market application until 2021/2022. In May 2019, the Court found that the FDA's decision to extend the path to market filing deadlines was a violation of the Tobacco Control Act. The Court's conclusion was almost entirely focused on the concern of youth using flavored ENDS products. The Court asked the parties to propose a remedy for this violation. In responding to the Court's request, the FDA asked for a least a 10-month extended application period given the potential for a large number of path to market applications expected to be filed. On July 11, 2019, the Court issued its final order specifying a ten-month path to market application filing deadline (May 11, 2020) for ENDS and cigar products subject to the Deeming Rule. Under the July 11th order, products that comply with the filing deadline may remain on the market without being subject to FDA enforcement actions for a period not to exceed one year from the date of application while the FDA considers the application. Products not complying with the Court order deadline will be subject to FDA enforcement actions, at the FDA's discretion. The FDA may also exempt new products from filing requirements for good cause on a case-by-case basis. Preparations are well underway to comply with the application filing date set forth in the court order for our more strategic products covered under the Deeming Rule.

FDA grants modified risk tobacco product (MRTP) designations for General snus in the US

On October 22, 2019 the FDA granted Swedish Match an order designating eight *General snus* varieties, including its Mint and Wintergreen varieties, as modified risk tobacco products. In reaching its conclusion, the FDA found that the designated *General snus* products, as actually used by consumers, will significantly reduce harm and the risk of tobacco-related disease to individual tobacco users and benefit the health of the population as a whole taking into account both users of tobacco products and persons who do not currently use tobacco products. The MRTP designation will allow Swedish Match to market the products with the following modified risk description – "Using *General Snus* instead of cigarettes puts you at a lower risk of mouth cancer, heart disease, lung cancer, stroke, emphysema, and chronic bronchitis" – along with standard health warning statements required of all smokeless tobacco products. The MRTP order is valid for five years from the date of issue, and before expiry Swedish Match may file a request for renewal. The order is also subject to postmarket surveillance and record retention obligations on the part of Swedish Match.



The Bavarian Administrative Court in Germany has ruled on chewing tobacco

The Bavarian Administrative Court (BAC) in Germany presented its judgements in the chewing tobacco cases on November 28, 2019, concluding that certain of V2 Tobacco's Thunder chew bag products as well as loose chew products sold in Germany are to be regarded as oral tobacco not intended for chewing under the EU Tobacco Directive (Directive 2014/40/EU), and therefore, not allowed to be sold under German tobacco legislation. The BAC refers to the European Court of Justice's (ECJ) ruling of October 17, 2018 on the definition of chewing tobacco, which specified that only products which can be consumed in the proper sense only by chewing, i.e. products which can release their essential ingredients in the mouth only by chewing, may be classified as chewing tobacco. The ECJ noted that the final determination of whether products can be consumed in the proper sense only by chewing is to be made by the national courts taking into account all relevant objective characteristics of the products. The BAC concluded with regard to the specific Thunder chew bags and loose chew products, that because the products can release essential ingredients when only being held in the mouth, these products do not qualify as chewing tobacco. The judgements of the BAC have been appealed to the Federal Administrative Court in Germany. The Federal Administrative Court is expected to decide by mid 2020 whether to allow the appeals.

As Swedish Match has communicated previously, negative rulings in national courts related to chew bags could restrict Swedish Match from distributing and selling chew bags in their present form in certain EU markets thereby negatively impacting the carrying value of Swedish Match's reported intangibles from the September 2017 acquisition of V2 Tobacco. For the full year 2019, chew bag sales amounted to 165 MSEK (1.1 percent of total company sales). Approximately half of Swedish Match's chew bag sales were in Germany. During the fourth quarter of 2019, a non-cash impairment charge for the European chewing tobacco business was recognized. For more information see *Note 12 Intangible assets* and section *Impairment test*.

Agreed action on tobacco control policies in Denmark

On December 18, 2019 the Danish government announced that an agreement on an action plan against smoking among children and youth had been reached by parties representing a broad parliamentary majority. The plan includes a number of legal initiatives against smoking but also some initiatives related to smokefree products. Under the proposed plan, all tobacco products and all non-pharma nicotine products will be subject to a display ban at retail, an age limit of 18 and certain marketing restrictions. Chewing tobacco will be subject to a flavor ban (other than menthol and tobacco) and will also have to be sold in standardized packaging. The provisions on flavors and packaging will also apply to e-cigarettes but nicotine pouches have explicitly been excluded from these provisions. Final legislation according to the action plan is expected to be adopted during 2020 with implementation during 2021.

US legislation on minimum age for tobacco purchases

In December 2019, the US congress passed legislation raising the minimum age of the purchase for all tobacco products, including smoking tobacco, smokeless tobacco, e-vapor products and nicotine pouches to age 21.

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.

Sales in the Parent Company for the full year 2019 amounted to 42 MSEK (48). Profit before income tax amounted to 1,872 MSEK (1,706) and net profit for the year amounted to 1,485 MSEK (1,328). The increase in profit before income tax for the year mainly pertains to contributions from Group companies. Net Group contributions of 2,870 MSEK (2,663) were received during 2019. During the year, the Parent Company also received dividends of 97 MSEK (1,246). In the prior year, in addition to the dividends received, an impairment loss on shares in subsidiaries amounting to 1,247 MSEK was recognized which was primarily attributable to reduced equity in the subsidiaries following the payment of dividends from such subsidiaries. Also, in the prior year, capital contributions of 114 MSEK were made to subsidiaries.

The reported increase in administrative expenses is mainly related to higher pension costs due to a change in the assumption of the discount rate in a pension trust for former employees in the divested Swedish Match UK Ltd.

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 fixed interest rates.

Repayment of bond loans, including loan hedge derivatives, amounted to 1,092 MSEK during the year and new bond loans of 999 MSEK were issued.

During the year, the Parent Company made share repurchases of 7.0 million (5.7) shares for 2,989 MSEK (2,512).

A dividend of 1,777 MSEK (2,911) has been paid during the year.

Events after the reporting period

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. The FDA further indicated that it intends to defer regulatory actions against cigars until May 2020 at which time substantial equivalence or new product application filings are due for products that were not in the market on February 15, 2007.

Issuance of new bond loan

In late February 2020, Swedish Match AB issued a public bond of 300 MEUR with a maturity of seven years for general corporate purposes.

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 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.

Organization

The Swedish Match head office, where the CEO and Group staff functions are based, is located in Stockholm in Sweden. The Group operates in eleven countries, with production units in seven countries. The organizational structure is divided among the divisions Europe Division, US Division and Lights Division as well as Corporate functions. The vast majority of the Group's employees are in the Dominican Republic, Sweden, and the US followed by Brazil and the Philippines. The Group's product segments for 2019 were Snus and moist snuff, Other tobacco products, and Lights.

In Scandinavia, Swedish Match has the market leading position for snus and is the number two player for nicotine pouches. In European countries outside of Scandinavia, Swedish Match has a small but growing presence in several markets for its nicotine pouches. Production of snus and nicotine pouches sold in Scandinavia and Europe takes place in Sweden and Denmark. Chew bags and tobacco bits are produced in Denmark and sold mostly in Europe.

In the US, Swedish Match is well positioned as the third largest snus and moist snuff company and is a clear market leader in the nicotine pouch segment. Swedish Match is the largest manufacturer of US chewing tobacco and is a major player in the US mass market cigars market. Moist snuff, US chewing tobacco and nicotine pouches are produced in the US, while cigars are produced both in the US and the Dominican Republic.

The Group is the market leader for matches in many markets throughout the world, with well-known local brands. Production of matches takes place in Sweden and Brazil. For lighters, the Group has strong market positions in many countries. Lighters are produced in the Netherlands, the Philippines and Brazil. Swedish Match also offers a portfolio of externally sourced complementary products (mainly for the Brazilian market), which include for example disposable razors, batteries and light bulbs.

As of January 1, 2020 Swedish Match has changed the composition of the Group's reportable product segments. For more information, see *Note 1 Accounting principles*.

Alternative Performance Measures

Swedish Match frequently presents measures of financial performance which complement measures that are defined or specified in the applicable financial reporting framework. The basis for presenting such measures, referred to as Alternative Performance Measures (APM's) are that they are used by management to evaluate the financial performance and in so believed to give analysts and other stakeholders valuable information. A listing of APM's is presented on page 129 and is also available on the Company's website www.swedishmatch.com.

Change of control clauses

Swedish Match AB and certain subsidiaries in the Group are party to agreements that include change of control clauses. Bonds issued under Swedish Match's 2,000 MEUR Global Medium Term Note Program and the 1,500 MSEK Revolving Credit Facility have clauses that can force the Company to pay back loans in a change of control situation. Some agreements with third parties in the Scandinavian tobacco distribution function can be cancelled should there be a change of control of Swedish Match.

The President and two other members of the Group Management Team may initiate the termination of their employment if the Company is delisted or in the event of a major change of ownership of the Company, provided such change has a significant impact on the duties and responsibility compared with the duties and responsibility immediately prior to such change. In such an event, these persons have the right to a notice period of six months and severance pay for 18 months. Also, some executives in the US operations have change of control clauses which may be triggered by certain events.



Guidelines for executive remuneration

The guidelines govern the remuneration of the President and other members of the Group Management Team (GMT). The guidelines are forward-looking, i.e. they are applicable to remuneration agreed, and amendments to remuneration already agreed, after adoption of the guidelines by the Annual General Meeting 2020. These guidelines do not apply to any remuneration decided or approved by the General Meeting.

The guidelines' promotion of the Company's business strategy, long-term interests and sustainability

For information regarding the Company's business strategy, see <https://www.swedishmatch.com/Our-company/Vision-and-strategy/>.

A prerequisite for the successful implementation of the Company's business strategy and safeguarding of its long-term interests, including its sustainability, is that the Company can recruit and retain qualified personnel. To this end, it is necessary that the Company offers competitive remuneration. The remuneration structures shall encourage employees to do their utmost to safeguard shareholders' interests and thereby the Company's sustainability and long-term value creation.

The types of remuneration to GMT

The total remuneration to the GMT consists of fixed cash salary, variable cash remuneration, pension benefits, other benefits and terms related to termination of employment. Additionally, the General Meeting may – irrespective of these guidelines – resolve on, among other things, share-related or share price-related remuneration.

Remuneration under employments subject to other rules than Swedish may be duly adjusted to comply with mandatory rules or established local practice, taking into account, to the extent and reasonably possible, the overall purpose of these guidelines.

1. Fixed salary

The fixed salary for the GMT shall be in cash, correspond with market practice and be based on each individual's competence, country of residence, area of responsibility and performance.

2. Variable salary

GMT may be entitled to a variable salary in addition to the fixed salary. The variable salary shall be capped in relation to the fixed salary and reflect the market practice in the country of residence of the member of the GMT.

The variable salary may include both a short-term (annual) cash incentive program (2a below), a long-term cash incentive program with a performance period which shall not be shorter than three years (2b below), and profit sharing (2c below). To correspond with local market practice and to be able to attract and retain members of the GMT resident outside of Sweden, such members may participate in an additional incentive program (2d below).

The variable cash salary shall be linked to specified performance criteria. Performance criteria, their weight, thresholds and targets will be established at the beginning of each respective program.

The performance criteria will be established by the Board of Directors in relation to the President and by the Remuneration Committee in relation to all other members of GMT. The criteria shall be designed to contribute to the Company's business strategy and long-term interests, including its sustainability. A majority of the criteria shall be linked to clear and measurable financial performance measures (e.g. operating profit and net sales). There may also be non-financial criteria (e.g. operational criteria or criteria linked to sustainability).

The extent to which criteria for awarding variable cash remuneration has been satisfied shall be determined when the measurement period has ended. The Remuneration Committee is responsible for the evaluation of variable remuneration to be awarded the President as well as the other members of the GMT. For financial performance criteria, the evaluation shall be based on financial information made public by the Company.

By the end of a program, either the Board of Directors or the Remuneration Committee will have the right to adjust the outcome in case conditions have changed during the performance period. However, such potential adjustment(s) must have the primary purpose of strengthening the link between remuneration and the value creation for the shareholders, and to ensure that the level of remuneration is a fair reflection of the Company's and the individual's performance during the performance period for each individual program.

The Board of Directors shall have the possibility, subject to the restrictions that may apply under law, to in whole or in part reclaim variable remuneration paid on incorrect grounds (claw-back).

2a) Short-term incentive program

The Board of Directors and the Remuneration Committee can annually resolve to implement an annual incentive program (STI). The maximum variable salary of such short-term incentive shall be 70 percent of the base salary.

To strengthen the connection to the shareholders' interest and the Company's long-term value creation, members of GMT may in the beginning of the program commit to purchase company shares for at least 50 percent of the received cash award net of income tax and to retain such shares for a period of not less than three years. A 20 percentage points reduction in maximum variable salary shall apply to any GMT member who does not commit to such purchase and retention of shares.

2b) Long-term incentive program

The Board of Directors and the Remuneration Committee can annually resolve to implement a long-term cash incentive program (LTI) where the maximum variable salary shall be 45 percent of the base salary. The LTI-program, with a performance period which shall not be shorter than three years, includes an obligation to purchase company shares for the full cash award net of income tax and to retain such shares for a period of not less than two years.



2c) Profit-Sharing System

In some countries employees, including members of the GMT, can participate in profit-sharing systems.

The Profit-Sharing System is not connected to a position and shall compose a small part of the remuneration for the member of GMT. The maximum award to members of GMT resident in Sweden shall not exceed 5 percent of the base salary.

2d) Additional incentive program

To correspond with local market practice, GMT members resident outside Sweden may participate in an additional incentive program capped over time at 50 percent of the base salary. Performance criteria shall be set at the beginning of each program whilst the thresholds and targets can be set at the beginning of the performance period or yearly.

3. Pensions

Old age pension shall be designed to reflect the practices in the country where a member of the GMT is resident.

The retirement age of a member of GMT shall normally be 65 years.

With regard to employments in Sweden, the GMT may have a defined contribution plan applicable to the part of the salary which is not covered by the ITP-plan. Such pension contributions shall amount to not more than 40 percent of the part of the base salary which is not covered by another pension plan.

Pension for new members of the GMT shall preferably be covered by defined contribution plans, which can amount to a maximum of 40 percent of the salary which qualifies for pension. Variable cash remuneration shall not qualify for pension benefits unless it is stated in mandatory rules or collective bargaining agreements.

4. Other benefits

Other benefits may include a company car, disability and sickness benefits, medical insurance and life insurance.

Other benefits to members of the GMT shall be payable in accordance with local practice. The combined value of these benefits shall normally constitute a limited value in relation to the total remuneration package and shall correspond to market practice.

GMT members, who are expatriates to another country than their country of origin, may receive additional remuneration and other benefits to the extent reasonable in light of the special circumstances associated with the expatriate arrangement, taking into account the overall purpose of these guidelines. Such additional benefits will be payable under the same conditions as for other employees during expatriate arrangement.

5. Termination of employment

The notice period may not exceed six months. Upon termination of employment by the Company, severance pay amounting to a maximum of 18 months fixed salary is paid. Notice of termination given by a GMT member due to significant structural changes, or other events that in a determining manner affect the content of work or the conditions for the position, is equated with of notice of termination given by the Company. Fixed cash salary during the period of notice and severance pay may together not exceed an amount equivalent to the fixed cash salary for two years.

Additionally, remuneration may be paid for non-compete undertakings. Such remuneration shall compensate for loss of income and shall only be paid in so far as the previously employed executive is not entitled to severance pay. The remuneration shall amount to not more than 60 per cent of the fixed cash salary at the time of termination of employment, unless otherwise provided by mandatory collective bargaining agreements, and be paid during the time the non-compete undertaking applies, however not for more than nine months following termination of employment.

Salary and employment conditions for employees

In the preparation of the Board of Directors' proposal for these guidelines and when evaluating whether the guidelines and the limitations set out herein are reasonable, the Remuneration Committee and the Board of Directors have taken into account salary and employment conditions for other employees in the Company. This typically include remuneration levels and elements, including changes in remuneration levels, as well as other employment conditions for employees in the Company that are not members of the GMT. The Committee regularly consults with the HR function of the Company in order to stay up to date with employee pay and conditions across the broader employee population.

The decision-making process to determine, review and implement the guidelines

The Board of Directors has established a Remuneration Committee. The Committee's tasks include preparing the Board of Directors' decision to propose guidelines for executive remuneration. The Board of Directors shall prepare a proposal for new guidelines at least every fourth year and submit it to the Annual General Meeting. The guidelines shall be in force until new guidelines are adopted by the General Meeting. The Remuneration Committee shall also monitor and evaluate programs for variable remuneration for the GMT, the application of the guidelines for executive remuneration as well as the current remuneration structures and compensation levels in the Company. The President and other members of the GMT do not participate in the Board of Directors' deliberations or resolutions regarding remuneration-related matters in so far as they are affected by such matters.

The Board of Directors' right to derogate from the guidelines

The Board of Directors may temporarily resolve to derogate from the guidelines, in whole or in part, if in a specific case there is special cause for the derogation and a derogation is necessary to serve the Company's long-term interests, including its sustainability, or to ensure the Company's financial viability. As set out above, the Remuneration Committee's tasks include preparing the Board of Directors' resolutions in remuneration-related matters. This includes any resolutions to derogate from the guidelines.

For the principles of remuneration adopted by the Annual General Meeting in April 2019, see *Note 6 Personnel*.



Proposed distribution of earnings

As shown in the balance sheet of the parent company the following funds are available for appropriation by the Annual General Meeting:

Retained earnings including Hedge reserve	SEK	10,095,526,288
Profit for the year	SEK	1,484,897,941
	SEK	11,580,424,229

The Board of Directors propose that these earnings be appropriated as follows:

To the shareholders, a dividend of 12.50 SEK per share based on 163,228,313 shares outstanding at the end of 2019	SEK	2,040,353,913
Retained earnings to be carried forward	SEK	9,540,070,316
	SEK	11,580,424,229

The income statements and balance sheets will be presented to the Annual General Meeting on April 2, 2020 for adoption. The Board of Directors also proposes April 6, 2020 as the record date for shareholders listed in the Swedish Securities Register Center, Euroclear Sweden AB.

The Board of Directors and the President declare that the annual report was prepared in accordance with generally accepted accounting principles in Sweden and that the consolidated accounts have been prepared in accordance with accounting standards referred to in Regulation (EG) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. The annual report and the consolidated accounts give a true and fair view of the position and earnings of the Parent Company and the Group.

The Board of Directors report for the Parent Company and the Group gives a true and fair view of the operations, position and earnings and describes significant risks and uncertainties facing the Parent Company and companies included in the Group.

Stockholm, March 5, 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

Lars Dahlgren
President and CEO

Our auditor's report was submitted on March 5, 2020

Deloitte AB

Peter Ekberg
Authorized Public Accountant



Consolidated income statement

MSEK	Note	2019	2018
Sales, including tobacco tax		18,222	16,335
Less tobacco tax		-3,483	-3,369
Sales	3	14,739	12,966
Cost of goods sold		-5,376	-4,832
Gross profit		9,363	8,133
Selling expenses		-2,717	-2,440
Administrative expenses		-1,004	-889
Other operating income and expenses	5	27	5
Share of profit in associated companies	16	5	3
Impairment charge – European chewing tobacco business	12	-367	-
Operating profit	3, 6, 7, 8, 15, 24	5,307	4,812
Finance income		95	65
Finance costs		-343	-346
Net finance cost	9	-247	-281
Profit before income tax		5,060	4,531
Income tax expense	10	-1,165	-953
Profit for the year		3,896	3,578
<i>Attributable to:</i>			
Equity holders of the Parent		3,895	3,578
Non-controlling interests		0	0
Profit for the year		3,896	3,578
Earnings per share, basic and diluted, SEK	11	23.22	20.63

Consolidated statement of comprehensive income

MSEK	Note	2019	2018
Profit for the year		3,896	3,578
<i>Other comprehensive income that may be reclassified to the income statement</i>			
Translation differences related to foreign operations	22	191	331
Translation differences included in profit and loss	22	-	-2
Effective portion of changes in fair value of cash flow hedges	22	122	39
Income tax relating to reclassifiable components of other comprehensive income	10	-25	-11
Subtotal, net of tax for the period		288	356
<i>Other comprehensive income that will not be reclassified to the income statement</i>			
Actuarial gains and losses attributable to pensions, incl. payroll tax	24	-168	118
Income tax relating to non-reclassifiable components of other comprehensive income	10	38	-38
Subtotal, net of tax for the period		-130	80
Other comprehensive income, net of tax for the period		158	436
Total comprehensive income for the year		4,054	4,014
<i>Attributable to:</i>			
Equity holders of the Parent		4,053	4,014
Non-controlling interests		0	0
Total comprehensive income for the year		4,054	4,014



Consolidated balance sheet

MSEK	Note	Dec. 31, 2019	Dec. 31, 2018
Assets			
Intangible assets	12	2,355	2,708
Property, plant and equipment	13	3,168	2,814
Forest plantations	14	87	126
Right-of-use assets	15	255	-
Investments in associated companies	16	42	24
Other non-current receivables	17	1,251	910
Deferred income tax assets	10	593	530
Total non-current assets		7,750	7,113
Inventories	18	1,813	1,600
Trade receivables	19	1,719	1,636
Prepaid expenses and accrued income		110	119
Income tax receivables		83	71
Other current receivables	17	375	562
Cash and cash equivalents	20	2,370	2,886
Total current assets		6,471	6,874
Assets held for sale	21	16	-
TOTAL ASSETS		14,237	13,987
Equity			
Share capital	22	390	390
Reserves		928	640
Retained earnings including profit for the year		-7,642	-6,641
Equity attributable to equity holders of the Parent		-6,324	-5,611
Non-controlling interests		16	16
TOTAL EQUITY		-6,308	-5,595
Liabilities			
Non-current loans and borrowings	23, 28	12,130	12,282
Other non-current liabilities	26	52	93
Non-current lease liabilities	15, 23	172	-
Provision for pensions and similar obligations	24	1,451	1,106
Non-current provisions	25	384	456
Deferred income tax liabilities	10	1,227	1,086
Total non-current liabilities		15,417	15,024
Current loans and borrowings	23, 28	1,300	1,229
Trade payables		365	371
Income tax liabilities		386	96
Other current liabilities	26	1,778	1,826
Current lease liabilities	15, 23	81	-
Accrued expenses and deferred income	27	926	938
Current provisions	25	293	98
Total current liabilities		5,127	4,559
TOTAL LIABILITIES		20,544	19,582
TOTAL EQUITY AND LIABILITIES		14,237	13,987

For information on the Group's pledged assets and contingent liabilities, see Note 29 Pledged assets and Note 30 Commitments and contingent liabilities and assets.



Consolidated statement of changes in equity

2018	MSEK	Note	Equity attributable to equity holders of the Parent				Non-controlling interest	Total equity
			Share capital	Reserves	Retained earnings	Total		
Equity at beginning of year		22	390	284	-4,876	-4,202	1	-4,201
Profit for the year			-	-	3,578	3,578	0	3,578
Other comprehensive income, net of tax			-	356	80	436	0	436
Total comprehensive income			-	356	3,658	4,014	0	4,014
Dividend			-	-	-2,911	-2,911	0	-2,911
Repurchase of own shares			-	-	-2,512	-2,512	-	-2,512
Cancellation of shares			-13	-	13	-	-	-
Bonus issue			13	-	-13	-	-	-
Acquisition of non-controlling interests			-	-	-	-	15	15
Equity at end of year			390	640	-6,641	-5,611	16	-5,595

2019	MSEK	Note	Equity attributable to equity holders of the Parent				Non-controlling interest	Total equity
			Share capital	Reserves	Retained earnings	Total		
Equity at beginning of year		22	390	640	-6,641	-5,611	16	-5,595
Profit for the year			-	-	3,895	3,895	0	3,896
Other comprehensive income, net of tax ¹⁾			-	288	-130	158	0	158
Total comprehensive income			-	288	3,766	4,053	0	4,054
Dividend			-	-	-1,777	-1,777	0	-1,777
Repurchase of own shares			-	-	-2,989	-2,989	-	-2,989
Cancellation of shares			-13	-	13	0	-	-
Bonus issue			13	-	-13	0	-	-
Equity at end of year			390	928	-7,642	-6,324	16	-6,308

¹⁾ Other comprehensive income included in retained earnings consists of actuarial gains and losses attributable to the Group's defined pension plans, net after payroll and income taxes, in an amount of -130 MSEK (80).



Consolidated cash flow statement

MSEK	Note	2019	2018
Operating activities	32		
Profit before income tax		5,060	4,531
Share of net profit/loss in associated companies		- 5	- 3
Dividend received from associated companies		1	3
Adjustments for other non-cash items and other		938	376
Income tax paid		-888	-958
Cash flow from operating activities before changes in working capital		5,106	3,949
Changes in working capital			
Increase (-)/ Decrease (+) in inventories		- 173	-93
Increase (-)/ Decrease (+) in operating receivables		112	-317
Increase (+)/ Decrease (-) in operating liabilities		34	168
Net cash generated from operating activities		5,080	3,707
Investing activities			
Purchase of property, plant and equipment	13, 14	- 720	- 649
Proceeds from sale of property, plant and equipment		10	3
Purchase of intangible assets		- 33	- 19
Acquisition of subsidiaries	4	-	- 541
Investments in associated companies	16	- 13	-
Changes in financial receivables, etc.		-58	-0
Net cash used in investing activities		-815	-1,206
Financing activities			
Proceeds from non-current borrowing		999	2,846
Repayment of borrowings		-1,092	-1,252
Lease payments		- 94	-
Dividend paid to equity holders of the Parent		-1,777	-2,911
Repurchase of own shares		-2,989	-2,512
Realized exchange gain/losses on financial instruments		156	136
Other		-7	-3
Net cash used in financing activities		-4,804	-3,697
Net decrease in cash and cash equivalents		-539	-1,195
Cash and cash equivalents at the beginning of the year		2,886	3,998
Effect of exchange rate fluctuations on cash and cash equivalents		23	83
Cash and cash equivalent at end of year		2,370	2,886



Notes for the Group

1 Accounting principles

All amounts referred to in the notes of the Group financial statements are in millions of Swedish kronor (MSEK) unless otherwise stated. The amounts within brackets refer to the preceding year, 2018.

Compliance with standards and legislation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee, approved by the European Commission for application within the EU. In addition, RFR 1 Supplementary Accounting Rules for Groups, issued by the Swedish Financial Reporting Board, has been applied. The Parent Company applies the same accounting principles as the Group, except in those instances described below in the section "Parent Company accounting principles". The annual report and the consolidated financial statements were authorized for issue by the Board of Directors and the Group's CEO on March 5, 2020.

Basis for the preparation of the financial reports for the Parent Company and the Group

The financial reports are presented in Swedish kronor (SEK), which is the functional currency of the Parent Company. Unless otherwise indicated, all amounts are rounded to the nearest million. Figures in the reports are based on a consolidation system in SEK thousands. By rounding the numbers in tables, totals may not always equal the sum of the included rounded numbers. Assets and liabilities are reported at their historical acquisition value, except for certain financial assets and liabilities and biological assets that are reported at fair value. Financial assets and liabilities reported at fair value comprise derivative instruments classified as financial assets reported at fair value through profit and loss or other comprehensive income. Biological assets refer to forest plantations. Assets and groups of assets classified as held for sale are reported as held for sale as of the date certain events confirm the assets or group of assets are held for sale. Assets held for sale are reported at the lower of carrying value and fair value adjusted for selling costs.

Use of the assessments in the financial reports

Preparing financial reports in accordance with IFRS requires that management make assessments and assumptions that affect the accounting principles and reported amounts for assets, liabilities, revenues and costs. The assessments and assumptions are based on historical experience and other factors that may be considered relevant under the prevailing conditions. The actual outcome may deviate from these assessments and assumptions. Assessments and assumptions are reviewed on a regular basis with changes in assessments recognized in the applicable period. Assessments made by management on the application of IFRS that have a significant impact on financial reports, and estimations made that could entail material adjustments in subsequent years' financial reports, are described in *Note 2 Critical estimates and judgements*.

Significant accounting principles applied

The accounting principles described below have been applied consistently in all periods that are presented in the Group's financial statements. In case any exceptions would exist to the accounting principles outlined below such are clearly described in relevant disclosure to the financial statements that include such exception.

New standards, amendments and interpretations

As of January 1, 2019, Swedish Match adopted IFRS 16 Leases, which replaces IAS 17 Leases and the related Interpretations. IFRS 16 prescribes the principles for the recognition, measurement, presentation and disclosure of leases for both lessee and lessor. The adoption of IFRS 16 did not have a material impact on the Group's financial statements.

As of January 1, 2019 Swedish Match adopted IFRIC 23, which brings about clarifications and new disclosure requirements on the assessment of uncertain tax treatments. The implementation of IFRIC 23 have had the effect that uncertain tax positions have been reclassified from provisions to income tax liabilities in the Group's balance sheet.

Due to the coming change of reference interest rates (interbank offered rates), "Interest Rate Benchmark Reform amendments to IFRS 9, IAS 39, and IFRS 7", the Group has decided to early adopt these amendments of IFRS 9. The financial reports have not been impacted.

Other new amendments and interpretations applicable as of January 1, 2019 have not had any material effect on the Group's financial result or position.

IFRS 16 Leases

With effect from January 1, 2019, Swedish Match applies the new accounting standard IFRS 16 Leases. The new standard has the effect that most of the Group's lease contracts are recognized in the balance sheet as right-of-use assets and lease liabilities measured as the present value of future lease payments. In the Income statement, costs of leases are recognized as depreciation expense for the right-of-use assets and interest expense on the lease liabilities rather than lease expense when paid as was the case under IAS 17.

Real estate leases, such as rental of office and factory premises, warehouses and storages, represent the major part of the total value of leases within the Group. The duration of real estate leases is typically 3–5 years, excluding assessments of the likelihood of utilizing extension and termination options. The Group also has some lease contracts for machinery, equipment and vehicles.

Transition to IFRS 16

For the transition to IFRS 16, Swedish Match has chosen to apply the cumulative catch-up method in accordance with IFRS 16.C5(b). The adoption of IFRS 16 has increased the Group's reported assets and liabilities due to the recognition of right-of-use assets and lease liabilities on the balance sheet. On the grounds of materiality, in the accounting for right-of-use assets and lease liabilities, Swedish Match has chosen to apply the practical expedients in IFRS 16 for short-term leases (contracts with a lease term of 12 months or less) and leases for which the underlying asset is of low value. Such lease contracts are not recognized on the balance sheet. The reported opening balances for the Group's lease liabilities and right-of-use assets as per January 1, 2019 amounted to 272 MSEK and 279 MSEK, respectively. In the measurement of the opening balance for the Group's lease liabilities, the weighted average discount rate applied was 4.4 percent and the average lease term duration was 2.3 years, including assessments of the likelihood of utilizing extension and termination options.

The transition to IFRS 16 did not result in an adjustment to the opening balance of retained earnings of the annual reporting period commencing January 1, 2019. The transition method also means that IFRS 16 is applied to the financial statements prospectively as per January 1, 2019. Consequently, comparable information in this report has not been restated.

The Group's EBITDA for the full year 2019 was improved by 99 MSEK as lease payments recognized as operating costs when incurred under the previous accounting standard have been replaced by depreciation costs on the right-of-use assets and interest expense on the related lease liabilities. The Group's net debt as per January 1, 2019 has increased by 272 MSEK as lease liabilities are classified as financial liabilities. The impacts to net debt/EBITDA ratio and other key ratios are immaterial.

The carrying values of the Group's right-of-use assets are reported in the balance sheet under a new asset category defined as right-of-use assets. Lease liabilities are reported in the balance sheet as Other non-current financial liabilities and Other current financial liabilities depending on the timing of the payments under the lease contracts.



NOTE 1 Continued

Summary of the effects from the adoption of IFRS 16 on the opening balance at January 1, 2019

Condensed consolidated balance sheet, MSEK	Dec 31, 2018	IFRS 16 transition effects adjustments		Adjusted Jan 1, 2019
		Recognition opening balance right-of-use assets and lease liabilities	Reclassification prepaid lease expense included in right-of-use assets	
Total non-current assets	7,113	279	-	7,392
Total current assets	6,874	-	-6	6,868
Total assets	13,987	279	-6	14,260
Equity attributable to equity holders of the Parent	-5,611	6	-6	-5,611
Non-controlling interests	16	-	-	16
Total equity	-5,595	6	-6	-5,595
Total non-current liabilities	15,024	199	-	15,223
Total current liabilities	4,559	73	-	4,632
Total liabilities	19,582	272	-	19,854
Total equity and liabilities	13,987	279	-6	14,260

New IFRSs and interpretations which have not yet been applied

New standards, changes in standards and interpretations of standards apply from 2020 or later and have not been applied in these financial reports.

Changes in IFRS standards, amendments and interpretations of existing standards applicable as of January 1, 2020 are deemed as not having any effect on the Group's financial result or position. Effective changes in IFRS as of 2020 pertain to amendments to IFRS 3 and definition of a business, amendments to IAS 1 and IAS 8 regarding definition of material.

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 will positively affect the result of Other operations and consequently negatively affect the result from relevant product segments. In Swedish Match's future financial reports, the financial information of prior periods that are affected by the implementation of the new product segments and the new allocation model of certain central costs will be restated accordingly.

More information on the new reportable segments and presentation of restated financial information of 2019 in line with the new segment reporting is found in Note 3 Segment information.

Consolidation principles

The consolidated accounts are prepared in accordance with the Group's accounting principles and include the accounts of the Parent Company and all subsidiaries and associated companies in accordance with the definitions below. Inter-company receivables and liabilities, revenues and costs and unrealized gains and losses arising from inter-company transactions are eliminated when the consolidated financial statements are prepared. Acquired companies are included in the consolidated accounts from the date of acquisition and divested companies are included in the consolidated accounts until the time of divestment.

Subsidiaries

Swedish Match Group has a number of subsidiaries in various countries for the production and sale of Swedish Match products. A subsidiary is defined as an entity that is controlled by the Swedish Match Group. A subsidiary is considered to be controlled when a Group company has power over the investee, exposures, or rights to variable returns from the involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's return. Swedish Match subsidiaries are owned to 100 percent by Swedish Match Group, with exception of two Swedish subsidiaries of which Swedish Match holds the shares to 95 percent as well as an insignificant non-controlling interest in a foreign subsidiary. There are no subsidiaries where Swedish Match Group has any significant restriction to access or use of assets from its subsidiaries. Furthermore, Swedish Match is not involved in any unconsolidated structured entities.

Consolidated financial statements in this report include all subsidiaries which Swedish Match Group controls.

All acquisitions of subsidiaries are reported in accordance with the purchase method. This method means that the acquisition of subsidiaries is considered a transaction through which the Group indirectly acquires the subsidiary's assets and assumes its liabilities and contingent liabilities. Companies acquired during the year are included in the consolidated financial statements from the date of acquisition at fair value. Transaction costs relating to acquisition of subsidiaries are not included in the value of the acquired assets. All acquisition-related costs are expensed in the period when incurred. Contingent considerations are recognized on the balance sheet at fair value at the date of the acquisition, with any contingent payment classified as debt subsequently remeasured through the income statement.

Results from disposal of subsidiaries when the control is lost are recognized in the income statement. Any remaining interests in divested entities are remeasured to fair value, with the gain or loss recognized in the income statement to the extent disposed externally.

Associates are companies in which the Group exercises a significant influence without the partly owned company being a subsidiary. This normally means that the Group holds 20–50 percent of total voting rights. Holdings in associated companies are reported in accordance with the equity method and they are initially measured at cost. Valuation of acquired assets and liabilities is performed in the same manner as for subsidiaries and the carrying amount for associates includes any goodwill, transaction costs and other Group adjustments.

The Group's share of its associates' post-acquisition after tax profits or after tax losses is recognized on one line in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income, net of tax in the associates is recognized on two lines in the Group's statement of other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying value of the investment.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate. Results from disposal of an associate when the control is lost are recognized in the income statement. Any remaining interests in divested associates are remeasured to fair value, with the gain or loss recognized in the income statement to the extent disposed externally.



NOTE 1 Continued

Non-controlling interest

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from the equity of the owners of the Parent Company. The non-controlling interest includes profit or loss and components of other comprehensive income attributable to the non-controlling interests and are measured at fair value. Swedish Match Group has three non-controlling interests.

Discontinued operations

Divested operations are reported as discontinued operations if they represent a separate major line of business or geographical area of operations that comprises operations and cash flow that can be clearly distinguished, operationally and for reporting purposes from the rest of the Group. The post-tax profit or loss from discontinued operations and the gain or loss from the sale is presented in a single amount in the income statement as of the transaction date or as of the date when management is committed to a plan to sell and hence operations to be discontinued are reclassified as held for sale. When a business operation is discontinued or classified as held for sale and reported as such prior period income statements are restated. Prior period balance sheets are not restated.

Classification etc.

Non-current assets and non-current liabilities in the Parent Company and the Group essentially consist of amounts that are expected to be recovered or paid after more than 12 months, from the reporting date. Current assets and current liabilities essentially consist of amounts that are expected to be recovered or paid within 12 months, from the reporting date.

Reporting by segment

The Group's reportable segments are based on the internal reporting structure. Swedish Match's chief operating decision maker is the Group's President and CEO, who monitors and makes decisions about operating matters based on product segments. The Group's reportable segments in 2019 were three product segments: Snus and moist snuff, Other tobacco products and Lights. The reportable segments represent all Swedish Match products which are produced and sold by the Group's business units. Reportable segments have been aggregated when there are similarities in the segments' economic characteristics, such as gross profit margins, level of capital investments and impact from variations in the business cycle. Also, similarities in the type of product, manufacturing process, customers, distribution process and regulatory environment have been considered to determine the appropriate aggregation of reportable segments. There are no internal sales between reportable segments and the Group's financial costs as well as taxes are not allocated to reportable segments.

Operating assets are not monitored on a segment basis.

Other operations consist of corporate functions and the Swedish distribution function. Corporate functions include, among others, regulatory affairs, legal and financial services. The distribution function provides services to Swedish Match in Sweden and Norway as well as to other manufacturers within the Swedish distribution network. The revenues from Other operations, pertain to the distribution service for the delivery of third party tobacco products on the Swedish market. The revenues from sales of Swedish Match's products on the Swedish and the Norwegian markets are reported as part of the product segment Snus and moist snuff. Revenue in Other operations are not seen as an important performance indicator and are not considered for resource allocation within the Group. The result from Other operations consists of the consolidated result for the corporate functions, of which the distribution function is making a profit from the immaterial distribution fee and the other functions are normally making losses.

Foreign currencies*Transactions in foreign currencies*

Transactions in foreign currencies are translated into the functional currency according to the exchange rates applicable on the transaction date. Monetary assets and liabilities in foreign currencies are translated to the functional currency at the exchange rate applicable on the reporting date. Non-monetary assets and liabilities reported at their historical acquisition values are translated at the exchange rate in effect at the transaction date. Non-monetary assets and liabilities reported at their fair value are converted to the functional currency at the applicable rate at the time of the valuation. Exchange rate differences are

then reported in the same manner as other changes in value relating to the asset or liability. Exchange rate differences arising from translation are reported in the income statement, with exchange differences on non-monetary assets and liabilities reported as operating income and expenses and exchange differences on monetary assets and liabilities are reported in the net finance.

Financial reports of foreign operations

Assets and liabilities in foreign operations, including goodwill and other Group surplus and deficit values, are translated into SEK at the exchange rate on the reporting date. Revenues and expenses from foreign operations are translated to SEK at an average exchange rate for the year. Translation differences arising from currency translation of foreign operations are reported as a translation reserve in equity through other comprehensive income. The translation difference relating to a specific subsidiary is recycled through the income statement when the subsidiary is divested.

The Group's most significant currencies are shown in the table below:

Country	Currency	Average exchange rate January–December		Exchange rate on December 31	
		2019	2018	2019	2018
USA	USD	9.46	8.69	9.32	8.97
Euro zone	EUR	10.59	10.26	10.43	10.28
Denmark	DKK	1.42	1.38	1.40	1.38
Brazil	BRL	2.40	2.39	2.30	2.32
Norway	NOK	1.07	1.07	1.06	1.02

Revenue

Revenue for Swedish Match pertains to sale of goods manufactured, sale of third party products where Swedish Match is acting as a principal and income from distribution service for delivery of third party products where Swedish Match is acting as an agent. The sales of goods or services are recognized based on the amount expected to be received relating to the sales transactions and when the transfer of control of the goods or services has passed to the customers.

The expected consideration recognized reflects estimates of potential outcome of variable considerations as well as expected reimbursements for product returns. Refund liabilities for returned goods and variable considerations are recognized on the balance sheet as operating provisions.

The main revenue streams for the Group's reportable segments arise from sale of goods manufactured by the Group. Within Lights, a minority part of the revenue also pertains to the sale of third party products. Revenue within Other operations mainly pertains to income from logistics services for delivery of third party products to retail customers. For further information on the assessment of the classification of principal or agent refer to *Note 2 Critical estimates and judgements*.

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 Group has no material unconditional rights to receive considerations and no material payments are received in advance. Based on this no contract assets have been recognized in the Group balance sheet.

The timing of transfer of control of the goods or services to the customer is determined for each revenue transaction. Indications of transfer of control are being considered when Swedish Match has a present right to payment or when the customer has legal title, a physical possession, the significant risks and rewards of ownership or has accepted the asset. If control is retained and the promised obligations are not satisfied, revenue is not recognized.

A majority part of Swedish Match customers are retailers and distributors. Within Snus and moist snuff and Other tobacco products, customer credit terms are on average 10 days. Within Lights, customer credit terms are usually 30 days, but for certain markets such as Asia and Africa, credit terms to customer could be in the range of pre-payment up to 120 days. Sales within Lights with longer credit terms represent less than 20 percent of the total sales for Lights.

Uncollected amounts billed to customers at period end are recognized as trade receivable in the Group's balance sheet. The risk for impairment losses on trade receivable are relatively low. Allowances for impairment losses on accounts receivable are assessed in accordance with IFRS 9, for more information refer to below section Impairment of financial assets.

NOTE 1 *Continued*

Any incremental costs for obtaining a customer contract and/or costs to fulfil a customer contract are capitalized as assets if such costs meet the criteria for capitalization in IFRS 15. Currently, the Group does not have any significant incremental costs for obtaining or fulfilling a customer contract to be recognized on the balance sheet.

For further information on the Group's sales for reportable segments and disaggregation of revenue streams, see *Note 3 Segment information*.

Financial income and expenses

Financial income and expenses consist of interest income on bank balances, receivables, interest-bearing securities and dividend income, interest expense on loans, leases, and benefit obligations, exchange rate differences, unrealized and realized gains on financial investments and derivative instruments used in financial activities. Exchange rate differences arising on operating assets and liabilities are reported in operating profit.

The effective interest method is used when calculating the amortized cost of the financial asset or the financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash flows. Interest income or expense include accrued amounts of transaction costs and, if applicable, discounts, premiums and other differences between the original value of the receivable or liability and the amount received or paid at maturity.

Cash and cash equivalents

Cash and cash equivalents consist of cash and immediately available balances with banks and similar institutions, as well as short-term liquid investments with a maturity of less than three months from acquisition, which are exposed to only an insignificant risk of value fluctuations. Cash and cash equivalents are covered in the general approach for credit reservations and depends on the rating of the counterparty. Due to high ratings of the Group's main counterparties, the total amount of credit risk is immaterial.

Financial instruments

Financial instruments are valued and reported within the Group in accordance with the rules in IFRS 9.

Financial instruments reported in the balance sheet include, on the asset side, cash and cash equivalents, trade receivables, shares and other equity instruments, loans receivable, and derivatives. Such instruments on the liabilities and equity side are trade payables, lease liabilities, issued liability and equity instruments, loans and derivatives.

Financial assets and liabilities are offset, and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

A financial asset (or a portion of a financial asset) is derecognized from the balance sheet when risk and the right to receive cash flow from the instrument has ceased or been transferred to another party. A financial liability (or a part of a financial liability) is derecognized from the balance sheet when the obligation is settled or discharged. Financial assets and liabilities are recognized and derecognized applying settlement date accounting.

Financial instruments are initially reported at their acquisition value, corresponding to the instruments' fair value except for those that are included in hedge accounting. Subsequent reporting depends on how they are held and classified in accordance with the criteria below.

Financial assets

IFRS 9 classifies financial assets at initial recognition, and subsequently measured at either amortized cost or fair value. The Group's classification depends on the business model for managing the financial assets and whether the contractual terms of the cash flows are solely payments of principal and interest. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial asset, or both. There are three business models into which the group classifies its financial assets.

- Financial assets measured at amortized cost
- Financial assets measured at fair value through other comprehensive income (FVOCI)
- Financial assets measured at fair value through profit and loss (FVTPL)

Financial assets measured at amortized cost

Financial assets that are held for collection of contractual cash flows which represent solely payments of principal and interest are measured at amortized cost. Included in this category are cash and cash equivalents, along with loan receivables and trade receivables. Interest income from these assets are reported in the income statement using the effective interest rate method.

Trade receivables have an anticipated short duration and are reported at the amount expected to be received after deductions for expected credit losses.

Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the cash flows of the assets represent solely payments of principal and interest, are measured at fair value through other comprehensive income.

Financial assets measured at fair value through profit and loss (FVTPL)

Financial assets in this category do not meet the criteria for amortized cost or fair value through other comprehensive income and are measured at fair value through profit and loss. The financial assets in this category are held for trading and reported as other current receivables, measured at fair value. They include the Group's currency derivatives that are not used for hedge accounting. Changes in financial assets fair value are recognized in the income statement as profit or loss.

Impairment of financial assets

Under IFRS 9, a new impairment model is applied to financial assets measured at amortized costs or financial assets measured at fair value through other comprehensive income. Currently, financial assets measured at amortized cost refer mainly to accounts receivables.

Swedish Match applies the simplified approach to measure lifetime expected credit losses. Compared with the former applied incurred loss model, the new requirements imply an earlier recognition of credit losses. Historical information is used regarding credit loss experience to forecast future credit losses. In addition, current and forward-looking information available is used to reflect current and future conditions.

Financial liabilities

The Group classifies financial liabilities, at initial recognition, into two categories:

- Other financial liabilities measured at amortized cost
- Financial liabilities measured at fair value through profit and loss (FVTPL)

Other financial liabilities measured at amortized cost

Financial liabilities measured at amortized include trade payables, lease liabilities, loans and borrowings, and accrued interest, which are not held for trading. These liabilities are classified as other financial liabilities, which means that they are initially reported at the amount received after deductions for transaction costs. After the date of acquisition, loans are measured at amortized cost in accordance with the effective interest rate method. The financial liability is derecognized when the obligation under the liability is discharged or expires.

Financial liabilities measured at fair value through profit and loss (FVTPL)

Financial liabilities in this category are reported as current financial liabilities, measured at fair value. These financial liabilities are held for trading and include the Group's currency derivatives that are not used for hedge accounting. Changes in fair value of the financial liabilities are recognized in the income statement as profit or loss.

Derivatives and hedge accounting

The Group uses derivative financial instruments, such as interest rate swaps and forward currency contracts to cover the exposure of interest rate and foreign exchange risks. These derivatives are initially recognized at fair value on the date of inception of the contract and are subsequently remeasured to their fair value at each reporting date. Derivatives are carried as financial receivables when the fair value is positive and financial liabilities when the fair value is negative. To determine if the fair value of the derivative is positive or negative, the individual components are totaled. The components consist of

NOTE 1 *Continued*

the derivatives' fair value according to market conditions and the exchange rate differences between inception and reporting date. The derivatives used are mainly cross currency interest rate swaps (a combination of interest and currency swap) to hedge funding in foreign currencies to SEK. These derivatives have a fully matched cash flow to the underlying issued bonds.

Derivatives used for hedge accounting

Swedish Match applies hedge accounting in which derivatives were entered into in order to manage interest rate risk as described in IFRS 9. Changes in fair value affecting derivative instruments are reported as fair value in the income statement depending on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

When hedge accounting is applied, hedges are classified into:

- Cash flow hedges when hedging the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability.
- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment.

At the inception of a hedge relationship, the Group determines the economic relationship to which it wishes to apply hedge accounting by identifying the critical terms, such as nominal amount, currency, settlement and maturity dates, and interest and repayment dates. The Group also documents its risk-management objectives and strategy for undertaking the hedge transactions. The documentation includes identification of the hedged item, the hedging instrument, the nature of the risk being hedged and how the Group assesses the prospective effectiveness of changes in the hedged instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The hedges are matched in all critical terms, are expected to be highly effective, and are assessed on an ongoing basis based on requirements documented in IFRS 9. Retrospective assessment of hedge effectiveness is no longer required. Any ineffectiveness is measured by the hypothetical derivatives method if the critical terms would be different. Sources of ineffectiveness could be the impact of credit risk on the fair value of the derivatives or differences in valuation input. The Group assesses that existing hedging relationships all qualify as continuing hedging relationships and continue to be effective. The full fair value of a hedging derivative is classified as non-current receivable or liability when the remaining hedged item is more than 12 months and as current receivable or liability if the maturity is equal to or shorter than 12 months.

Cash flow hedges

The Group uses derivatives in order to convert its debt payments in foreign currency or floating rate debt in SEK into fixed interest payments in SEK, by which hedge accounting according to the cash flow hedge technique is applied. The hedging relationship consists of eligible hedging instruments and items, with the principle that the critical terms and the economic relationship of the hedged item and the hedging instrument are identical and match with a hedge ratio of 100 percent, meaning that they are effective and no rebalancing is expected to occur. Fair value changes arising from the revaluation of derivatives that are part of a cash flow hedge relationship and are considered to be effective according to the definition in IFRS 9, are measured at fair value in other comprehensive income (FVOCI) and are accumulated in the cash flow hedge reserve within equity, and any ineffective portion is recognized directly in the statement of profit and loss. The Group's derivatives designated as cash flow hedges are treated as financial assets in this category. Reclassification from the hedge reserve through other comprehensive income into the income statement is made either when the hedged item affects the income statement or when the hedged item has ceased to exist, for instance when issued debt is repurchased.

Fair value hedges

In cases where fixed interest rate obligations are converted into floating interest rate obligations, hedge accounting according to the fair value hedge technique is applied. The fair value changes arising from revaluation of derivatives are measured at fair value through profit and loss, and the related value change from the hedged item is similarly recognized in profit and loss thus offsetting the effective portion in the hedge relationship. Swedish Match had no fair value hedges at December 31, 2019.

Derivatives in foreign currency not used for hedge accounting

To reduce the risk of exposure of assets or liabilities against exchange rate risks, forwards are used to convert foreign currencies into SEK. Forwards are also used for certain binding contracts. For those derivatives to which hedge accounting cannot be applied, changes in fair value are measured at fair value through profit and loss and reported in net finance cost. Changes in value relating to operations-related receivables and liabilities are reported in operating profit.

Leases

Contracts or parts of contracts, where the terms provide Swedish Match with the right to control the use of an identified asset for a period of time in exchange for consideration, are lease contracts accounted for as right-of-use assets and lease liabilities on the Group's balance sheet. The power to control the use of the asset is essential when determining if the contract contains a lease or not as well as whether an identified asset is present. To qualify as a lease contract, the contract terms shall provide Swedish Match with the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset during the lease term in exchange for consideration. If a contract does not provide Swedish Match with the right to control the asset or if there is no identified asset, the contract is a service contract, and thereby not recognized as a lease contract on the balance sheet. Payments under such service contracts are recognized as expenses in the income statement when incurred.

Contracts which includes a lease of an asset as a component in a contract, i.e. an embedded lease contract, are accounted for as a lease separately from the non-lease components of the contract. Currently, Swedish Match does not have any significant embedded asset lease contracts to be accounted for.

The lease liabilities are measured at the present value of future lease payments. In most cases, the measurement of the right-of-use assets equal the lease liabilities. The present value of the future lease payments is discounted using the interest rate observed in the period when the lease contract commences or is modified.

The measurement of the lease liabilities includes non-cancellable lease payments (including inflation-linked payments), amounts expected to be payable for any residual value guarantees, the exercise price of a purchase option if it is reasonably certain that Swedish Match will exercise that option. Included are also payments to be made in optional periods if it is reasonably certain that Swedish Match will exercise the option to extend the lease, or not to exercise the option to terminate the lease, as well as any payments of penalties for terminating the lease, if the lease term reflects an option to terminate the lease and it is reasonable certain that the option will be exercised.

In assessing whether an extension or a termination option is reasonably certain to be exercised or not, all relevant facts and circumstances that create an economic incentive are considered. Important facts and circumstances assessed for Swedish Match lease contracts are for example the leased assets relevance to the operation, cost of substitute the leased asset, the availability of similar assets, investments or customizations to the leased assets, economic incentives regarding the contract terms, etc.

Payments of non-lease components (i.e. components not relating to the use of the underlying asset, e.g., payments for service for a car lease, or heating, maintenance and water included in the rent for a premises) and variable lease components, that do not depend on an index or a rate, are not included in the measurement of the lease liabilities.

A lease contract is initially recognized on the balance sheet at the date when the underlying asset is available for use, i.e. at the commencement date. The right-of-use asset is measured based on the lease liability, plus any additional costs directly attributable to get the access/right to the asset. In addition, any replacement costs to remove or restore the asset after the lease term as required by the contract will be included.

The depreciation of the right-of-use asset is usually on a straight-line basis over the lease term.

In subsequent periods, if the lease payments or the lease term changes for an existing contract, the lease liability will be revalued to reflect the changes in the future lease payments. Such revaluation will occur if there are changes in the future lease payments because of indexations, with the exception from payments relating to changes in the interest rate, which will not impact the valuation of the lease liability as the discount rate will also be adjusted correspondently. However, the interest cost in future periods will be adjusted



NOTE 1 *Continued*

if there is a change in the interest rate for the lease payments. Other events that will impact the valuation of the lease liability in subsequent periods, are changes in the lease period due to a new assessment of the likelihood of utilizing extensions or termination options, new assessment of utilizing or not utilization of any purchase options, etc. The right-of-use asset will be adjusted for any remeasurement effects of the lease liability in the same period. Assessment of key parameters of lease contracts that could have an impact to the reported amounts are performed regularly.

Exemptions

In the accounting for right-of-use assets and lease liabilities, Swedish Match apply the practical expedients in IFRS 16 for short-term leases (contracts with a lease term of 12 months or less) and leases for which the underlying asset is of low value. The Group's lease contracts of low value are mainly leasing of office equipment, water dispensers, coffee machines and IT equipment for individual use. Such lease contracts are not included in the Group's lease liabilities and related right-of-use assets and are reported as operating leases with the lease payments expensed in the income statement when incurred. In addition, leases of intangible assets, such as software, licenses, etc., are also excluded from IFRS 16.

Discount rate

The key parameters for determining the discount rates are the type of the underlying asset of the lease contract, the lease term and the economic environment where the asset will operate.

The Group's policy for determining the discount rates is based on the incremental borrowing rate for lease contracts. The incremental borrowing rate is the rate of interest that Swedish Match would have to pay to obtain an asset of similar value to the right-of-use asset, adjusted for a risk premium relating to the economic environment where the asset operates at the given time in relation to the lease term of the contract.

Cash flow statement

In the statement of cash flows, lease payments relating to amortization of the lease liabilities are presented within cash flow from financing activities and the interest component is presented within cash flow from operation in line with other interest paid and received. Variable lease payments and non-lease components as well as lease payments relating to short term and low value leases are reflected in the cash flow from operating activities.

Up until December 31, 2018, the Group's lease contracts were reported as operating leases under IAS 17. Lease charges were expensed straight-line over the lease period.

Intangible assets

Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill that has arisen from the acquisition of associated companies is included in the carrying amount for participations in associated companies. Goodwill is valued at acquisition value less any accumulated impairments. Goodwill is allocated to cash-generating units and is tested annually, or upon indication, for impairment. For more information on the Group's goodwill and impairment testing, see *Note 12 Intangible assets*.

Trademarks and other intangible assets

Trademarks and other intangible assets acquired by the Group are reported at acquisition value less accumulated amortization and impairments. Acquired trademarks with no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group, is regarded as having an indefinite useful life. Indefinite-lived intangible assets are not amortized but instead tested for impairment annually or when there is indication of impairment. In case there are borrowing costs that are directly attributable to the acquisition, construction or production of intangible assets that take substantial time to complete, such costs are included in the acquisition value.

Research costs for obtaining new technical expertise are expensed continuously as they arise. Development costs in the case of which the research or other knowledge are applied in order to achieve new or improved products or processes are reported as other intangible asset in the balance sheet, provided

the product or process is technically and commercially usable. Other costs are reported in the income statement as they arise. Other intangible assets primarily include software, licenses, etc.

Amortization

Amortization is recognized in the income statement straight-line over the estimated economic useful life of the intangible assets, unless the useful life is indefinite. Goodwill and trademarks with indefinite useful life are tested for impairment annually or if indications arise of a decline in the value of the asset. Amortizable intangible assets are amortized from the date that they are available for use. The estimated useful life periods are individually assessed but normally in the range as indicated below:

- trademarks and patents 10–20 years
- other intangible assets and capitalized development expenditures 5–7 years

Assessment of an intangible asset's residual value and useful life is performed annually.

Tangible assets

Tangible assets are reported in the Group at their acquisition value, less accumulated depreciation and impairments, if applicable. The acquisition value includes the purchase price and costs directly attributable to the asset in order to transport it to its place of use in the appropriate condition for being used in accordance with the purpose of the acquisition. Borrowing costs directly pertaining to acquisition, construction or production of an asset that takes a substantial time to complete are included in the acquisition value.

Depreciation

Depreciation is applied straight-line over the asset's estimated economic useful life. Land and construction in progress are not depreciated. The estimated useful life periods are normally:

- buildings, owner-occupied properties 12–40 years
- machinery and other technical equipment 5–12 years
- equipment, tools and fixtures 5–10 years
- major components 3–5 years

Assessment of a tangible asset's residual value and useful life is performed annually.

Forest plantations

The Group has forest plantations to secure its raw material needs for match manufacturing. Trees under cultivation owned by the Group are regularly measured at market value after deductions for estimated selling expenses. Changes in fair value are included in the Group's earnings for the period during which they arise.

Inventory

Inventories are recognized at the lower of cost and net realizable value on the balance sheet date. Cost is calculated using the first-in, first-out (FIFO), or weighted average cost formula. The cost of finished goods and work in progress includes raw material, direct labor, other direct expenses and production-related overheads, based on a normal production level. Expenses arising from the transport of items to their present location and condition are included in the acquisition value of inventories. Interest expenses are not included in measurement of inventories. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and sale of the item.

The acquisition value for cut timber amounts to the fair value with deductions for estimated selling expenses at the time of felling, determined in accordance with the accounting principles for forest plantations.

Impairment

The carrying amounts for the Group's assets, with the exception of financial assets, forest plantations, assets held for sale and disposal groups reported in accordance with IFRS 5, inventories, plan assets used for the financing of employee benefits and deferred tax assets, are tested in accordance with IAS 36 on each reporting date to evaluate whether there is an indication of an impairment. Should such an indication exist, the asset's recoverable amount is

NOTE 1 *Continued*

assessed. An impairment charge is recognized in the income statement when the carrying amount exceeds the calculated recoverable amount.

For goodwill and other intangible assets with an indefinite useful life and intangible assets that are not yet ready for use, their recoverable amount is calculated annually, or when an impairment is indicated. The recoverable amounts, defined as the higher of value in use and fair value less cost of disposal, are normally determined on the basis of value in use, applying discounted cash flow calculations. An impairment charge against the income statement is made when the carrying amount exceeds the recoverable amount. For the purpose of impairment testing, goodwill and trademarks with indefinite life is allocated to the lowest level of groups of cash generating units based on product groups and geographical markets, at which it is monitored by management. For more information on the Group's goodwill and impairment testing see *Note 12 Intangible assets*.

Reversal of an impairment loss recognized in prior periods for assets other than goodwill are recognized when there is an indication that an impairment loss recognized in prior periods no longer exist or may have decreased. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Provisions

A provision is reported in the balance sheet when the Group has an existing legal or informal obligation as a result of an event that has occurred, it is probable that expenditure will be required to settle the obligation and that a reliable estimate of the amount can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using cash flows estimated to settle the present obligation, the carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Share capital

Repurchases of own shares are reported directly in equity.

Employee benefits*Short term employee benefits*

Short term employee benefits, such as wages, base salaries, vacation leave, profit-sharing, variable salaries, other benefits, that are expected to be settled within twelve months are recognized as expenses in the income statement when the services are received.

Costs for the profit-sharing program and incentive plans (variable salary) are recognized on a pro-rata basis during the financial year when the compensation is earned based on an estimated outcome. This means that the cost is accrued during the year. In connection with the annual accounts, a final calculation of the year's cost is performed based on the actual outcome for the year. Any adjustments of previously reported costs for incentive programs are also recognized in the period when there is a change in the estimated outcome for each program.

Long term employee benefits

A long term incentive program is introduced by the Board of Directors to certain executives, where the executives may, after a three-year performance period, receive a cash bonus based on the established performance targets for the performance period. Costs for the long term incentive plan are expensed during the service year including social security fees applicable for each country where the executives work. Costs for the incentive plan are reported as personnel costs with corresponding amount reported as a long term deferred compensation liability on the balance sheet. The accrual will be subject to review based on actual performance during the performance period with any changes in the estimate taken through the income statement.

Eligible participants in the program have agreed to purchase Swedish Match shares for the full cash award, net of income tax, and shall retain such shares for a period of not less than two years.

Termination benefits

The Group recognizes termination benefits when there is an event that gives rise to an obligation to an employee when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the group

can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

Post-employment benefits

Within the Group there are a number of defined contribution and defined benefit pension plans, some of them with plan assets in special foundations or similar institutions. The pension plans are financed by payments from the Group company concerned and its employees. Independent actuaries compute the size of the commitments attached to each plan and reevaluate the pension-plan assumptions each year.

Pension fees for defined contribution plans are reported as an expense in the income statement as incurred.

Pension costs for defined benefit plans are calculated according to the Projected Unit Credit Method in a manner that distributes the cost over the employee's remaining active working life. These costs are valued at the present value of the expected future disbursements using a discount rate that corresponds to the interest rate on high quality corporate bonds or government bonds with a remaining maturity that approximates the particular commitments. Service cost, past service cost and any administration costs relating to post-employment defined benefit plans are classified as operating cost. A finance component calculated based on the discount rate on the net liability or net asset is recognized in the net finance cost. The finance component is recognized as interest expense or interest income net by plan.

For the US defined benefit plans Swedish Match determined the obligation effective discount rate based on the single equivalent rate such that the present value of the plan's obligation cash flows using the single rate equals the present value of those cash flows using the corresponding spot rate along the yield curve.

The effective rates for interest on the defined benefit obligation and service cost are the single equivalent rates that result in the same value when applied to the defined benefit obligation and service cost respectively.

For the larger US post-employment defined benefit plans the same process is applied to the plan's service cost cash flows to determine the effective discount rate associated with the service cost.

For the other plans Swedish Match applies the single weighted average discount rate based on the yield curve used to measure the obligation and pension expense.

In the Swedish Match consolidated balance sheet, the pension commitments for funded plans are reported net after deductions for the fair value of plan assets. Funded plans with net assets, that is, assets in excess of obligations, are reported as non-current receivables. When the calculation leads to a net asset and there is no minimum funding requirement, the carrying value of the net asset is limited to the lower of the surplus in the plan and the present value of future service cost to be borne by the Company. Calculating the discounted value of defined benefit obligations and the fair value of plan assets can give rise to remeasurement gains and losses. These arise when actual outcome deviates from projected outcome or when assumptions made earlier are changed. Measurement differences that arise from the revaluation of the post-employment benefit plans are recognized in other comprehensive income as actuarial gains and losses in the period as they occur.

When there is a difference between how pension costs are determined for a legal entity and the Group, a provision or claim pertaining to a special employer's salary tax based on this difference is recorded. The provision or claim for special employer's salary tax is included in the net present value of the net obligation or net asset. Special employer's salary tax pertains to pension plans in Sweden.

In Sweden, the Group has post-employment defined benefit obligations for salaried personnel which are insured by Alecta. Alecta is the largest Swedish life insurance company and safeguards the majority of the private sector's defined benefit pension plans, i.e., the ITP-plan. Alecta is not able to provide specific information for each customer's obligations and fair value of related assets which is necessary information for Swedish Match in order to account for the obligations in accordance with the rules for defined benefit plans. Therefore, all obligations relating to the Swedish ITP-plan are accounted for as defined contribution plans in accordance with the rules for multi-employer plans.

NOTE 1 *Continued***Taxes**

Income taxes consist of current tax and deferred tax. Income tax is reported in the income statement except when the underlying transactions are reported in other comprehensive income, in which case the related tax effect is also reported in other comprehensive income.

Current tax is tax that shall be paid or is received for the current year, with application of tax rates that are enacted on the reporting date. Adjustments of current tax attributable to earlier periods are also reported as current tax.

Deferred tax is computed using the balance sheet method, using temporary differences between reported and taxable values of assets and liabilities as the starting point. The following temporary differences are not taken into account: temporary differences arising during the first reporting of goodwill, the first reporting of assets and liabilities that are not the result of business combinations and which, at the time of the transaction, do not affect either the reported or the taxable earnings, or temporary differences attributable to shares in subsidiaries and associated companies that are not expected to be reversed in the foreseeable future. Valuation of deferred tax is based on how the carrying amounts for assets or liabilities are expected to be realized or regulated. Deferred tax is calculated by applying tax rates or tax regulations that are enacted or substantively enacted on the reporting date.

Deferred tax assets related to deductible temporary differences and tax loss carryforwards are only reported to the extent that it is likely that they will be utilized. The value of deferred tax assets is reduced when it is no longer deemed likely that they can be utilized.

Contingent liabilities

A contingent liability is reported when there is a potential commitment that stems from previous events and whose occurrence is confirmed only by one or more uncertain future events or when there is a commitment that is not reported, as a liability or provision, because it is unlikely that an outflow of resources will be required.

Earnings per share

The computation of earnings per share is based on net profit for the year attributable to the shareholders of the Parent Company and on the weighted number of shares outstanding during the year. There are no potential dilution effects of shares at December 31, 2019.

Parent Company accounting principles

The annual report of the Parent Company has been prepared in accordance with the Annual Accounts Act (1995:1554) and the rules of RFR 2 Accounting for Legal Entities issued by the Swedish Financial Reporting Board. RFR 2 states that in the annual report for the legal entity, the Parent Company shall apply all IFRS standards and statements approved by the EU as far as this is possible within the framework of the Annual Accounts Act and with respect to the connection between accounting and taxation. The recommendation states which exceptions and additions may be made in relation to IFRS.

There are no new or changed accounting principles to be adopted for the Parent Company as of January 1, 2019. The exemption for IFRS 16 in RFR 2 is applied.

Differences in the accounting principles between the Parent Company and the Group are described below.

Subsidiaries and associated companies

Shares in subsidiaries and associated companies are valued at cost. This means that transaction costs relating to acquisitions are included in the acquisition value. In the Group's accounts acquisition-related costs of subsidiaries are expensed when incurred. The Parent Company held no investments in associated companies at December 31, 2019.

Post-employment benefits

The Parent Company applies different principles for computing defined benefit plans than those specified in IAS 19. The Parent Company follows the provisions of the Pension Security Act and the regulations of the Swedish Financial Supervisory Authority, since that is a prerequisite for tax deductibility. For the foreign pension plan local regulations are used when calculating the benefit.

The key differences compared with the regulations in IAS 19 are how the discount rate is determined, that computation of the defined benefit obligations

occurs according to current salary levels without assumptions regarding future wage increases, and that all actuarial gains and losses are reported in the income statement as they are incurred. Another difference, compared with the regulations in IAS 19, is that no asset is recognized if the plan assets, valued at market value, exceed the defined benefit obligations. However, if the value of the plan assets is less than the defined benefit obligations, a provision is recognized.

Taxes

In the Parent Company, untaxed reserves are reported including deferred tax liabilities. However, untaxed reserves are divided into deferred tax liabilities and equity in the consolidated accounts.

Group and shareholder contributions

Shareholder contributions are transferred directly to the recipient's equity and are capitalized in shares and participations by the donor, to the extent that an impairment loss is not required. Group contributions, received and granted, are reported in the income statement as appropriations in accordance with RFR 2.

Leases

In the Parent Company all lease of fixed assets and rental of premises are reported as operating leases. Lease charges are expensed straight-line over the lease period.

2**Critical estimates and judgements**

The preparation of the financial statements in accordance with IFRS requires management to make assessments, estimates and assumptions that affect the application of accounting principles and the amounts recognized as assets, liabilities, income and expenses. The actual outcome could differ from these estimates. Presented below are the most important estimates and assumptions made by management.

Classification as principal or agent

Recognition of revenue requires management judgement in a number of cases.

The most significant impact on the Group's revenue recognition is the assessment of control indicators for the sale transactions to determine whether Swedish Match is acting as a principal or as an agent. Such judgements impact the amount of reported revenue and operating expenses, but do not impact net income or cash flows.

Revenue relating to sales transactions where Swedish Match is acting as a principal are recognized as gross income with the related cost of the goods sold as operating costs. If the Group sells goods or services as an agent sales and payments to suppliers are recorded in revenue on a net basis, representing the margin/commission earned.

Given the control indicators, Swedish Match has assessed that for the sale of goods from the Group's reportable segments, Swedish Match is acting as a principal with the revenue and the operating costs recognized as gross amounts (net after allowances for estimates of potential outcome of variable considerations as well as expected reimbursements for product returns). Furthermore, it has been assessed that sale of goods in the Swedish distribution function relating to the delivery of third party tobacco products should be reported as if it acts as an agent. For most of Swedish Match transactions for the delivery of third party tobacco products in Sweden, Swedish Match does not have exposure to significant risks and rewards associated with the third party products from delivery to the Swedish distribution function's warehouse until delivery to retail. Swedish Match's distribution function does not provide any marketing nor any sales activities related to such products. Consequently, the distribution function recognizes revenues equaling the net commission earned, i.e., the distribution fee for the delivery service of third party tobacco products. Accordingly, inventory relating to the third party tobacco products for which the Swedish distribution function is acting as an agent, and has limited control over such inventory, is not recognized in Swedish Match's balance sheet. Further details of the Group's sales are presented in *Note 3 Segment information*.



NOTE 2 Continued

Lease contracts

From January 1, 2019 lease contracts are recognized as right-of-use assets and lease liabilities on the Group's balance sheet and are affected by management's judgement and estimates of certain variables that have a direct impact on the reported balances. The most significant is the assumption on the discount rates applied in the measurement of the right-of-use assets and the corresponding lease liabilities. Other judgements that may have a significant impact on the reported balances are assessments of the likelihood of using or not using extension and termination options in lease contracts. The assessment of utilizing or not utilizing extension and termination options impact the lease period of future lease payments included in the measurement of the lease liabilities and the related right-of-use assets. As per December 31, 2019, the Group's lease liabilities amounted to 253 MSEK and corresponding balance for the right-of-use assets amounted to 255 MSEK. For further information on the Group's accounting principles and methodology for the measurement of lease liabilities and right-of-use assets see *Note 1 Accounting principles* and section *Leases* and details of the Group's right-of-use assets and lease liabilities are presented in *Note 15 Leases*.

Intangible assets

Intangible assets within Swedish Match essentially pertain to goodwill and trademarks. Assessments are made on an ongoing basis to ensure that the book value of goodwill and trademarks does not exceed their recoverable amount. Intangible assets with indefinite useful lives are not amortized, but instead tested for impairment at least annually or when circumstances indicate that the value of the intangible assets is impaired. Impairment tests include significant judgements made by management, such as assumption of projected future cash flows used in the valuation of the assets. Future events could cause management to conclude that impairment indicators exist and that an intangible asset should be impaired. An impairment loss could have a material impact on the financial condition and result of operations. The Group's intangible assets as of December 31, 2019 amounted to 2,355 MSEK, amortizations amounted to 68 MSEK and impairment charge amounted to 367 MSEK. The amount for goodwill, which has been included in intangible assets, amounted to 1,313 MSEK. For further information on impairment test of intangible assets see *Note 12 Intangible assets*.

Legal disputes

Swedish Match is involved in a number of legal proceedings. Although the Group is convinced that it has a strong position in these disputes, an unfavorable outcome cannot be ruled out, and this could have an adverse effect on the Group's earnings. Further details of the Group's legal disputes are explained in *Note 30 Commitments and contingent liabilities and assets*.

Post employment defined benefits

Costs and liabilities attributable to post-employment defined benefit plans are recognized in the Group's financial statements based on actuarial calculations. Actuarial calculations are based on assumptions on the discount rate, future mortality, rate of compensation increases etc., often for a long time period. The actual outcome could differ from the assumptions made which can lead to an adjustment to the amount recognized in the balance sheet. The benefit obligations of the Group's defined benefit pension plans and post-employment medical benefit plans as of December 31, 2019 were estimated to exceed the fair value of plan assets by 1,360 MSEK. Further details of the Group's defined benefit plans are presented in *Note 24 Post-employment benefits*.

3

Segment information

Swedish Match's product segments are based on the internal reporting structure. Swedish Match's chief operating decision maker is the Group's President and CEO, who monitors and makes decisions about operating matters based on product segments. The Group's product segments as per December 31, 2019 were *Snus and moist snuff*, *Other tobacco products* and *Lights*. The reportable segments represent all Swedish Match products that are produced and sold by the Group's business units.

Snus and moist snuff represent smokeless tobacco products and nicotine pouches that are primarily sold in Sweden, Norway and the US and production takes place in Sweden, Denmark and the US. Sweden is the world's largest snus market measured in number of cans. The Norwegian market for both snus and nicotine pouches has experienced strong volume growth in recent years. The US is the world's largest moist snuff market measured in number of cans. Nicotine pouches is a relatively new category and the products are sold in Sweden, Norway and the US as well as in other markets, mostly in Europe. In Sweden and Norway, Swedish Match has a leading position for snus and is also present with nicotine pouches. In the US, the Group is the third largest player in moist snuff, and has a leading position in nicotine pouches and is also present with snus. Some of the best known brands include *General*, *Göteborgs Rapé*, *Kaliber*, *Kronan*, *Ettan*, *Grov* and *Catch* as well as *ZYN* in Sweden, *General*, *G.3*, *The Lab* and *Nick & Johnny* as well as *G.4* in Norway, and *Longhorn*, *Timber Wolf* and *General* as well as *ZYN* in the US. The *ZYN* brand for nicotine pouches is also sold in markets outside of Scandinavia and the US – primarily in Europe.

Other tobacco products represent cigars and chewing tobacco manufactured and sold on the US market as well as chew bags and tobacco bits which are manufactured in Denmark and sold in certain European markets. Swedish Match is a major player in the US mass market cigar market, with such well known brands as *Garcia y Vega*, *Game by Garcia y Vega*, *1882*, *White Owl*, and *Jackpot*, which are manufactured in the Dominican Republic and the US. Swedish Match is the leading producer of chewing tobacco in the US where the product is mainly sold in the southern states of the country. Swedish Match's best known brand is *Red Man*. The market for US chewing tobacco shows a declining trend. The Group's brands for chewing tobacco in Europe include *Thunder*, *General Cut* and *Oliver Twist*.

Lights manufacturing and distribution of matches and lighters as well as distribution of complementary products. Swedish Match is the market leader in a number of markets for matches. The match brands are mostly local, with leading positions in their home countries. Larger brands include *Solstickan*, *Nitedals*, *Fiat Lux* and *Redheads*. The Group's main brand for lighters is *Cricket*. Swedish Match's largest markets for lighters are in Asia and Europe as well as in Brazil. Complementary products include externally sourced razors, batteries and high efficiency light bulbs offered within the Brazilian market under the *Fiat Lux* brand.

There are no internal sales between product segments and the Group's financial costs as well as taxes are not allocated to product segments. Operating assets are not monitored on a segment basis. Segment reporting for internal purposes is prepared in accordance with IFRS.

Other operations consist of corporate functions providing services to the Swedish Match's operating divisions and the Swedish distribution function. Services provided include, among others, regulatory affairs, legal and financial services. The distribution function provides services to Swedish Match in Sweden and Norway as well as to other manufacturers within the Swedish distribution network. The revenues from sales of Swedish Match's products on the Swedish and the Norwegian markets are reported as part of the product segment *Snus and moist snuff*. The result from *Other operations* consists of the consolidated result for the corporate functions, of which the distribution function is making a profit from the distribution fee from the distribution of third party tobacco products and the other functions are normally making losses.



NOTE 3 Continued

	Snus and moist snuff		Other tobacco products		Lights		Total segments		Other operations		Swedish Match Group	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
External sales	7,484	6,127	5,679	5,240	1,200	1,246	14,363	12,612	376	353	14,739	12,966
Depreciations, amortizations and write-downs ¹⁾	-298	-234	-142	-89	-44	-41	-484	-365	-64	-50	-548	-415
Income from associated companies	0	-	1	-	1	2	2	2	3	1	5	3
Operating profit	3,477	2,791	2,113	1,956	238	189	5,828	4,936	-153	-124	5,675	4,812
<i>Larger one-time items</i>												
Impairment charge – European chewing tobacco business	-	-	-367	-	-	-	-367	-	-	-	-367	-
Operating profit, including larger one-time items	3,477	2,791	1,745	1,956	238	189	5,460	4,936	-153	-124	5,307	4,812
Finance income											95	65
Finance costs											-343	-346
Profit before income tax											5,060	4,531

¹⁾ Write-downs of tangible assets amounted to 0 MSEK (9) for *Snus and moist snuff* and 9 MSEK (1) for *Other tobacco products*. There were no write-downs of intangible assets other than the impairment loss relating to European chewing tobacco business reported as a larger one-time item.

	Snus and moist snuff		Other tobacco products		Lights		Total segments		Other operations		Swedish Match Group	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Restructuring costs and results from sale of fixed assets												
Restructuring costs	-	-	-	-	-20	-18	-20	-18	-	-	-20	-18
Gains/losses from sale of fixed assets	-0	-1	0	-	18	4	18	2	-0	-1	18	2
Investments												
Property, plant and equipment ¹⁾	536	518	109	74	43	40	688	632	32	16	720	649
Intangible assets	0	0	2	3	0	-	2	3	31	14	33	17

¹⁾ Investments in property, plant and equipment for *Lights* include investments in forest plantations.

Geographic information

The table below refers to sales to external customers and fixed assets based on the geographical area where the Company operates.

External sales and fixed assets are distributed per significant geographical areas as follows:

	Sales to external customers				Fixed assets ¹⁾²⁾			
	2019		2018		2019		2018	
	MSEK	Percent	MSEK	Percent	MSEK	Percent	MSEK	Percent
Scandinavia ³⁾	5,086	35	4,822	37	3,452	55	3,513	60
The US	8,393	57	6,803	52	2,045	33	1,628	28
Other markets	1,260	9	1,340	10	729	12	670	12
Total	14,739	100	12,966	100	6,226	100	5,810	100

¹⁾ Non-current assets other than financial instruments, deferred tax assets and pension assets.

²⁾ 2019 includes right-of-use assets following the adoption of IFRS 16.

³⁾ Includes sales and fixed assets in Sweden amounting to 3,864 MSEK (3,707) and 2,404 MSEK (2,139), respectively.

Information about major customers

Swedish Match generates its sales from a diverse customer portfolio and the reliance on individual customers is therefore limited.

Sales from the Group's largest single external customer constituted 10 percent of the Group's total sales, and referred to sales from the product segments *Snus and moist snuff* and *Other tobacco products*.

Revenue from contracts with customers

The main revenue streams for the Swedish Match Group arise from sale of goods manufactured by the Group. Within *Lights*, a minority part 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 a point in time 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. Refund liabilities relating to these obligations are recognized as operating provisions in the Group balance sheet. The majority of Swedish Match's customers are retailers and distributors.

Disaggregation of revenue

	Snus and moist snuff		Other tobacco products		Lights		Total segments		Other operations		Swedish Match Group	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Primary geographical markets												
Scandinavia	4,555	4,343	105	75	49	51	4,710	4,469	376	353	5,086	4,822
The US	2,898	1,752	5,426	5,007	68	45	8,393	6,803	-	-	8,393	6,803
Other markets	30	32	148	158	1,082	1,150	1,260	1,340	-	-	1,260	1,340
Total sales	7,484	6,127	5,679	5,240	1,200	1,246	14,363	12,612	376	353	14,739	12,966



NOTE 3 Continued

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

As of January 2020, Swedish Match has changed the composition of the Group's reportable product segments. The new reportable segments are; Smokefree, Cigars and Lights. For more information, see also *Note 1 Accounting principles*. Restated financial information that are affected by the change are presented below.

Restated new product segments

	Smokefree		Cigars		Lights		Total segments		Other operations		Swedish Match Group	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
External sales	8,914	7,477	4,249	3,890	1,200	1,246	14,363	12,612	376	353	14,739	12,966
Depreciations, amortizations and write-downs ¹⁾	-356	-262	-85	-61	-44	-41	-484	-365	-64	-50	-548	-415
Income from associated companies	1	-	-	-	1	2	2	2	3	1	5	3
Operating profit	3,997	3,317	1,577	1,412	238	189	5,812	4,918	-137	-106	5,675	4,812
<i>Larger one-time items</i>												
Impairment charge – European chewing tobacco business	-367	-	-	-	-	-	-367	-	-	-	-367	-
Operating profit, including larger one-time items	3,630	3,336	1,577	1,412	238	189	5,445	4,918	-137	-106	5,307	4,812
Finance income											95	65
Finance costs											-343	-346
Profit before income tax											5,060	4,531

¹⁾ Write-downs of tangible assets amounted to 9 MSEK (9) for *Smokefree* and – MSEK (0) for *Cigars*. There were no write-downs of intangible assets other than the impairment loss relating to European chewing tobacco business reported as a larger one-time item.

	Smokefree		Cigars		Lights		Total segments		Other operations		Swedish Match Group	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Restated restructuring costs and results from sale of fixed assets												
Restructuring costs	-	-	-	-	-20	-18	-20	-18	-	-	-20	-18
Gains/losses from sale of fixed assets	-0	-1	0	-	18	4	18	2	-0	-1	18	2
Investments												
Property, plant and equipment ¹⁾	593	552	52	40	43	40	688	632	32	16	720	649
Intangible assets	2	3	-	-	0	0	2	3	31	14	33	17

¹⁾ Investments in property, plant and equipment for *Lights* include investments in forest plantations.

Disaggregation of revenue

	Smokefree		Cigars		Lights		Total segments		Other operations		Swedish Match Group	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Primary geographical markets												
Scandinavia	4,660	4,418	-	-	49	51	4,710	4,469	376	353	5,086	4,822
The US	4,078	2,871	4,247	3,887	68	45	8,393	6,803	-	-	8,393	6,803
Other markets	176	188	1	2	1,082	1,150	1,260	1,340	-	-	1,260	1,340
Total sales	8,914	7,477	4,249	3,890	1,200	1,246	14,363	12,612	376	353	14,739	12,966



4 Business combinations

Acquisitions during the year

No acquisitions of subsidiaries have been made during 2019.

Acquisitions during 2018

On August 22, 2018, Swedish Match acquired 95 percent of the shares in Gotlands Snus AB, including its subsidiary Gotland Production AB ("Gotlandssnus"). The consideration amounted to 283 MSEK and was partly paid in cash upon the acquisition date. The remaining part of the consideration is classified as a vendor loan expected to be paid during 2020.

On April 3, 2018, Swedish Match acquired 100 percent of the shares in House of Oliver Twist A/S ("Oliver Twist"). The consideration amounted to 306 MSEK (221 MDKK) and was paid in cash.

Effects of acquisition

The table below presents the acquired assets and liabilities at fair values recognized in the Group's balance sheet at the acquisition date for each of the acquisitions, including goodwill, and also the effect from the acquisitions on the Group's cash flow.

	2018
Property, plant and equipment	27
Intangible assets	246
Long-term receivables and other non-current assets	0
Inventory	39
Trade receivables and other current assets	25
Total liquid funds	17
Long-term liabilities	7
Trade liabilities and other current liabilities	23
Deferred tax liability	53
Net identifiable assets and liabilities	272
Group goodwill	332
Non-controlling interests ¹⁾	-15
Total consideration	589
Less acquired liquid funds	-17
Less considerations not yet paid	-31
Effect on the Group's cash and cash equivalents	541

¹⁾ Non-controlling interest has been recognized at fair value.

No contingent liabilities arising from acquisitions have been identified.

5 Other operating income and expenses

Other operating income and expenses are specified below:

	2019	2018
Foreign exchanges gains	39	47
Foreign exchanges losses	-33	-43
Result from sale of fixed assets	18	2
Other	3	-
Total	27	5

6 Personnel

The average number of employees, including temporary employees, in the Parent Company during 2019 were 53, and in the Group 6,270. The corresponding numbers in 2018 were 55 and 5,662, respectively. The increase in the average number of employees primarily relates to the expansion of cigar production in the Dominican Republic.

Average number of employees by gender and country:

	2019		2018	
	Average number of employees	(of whom men, %)	Average number of employees	(of whom men, %)
Parent Company				
Sweden	53	51	55	55
Subsidiaries				
Belgium	2	50	2	50
Brazil	485	61	503	68
Denmark	111	67	95	61
Dominican Republic	2,940	51	2,481	51
Netherlands	96	93	97	93
Norway	45	63	45	64
Philippines	179	70	191	72
Sweden	1,273	60	1,187	60
Switzerland	4	75	2	50
Turkey	15	73	14	71
United States	1,067	70	990	70
Total	6,270	59	5,662	60

Board members, Presidents and management by gender¹⁾:

	2019		2018	
	At end of period	(of whom men, %)	At end of period	(of whom men, %)
Parent Company				
Board members elected by the AGM	7	57	7	57
Board members, employee representatives	3	100	3	100
Board members	10	70	10	70
President and other management²⁾	8	88	8	88
Group				
Board members	105	80	101	77
President and other management ²⁾	42	79	39	74

¹⁾ Deputy Board members are not included in the table. Presidents who are part of the Board are included in both categories; Board members and President and other management.

²⁾ One member of the Group Management Team was partly employed by the Parent Company and partly by a US subsidiary.



NOTE 6 Continued

Wages, salaries, other remunerations and social costs are summarized below:

	2019			2018		
	Wages, salaries and other remunerations ²⁾	Social costs	of which, pension costs ¹⁾	Wages, salaries and other remunerations ²⁾	Social costs	of which, pension costs ¹⁾
Parent Company	98	50	16	96	47	17
Subsidiaries	1,756	751	254	1,627	685	209
Total	1,854	802	270	1,723	732	226

¹⁾ Defined as service cost for defined benefit pension plans and contributions for defined contribution pension plans (excluding special employer contributions).

²⁾ Remuneration related to the Group Management Team member that was partly employed by the Parent Company and partly by a US subsidiary, has been reported by the US subsidiary and invoiced to the Parent Company as consultancy services.

The pension costs for the Parent Company included 5 MSEK (7) attributable to the President and other management consisting on average of four persons during 2019 and five persons in 2018.

The pension costs for the subsidiaries included 12 MSEK (12) attributable to Presidents and other management consisting on average of 22 persons in 2019 (23 persons in 2018). The defined benefit obligations related to Presidents and other management as of December 31, 2019 amounted to 141 MSEK (114).

Wages, salaries and other remunerations split by Board members, President and other management and other employees, are summarized below:

	2019			2018		
	Board, President and other management ¹⁾	of which, variable salaries	Other employees	Board, President and other management ¹⁾	of which, variable salaries	Other employees
Parent Company						
Sweden	40	16	58	44	18	52
Subsidiaries						
Total in subsidiaries	101	45	1,656	86	42	1,540
Total	141	61	1,713	130	61	1,592

¹⁾ The Board, President and other management employed by the Parent Company consisted on average of 14 persons (14). Presidents and other management employed by the subsidiaries consisted on average of 22 persons (23), whereof five persons were members of the Group Management Team. For further information about remunerations to Group Management Team members see table "Remuneration and other benefits to Group Management Team".

During 2019, 62 MSEK (64) was charged to the income statement, relating to a profit-sharing foundation on behalf of Group personnel in Sweden.

Remuneration to Swedish Match AB's Board of Directors

The Annual General Meeting on April 9, 2019 decided, for the period up to and including April 2, 2020 when the next Annual General Meeting is held that the Chairman of the Board shall receive a fee of 2,080,000 SEK, the deputy Chairman shall receive 980,000 SEK, that other members of the Board elected by the General Meeting shall each receive a fee of 830,000 SEK and as compensation for committee work the Chairmen of the Remuneration Committee shall receive 270,000 SEK and the Audit Committee shall receive 310,000 SEK respectively and the other members of these committees shall each receive 135,000 SEK. Members of the Board employed by the Group shall not receive any Directors' fees.

There are no variable salaries or other benefits paid to the Board members for Board work during 2019. In 2019 a study fee in the amount of 59,864 SEK was paid to each of the three employee representatives on the Board, and in the amount of 44,808 SEK to each of the three deputy members. The study fees were paid by each employee representative's respective company. The fees to Board members elected by the Annual General Meeting for Board work during 2019 and 2018 are shown in the tables below:

Fees to Board members

TSEK	2019			
	Board fee	Remuneration Committee	Audit Committee	Total remuneration for Board work
Conny Karlsson Board chairman	2,080	270	-	2,350
Andrew Cripps Deputy chairman	980	-	135	1,115
Charles Blixt Board member	830	135	-	965
Jacqueline Hoogerbrugge Board member	830	135	-	965
Pauline Lindwall Board member	830	-	-	830
Wenche Rolfsen Board member	830	-	135	965
Joakim Westh Board member	830	-	310	1,140
Total	7,210	540	580	8,330

TSEK	2018			
	Board fee	Remuneration Committee	Audit Committee	Total remuneration for Board work
Conny Karlsson Board chairman	1,910	270	-	2,180
Andrew Cripps Deputy chairman	900	-	135	1,035
Charles Blixt Board member	764	135	-	899
Jacqueline Hoogerbrugge Board member	764	135	-	899
Pauline Lindwall Board member	764	-	-	764
Wenche Rolfsen Board member	764	-	135	899
Joakim Westh Board member	764	-	310	1,074
Total	6,630	540	580	7,750

Remuneration and other benefits to Group Management Team

The Annual General Meeting on April 9, 2019 adopted the following principles for remuneration and other terms of employment for the President and other members of the Group management. The members of the Group management are referred to below as the "Group Management Team" or "GMT".

The objective of these principles is to ensure that the Company is able to recruit and retain employees with appropriate skills and qualifications for their respective duties. The remuneration structures shall encourage employees to do their utmost to safeguard shareholders' interests. Swedish Match takes into account both global remuneration practice and the practice of the country of residence of each member of the GMT. The principles apply in relation to members of the GMT appointed after the adoption of the principles, and, in other cases, to the extent permitted under existing agreements.

The total remuneration paid to GMT consists of fixed salary, variable components in the form of annual short term variable remuneration and long term variable remuneration, pension, other benefits and terms related to termination of employment.



NOTE 6 Continued

- Fixed salary:** The fixed salary for the GMT shall correspond to market rates and shall be based on each member's competence, country of residence, responsibility and performance.
- Variable salary:** The members of the GMT may be entitled to a variable salary in addition to the fixed salary. The variable salary may include both an annual short term program to be paid out in the beginning of the subsequent year depending on the outcome of the program, and a long term program with a performance period which shall not be shorter than three years. The variable salary shall primarily be based on specific, clear, predetermined and measurable financial or operational criteria set by the Board of Directors in relation to the President and by the Remuneration Committee in relation to the GMT. The variable salary shall be capped in relation to the fixed salary and reflect the market practice in the country of residence.
The Company shall have the right to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.
- Profit Sharing System:** All employees in Sweden are participating in Swedish Match profit sharing system ("PSS").
- Insurable benefits:** Old age pension, disability and sickness benefits, medical benefits and life insurance benefits shall be designed to reflect the practices in the country where a member of the GMT is resident. New members of the GMT shall preferably be covered by defined contribution plans.
- Severance pay, etc:** A mutual period of notice of six months shall apply. Fixed salary during notice of termination and severance payment (if any) shall not exceed an amount corresponding to 24 months fixed salary. Members of the GMT residing outside Sweden may however be offered notice periods for termination and severance payment that are competitive in the country where the members are resident.
- Other benefits:** Other benefits shall be payable in accordance with local custom. The combined value of these benefits shall constitute a limited value in relation to the total remuneration package and shall correspond to market practice.
- The Board's right to deviate from the principles:** The Board of Directors shall be entitled to deviate from the principles approved by the Annual General Meeting if specific reasons for doing so exist in any individual case.
- Committee work and decisions:** Swedish Match Board of Directors shall have a Remuneration Committee. The Committee has the authority to approve salary and other remuneration and employment terms for members of the GMT, except those regarding the President. The Committee shall prepare and present proposals for the Board's decisions on issues relating to salary and other remuneration and employment terms for the President. The Committee is authorized to decide and in relation to the President to propose to the Board of Directors the further details regarding the criteria and targets on which the variable salary is based for the GMT. In addition hereto the Committee is authorized to decide to what extent such criteria and targets have been met both for the GMT and the President.

Application of principles on variable salary for 2019

In order to ensure alignment with long term shareholder interests, to strengthen the retention element of the variable salary and to promote company shareholding among the Group Management Team ("GMT") the variable salary includes a short term cash incentive and a long term cash incentive program where the short term program includes an incentive for the GMT members to purchase and retain shares in the Company while the long term program includes an obligation to purchase and an undertaking to retain such shares. The performance period for the short term and the long term programs will be one year and three years respectively.

Short term variable salary: The maximum short term variable salary for the President and other members of the GMT residing in Sweden shall be 70 and 60 percent respectively of their 2019 base salary. To comply with local market standards the maximum short term incentive for one member residing outside of Sweden shall be 70 percent of the 2019 base salary. Subject to justified exemptions, a 20 percentage point reduction in maximum variable salary shall apply to any GMT member who does not commit to purchase Company shares for at least 50 percent of the received cash award net of income tax and to retain such shares for a period of not less than three years. The minimum level of performance that must be reached to earn any allocation and the maximum level of performance at which payout is capped shall be defined in the beginning of each year by the Remuneration Committee in relation to the GMT members other than the President and by the Board of Directors in relation to the President.

Long term variable salary: The maximum long term variable salary of the President and other members of the GMT (except as set forth below) shall be either 45 percent of the 2019 base salary or 750,000 SEK depending on the remit of the GMT member. Subject to justified exemptions, all members of the GMT will be obliged to purchase company shares for the full cash award net of income tax and shall retain such shares for a period of not less than two years. Members of GMT residing outside Sweden may participate in an additional long term variable salary program capped at 100 percent of the base salary every second year.

The outcome in the long term variable salary program is dependent on two criteria determined at the beginning of 2019, but measured over the full performance period 2019–2021. The majority of the outcome is based on Group operating profit 2019–2021 and the remaining part is based on net sales from product segments for 2019–2021. For both measures an improvement compared to the 2018 outcomes is required for the measure to yield an outcome in the program.

Remuneration and other benefits to Group Management Team

TSEK		Fixed salary	Variable salary	Other benefits	Pension costs	Total	Defined benefit obligations
President	2019	7,250	9,294	98	2,696	19,338	-
	2018	7,041	8,494	172	2,649	18,356	-
Other members of Group Management Team	2019	24,010	28,585	2,537	7,391	62,522	56,899
	2018	22,606	30,871	1,976	7,606	63,059	38,772
Total	2019	31,260	37,879	2,635	10,087	81,860	56,899
	2018	29,647	39,365	2,148	10,255	81,414	38,772

Comments to the table

- At the end of 2019, the Group Management Team consisted of eight persons including the President. The President and two other members of the Group Management Team were employed by the Parent Company and four members were employed by a subsidiary and one member was partly employed by the Parent Company and partly by a US subsidiary.
- At the end of 2018, the Group Management Team consisted of eight persons including the President. The President and three other members of the Group Management Team were employed by the Parent Company and three members were employed by a subsidiary and one member was partly employed by the Parent Company and partly by a US subsidiary.

- Variable salary pertains to accruals charged to the consolidated income statement during the year for short term and long term incentive programs.
- Other benefits pertain to company cars, medical insurance, dental plan, life insurance, club membership and other benefits.
- Reported pension costs correspond to service costs for defined benefit pension plans and fees relating to defined contribution pension plans (excluding payroll taxes).
- During 2019 and 2018 no earnings-related compensation (tantiem) has been paid to the Group Management Team.
- During 2019 and 2018 no severance has been paid to the Group Management Team.



NOTE 6 Continued

Variable salary

In 2019, the Group Management Team ("GMT") participated in short and long term incentive programs (variable salary) described under the presentation of the principles for remuneration and other terms of employment above.

Performance targets for the short-term incentive are determined in the beginning of each year. The performance criterion for the CEO, the heads of corporate functions and the majority of the division Presidents, in the short-term incentive program for 2019 was Group operating profit. One member of the Group Management had partly the same criterion as the CEO and partly an incentive criterion linked to the division.

In the three year long incentive program that started in 2017 and ended in 2019, the performance criteria for the CEO and other members of group management was based on Group operating profit (weight 75 percent) and net sales from product segments (weight 25 percent). For the criterion Group operating profit the threshold for payout and target for maximum payout were 12,400 MSEK and 14,218 MSEK respectively and for the criterion net sales from product segments the corresponding numbers were 33,941 MSEK and 38,918 MSEK respectively. The Remuneration Committee established the total weighted performance outcome for the long-term program to 95.3 percent.

In the long term program that started in 2019, the performance criteria for the CEO and other members of the Group Management team is the accumulated Group operating profit (weight 75 percent) and the accumulated Group net sales from product segments (weight 25 percent) for the years 2019 to 2021. There will be no pay-out in relation to this criteria unless there is an improvement in relation to the comparable performance of the Group in 2018. The costs for the long term program are expensed during the fiscal year when the compensation is earned based on an estimated outcome. At year end, a final estimate of the year's cost is calculated based on the actual outcome. Adjustments of previously reported costs for the long term programs are also reported when the estimated outcome is updated for each program during the performance period. As the long term program extends over three years the final result will be established at the end of the three year performance period.

In addition to the programs noted above, GMT members residing in the US also participated in a three-year local program. This local program extends over three years, with a new program starting every second year. Accordingly, this program can generate an outcome every second year. The maximum outcome of this plan corresponds to a fixed annual salary every second year.

Pensions*President*

The President's retirement age is 62 and he is covered by the Swedish standard retirement plan for white-collar employees (ITP plan) on salary up to 30 times the income base amount. The President's ITP plan shall be fully funded at age 62. In addition, the Company pays a pension premium amounting to 40 percent of fixed salary above 30 times the income base amount to a defined contribution pension plan.

Other members of Group Management Team

For members of Group Management Team who are residents in Sweden, the retirement age is 62 or 65 and they are covered by the Swedish standard retirement plan for white-collar employees (ITP plan) on salary up to 30 times the income base amount. In addition, for some of the members, the Company also pays a pension premium amounting to a maximum of 35 percent of fixed salary above 30 times the income base amount. Members of Group Management Team, who is resident abroad, is covered by a defined benefit pension plan with a normal retirement age of 65. Annual variable salary is capped at 50 percent of the fixed salary in the calculation of retirement benefits.

Other employment conditions*Severance pay etc.*

For the Group Management Team including the President, a mutual period of notice of six months applies and a maximum severance payment of 18 months' fixed salary is payable if the Company terminates the employment contract.

The President and three other members of the Group Management Team are entitled to terminate their employment with the right to receive severance pay in accordance with the above terms if a major organizational change should occur that significantly restricts their position.

7 Audit fees

Expenses for auditor's fees are included in the administrative expenses as set out in the table below:

Audit fees	2019	2018
Deloitte		
Audit services	8	7
Tax services	1	1
Other services	0	1
Total	10	9

Other services mainly pertained to advisory services for income tax relating to employee benefits.

8 Operating expenses classified by nature

Operating expenses ¹⁾	2019	2018
Personnel expenses	2,656	2,454
Depreciation, amortization and write-downs	548	415
Direct material	2,770	2,298
Other operating expenses	3,096	2,990
Total	9,070	8,156

¹⁾ Excluding larger one-time items.

Expenses for research and development are recognized in the income statement as other operating expenses. During 2019 expenses for research and development amounted to 247 MSEK (215).

9 Net finance cost

Financial income	2019	2018
Interest income relating to pension receivables	2	2
Interest income relating to financial assets measured at amortized cost	18	11
Interest income relating to financial instruments measured at fair value through profit and loss	71	49
Net foreign exchange gains	5	3
Total	95	65

Financial expenses	2019	2018
Interest expense relating to pension liabilities	-49	-42
Interest expense relating to other financial liabilities measured at amortized cost	-221	-234
Interest expense relating to financial instruments measured at fair value in hedging relationships	-55	-64
Interest expense relating to financial instruments measured at fair value through profit and loss	0	0
Interest expense relating to lease liabilities	-12	-
Other financial expenses	-6	-6
Total	-343	-346
Net finance cost	-247	-281



10 Income tax

The major components of income tax expense/income for the years ended December 31, 2019 and 2018 are:

Income tax expense reported in the Income statement	2019	2018	Income tax reported outside of the Income statement	2019	2018
<i>Current tax:</i>			Deferred tax	13	-49
Current tax on earnings for the year	-1,095	-915	Total	13	-49
Adjustments in respect of prior years	25	59	<i>This comprises:</i>		
Total current tax	-1,070	-856	Tax reported in other comprehensive income		
<i>Deferred tax:</i>			Actuarial net gains/losses attributable to pensions	38	-38
Origination and reversal of temporary differences	-89	-71	Impact of change in tax rate	-	-3
Adjustments in respect of prior years	-5	-30	Revaluation of cash flow hedges net gain/loss	-25	-8
Impact of change in tax rate	-1	4	Total tax reported in other comprehensive income	13	-49
Total deferred tax	-95	-97	Total tax reported outside of the income statement	13	-49
Income tax expense	-1,165	-953			

The accruals for tax liabilities are deemed adequate for all open tax years based on assessment of many factors, including interpretations of tax legislations and prior experiences. For information on tax contingencies see *Note 30 Commitments and contingent liabilities and assets*.

The deductible and taxable temporary differences in the balance sheet for the years ended December 31, 2019 and 2018 are summarized below:

Deferred tax assets and deferred tax liabilities	2019			2018		
	Deferred tax assets	Deferred tax liabilities	Net balance	Deferred tax assets	Deferred tax liabilities	Net balance
Tax loss carry forwards	100	-	100	100	-	100
Trade receivables	1	-	1	1	-	1
Pensions and other post-employment benefits	336	-10	346	254	-11	265
Employment benefits	108	-	108	100	-	100
Intangible assets	-	335	-335	0	355	-355
Property, plant and equipment	5	267	-262	6	199	-193
Right-of-use assets/lease liabilities	0	0	0	-	-	-
Tax allocation reserve	-	530	-530	-	431	-431
Inventory	7	29	-22	3	30	-27
Unremitted earnings in foreign subsidiaries	-	81	-81	-	83	-83
Financial assets	18	-	18	47	-	47
Other	18	-3	21	18	-2	20
Net deferred tax balances	593	1,227	-634	530	1,086	-556

The net of deferred tax liabilities and assets for the years ended December 31, 2019 and 2018 are summarized below:

Movement in deferred tax liabilities, net	2019	2018
Opening balance, net	556	369
Deferred tax expense/income in the income statement	95	97
Deferred tax in other comprehensive income	-13	49
Companies acquired externally	-	53
Translation differences	-4	-11
Closing balance, net	634	556

As of December 31, 2019 the Group's non-recognized deductible temporary differences, excluding tax losses, were in total 7 MSEK (8). The table below shows amounts and expiration of the Group's tax losses carried forward:

Year	Amount
2019	-
2020	-
Subsequent years or no time limitation	486 ¹⁾
Total tax losses carried forward recognized	486
Total tax losses carried forward not recognized	-

¹⁾ The Swedish Tax Agency has reviewed and subsequently denied the majority of the claimed tax loss. In January 2020, The County Administrative Court ruled in favor of the Tax Agency. Swedish Match does not agree with the assessment by the Tax Agency nor the judgment by the Court and has appealed the case to the Administrative Court of Appeal.

A reconciliation between tax expense and the product of accounting profit multiplied by Sweden's statutory tax rate for the years ended December 31, 2019 and 2018 is as follows:

Reconciliation of effective tax rate	2019		2018	
	%	MSEK	%	MSEK
Profit before income tax		5,060		4,531
Swedish statutory tax rate	-21.4	-1,083	-22.0	-997
Effect of tax rates in foreign jurisdictions ¹⁾	-0.5	-27	0.2	11
Results from associated companies reported net of tax	0.0	1	0.0	0
Income tax in respect of prior years ²⁾	0.5	25	0.7	30
Income not subject to tax	0.5	23	0.1	6
Expenses not deductible for tax purposes ³⁾	-2.0	-99	-0.2	-8
No benefit available for loss	0.0	0	-0.0	-1
Effect of enacted change of tax rate	0.1	4	0.2	8
Other items	-0.2	-8	-0.1	-3
Reported effective tax	-23.0	-1,165	-21.0	-953

¹⁾ The negative effect in "tax rates in foreign jurisdictions" in 2019 is mainly the net effect of the positive impact from the Swedish tax cut to from 22 percent to 21.4 percent as of January 2019 and the negative impact of the increased revenue in the US with a higher effective tax rate than Sweden.

²⁾ The positive effect of "income tax in respect of prior years" is primarily caused by releases of tax provisions as a result of a favorable outcome in a US tax audit.

³⁾ The negative effect in "expenses not deductible for tax purposes" is mainly caused by the impairment charge of goodwill connected to the European chewing tobacco business.



11 Earnings per share

	2019	2018
Basic and diluted		
Profit for the year attributable to equity holders of the Parent	3,895	3,578
Profit for the year attributable to equity holders of the Parent, excl. larger one-time items, MSEK	4,263	3,578
Weighted average number of shares outstanding, basic and diluted	167,779,742	173,445,540

	2019	2018
Earnings per share, basic and diluted, SEK		
Earnings per share	23.22	20.63
Adjusted earnings per share	25.41	20.63

The Company had no outstanding options and no dilution effects on the number of outstanding shares.

12 Intangible assets

Intangible assets at December 31 comprised the following:

	Goodwill		Trademarks		Other intangible assets ¹⁾		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Cost at beginning of year	1,682	1,281	1,655	1,361	462	447	3,798	3,089
Purchases/investments	-	-	-	0	33	17	33	17
Acquisitions	-	332	-	246	-	0	-	578
Sales/Disposals	-	-	-	-	-34	-1	-34	-1
Reclassifications	-	-	0	-	0	0	0	0
Translation differences, etc.	33	68	21	48	0	-1	54	115
Cost at end of year	1,714	1,682	1,676	1,655	462	462	3,852	3,798
Accumulated amortization and write-down at beginning of year	-39	-39	-820	-769	-231	-193	-1,090	-1,001
Amortization for the year	-	-	-25	-23	-43	-40	-68	-63
Write-down of the year ²⁾	-367	-	-	-	-	-	-367	-
Sales/Disposals	-	-	0	-	34	1	34	1
Translation differences, etc.	6	-	-11	-27	0	1	-6	-26
Accumulated amortization and write-down at end of year	-401	-39	-856	-820	-240	-231	-1,496	-1,090
Net carrying value at end of year	1,313	1,643	820	835	222	231	2,355	2,708

¹⁾ Other intangible assets mainly consist of software, licenses and patent rights.

²⁾ Refers to an impairment charge on goodwill relating to the acquisition of V2 Tobacco in 2017.

No borrowing costs have been capitalized during 2019 for intangible assets.

The Group's intangible assets are deemed to have definite useful lives, except for goodwill and the trademarks *Thunder* and *Jakobsson's*, which according to the IFRS definition have an indefinite useful life. *Thunder* and *Jakobsson's* have been assessed having indefinite useful life based on those trademarks have a loyal and growing consumer base within a unique niche segments.

Amortizations have been charged to the income statement as stated below:

	Amortization	
	2019	2018
Cost of goods sold	-3	-2
Selling expenses	-23	-19
Administrative expenses	-42	-42
Total	-68	-63

Impairment test

The Group's goodwill and trademarks with indefinite useful life are tested for impairment on an annual basis or whenever there is an indication of impairment. Goodwill and trademarks with indefinite useful life are, for the purpose of impairment testing, allocated to the lowest level of groups of cash generating units (CGUs) based on product groups and geographical markets, at which they are monitored within the Group. A group of CGUs is not larger than an operating segment. The Group's goodwill and trademarks with indefinite useful life relate to the following CGUs: other tobacco products operations in US, moist snuff operations in US, lights operations, other tobacco products operations in Europe and snus operations in Europe. The carrying values of the assets relating to respective CGU are compared to the recoverable amount for the CGU. If the carrying value is higher, the difference will be charged to the income statement as an impairment loss.

The recoverable amount for all CGUs has been determined based on value in use calculations. The value in use of a CGU is calculated using a valuation model based on discounted expected future cash flows (DCF). The cash flows are explicitly forecasted for a period of five-years. The cash flows beyond the five-year period are extrapolated using a terminal growth rate. The cash flows used in the valuation model are projected considering historical performance

and forecasts, and are based on what management believes are reasonable assumptions according to the best information available. The forecasts are based on previous results, industry experience and expectations for market trends and has been approved by management. Forecasts are drawn up separately for each CGU and include assumptions on sales growth, EBITDA margin, working capital and investment needs, and the terminal growth rate of free cash flow. The forecasted cash flows are discounted by a discount rate specifically determined for each CGU.

The discount rates are calculated by weighting cost of capital (WACC) for each CGU. The calculation of cost of debt is based on local risk-free interest rates, local tax rates and a Swedish Match specific interest margin. Cost of equity is calculated using the Capital Asset Pricing Model, applying average beta for the industry adjusted for capital structure, local risk-free interest rates, specific risk premium (if applicable) and an equity risk premium. As local interest rates are included in the calculation of discount rates, the value in use calculations are sensitive to changes in market conditions.

When goodwill and trademarks with indefinite useful life were tested for impairment in 2019, the value in use exceeded the carrying values for all CGUs except for other tobacco products operations in Europe. Following the judgement by the Bavarian Administrative Court and in view of changed market dynamics in certain markets, management has reassessed the future potential of chew bags in its current form. The updated assumptions in the impairment testing resulted in that the calculated recoverable amount for the CGU Other tobacco products operations in Europe was 1,098 MSEK, which was lower the reported carrying values. Consequently, an impairment charge of 259 MDKK, corresponding to 367 MSEK, was recognized for Swedish Match's European chewing tobacco business. The significant changes in the assumptions for calculating the recoverable amount of the CGU Other tobacco products in Europe consisted of lower future cash flows related to the product chew bags in its current form. The lower forecasted cash flow was partly offset by a lower discount rate as a result of an adjusted risk premium attributable to the regulatory risk, which in the previous year was assessed higher due to the uncertainty in the outcome of the court's decision in Germany.

Further details of the judgement by the Bavarian Administrative Court are presented in the Financial overview section of the Board of Directors report on page 71.



NOTE 12 Continued

To calculate the cash flows after the explicit forecasting period, a terminal growth rate is applied to each CGU as stated in the table below. When performing sensitivity analysis by increasing the discount rate by 1 percentage point or decreasing the terminal growth rate by 1 percentage point, the value in use was larger than the carrying value for all CGUs except for other tobacco products operations in Europe. If the discount rate would increase

by 1 percentage point, holding other assumptions constant, the CGU Other tobacco products operations in Europe would show an additional impairment loss of 234 MSEK. If the terminal growth rate would decrease by 1 percentage point, holding other assumptions constant, the CGU Other tobacco products operations in Europe would show an additional impairment loss of 207 MSEK.

Goodwill and trademarks with indefinite life in cash generating units

Cash generating units	Terminal growth rate	Pre-tax WACC	2019	Terminal growth rate	Pre-tax WACC	2018
	2019, %	2019, %		2018, %	2018, %	
Other tobacco products operations in US	0.4	8.1	477	0.5	8.3	457
Moist snuff operations in US	0.8	8.0	78	1.0	8.1	78
Lights operations	0.8	9.8	170	1.3	11.1	170
Other tobacco products operations in Europe ¹⁾	1.3	6.1	781	0.1	8.3	1,126
Snus operations in Europe ²⁾	1.5	5.1	300	-	-	300
Total			1,806			2,130

¹⁾ Includes trademarks with indefinite useful life of 341 MSEK (336).

²⁾ Includes trademarks with indefinite useful life of 151 MSEK (151).

13 Property, plant and equipment

Property, plant and equipment at December 31, comprised the following:

	Buildings and land ¹⁾		Plant and machinery		Equipment, tools and fixtures		Construction in progress		Total ²⁾	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Cost at beginning of year	1,420	1,328	4,429	4,017	884	857	401	175	7,134	6,377
Purchases/investments	20	1	151	147	86	63	457	431	714	643
Acquisitions	-	11	-	5	-	3	-	8	-	27
Sales/disposals	-5	-1	-56	-87	-19	-40	-	-	-80	-128
Reclassifications	108	42	369	181	1	2	-479	-225	0	0
Translation differences, etc.	18	39	85	167	2	-1	10	11	115	216
Cost at end of year	1,562	1,420	4,977	4,429	954	884	389	401	7,882	7,134
Accumulated depreciation and write-down at beginning of year	-615	-549	-3,116	-2,867	-587	-543	-1	0	-4,319	-3,959
Depreciation for the year	-48	-42	-260	-215	-77	-85	-	-	-385	-342
Write-down for the year	-	-	-8	-10	-1	-	-	-	-9	-10
Sales/disposals	1	1	53	87	18	38	-	-	72	126
Translation differences, etc.	-12	-24	-57	-110	-5	3	0	0	-74	-132
Accumulated depreciation and write-down at end of year	-674	-615	-3,388	-3,116	-652	-587	-1	-1	-4,714	-4,319
Net carrying value at end of year	888	805	1,589	1,312	302	297	389	401	3,168	2,814

¹⁾ Buildings and land include land and land improvements at a book value of 100 MSEK (104).

²⁾ Total property, plant and equipment exclude forest plantation.

Construction in progress primarily relates to investments in production facilities.

No borrowing costs have been capitalized during 2019 or 2018 for property, plant or equipment.

Depreciation and write-downs for the year totaling 393 MSEK (352) was charged to cost of goods sold in the income statement in an amount of 314 MSEK (266), to administrative expenses of 17 MSEK (20), and to selling expenses of 62 MSEK (65).

14 Forest plantations

Forest plantations at December 31 comprised the following:

Forest plantations	2019	2018
Carrying value at beginning of year	126	139
Purchases and new planting	7	6
Timber harvested and transferred to inventory	-8	-7
Sales and disposals	-23	-4
Reclassifications	-16	-
Translation differences, etc.	1	-9
Carrying value at end of year	87	126

The Group's forest plantations comprise poplar and pine forests in Brazil with a total area of 4,624 hectares at December 31, 2019. The age of the trees varies from newly planted seedlings up to 35 years. The forests are held to ensure the supply of wood used in the product segment Lights.

Timber felled during 2019 had an estimated value of 8 MSEK at the time of harvesting, and made up 85,623 cubic meters of wood.

The forest plantations are regularly measured at its fair value of the forest and is based on estimated volumes and prevailing market prices for timber, less estimated point-of-sale costs. Volume estimates for each age category and type of wood are based on measurements of the height and diameter of trees and the number of trees per unit of area. The change in fair value for 2019 constituted an immaterial amount.

Replanting is required following harvesting of the Group's pine forest. Based on normal annual harvesting, this involves replanting approximately 150 hectares annually. During 2019, 106 hectares (83) pine forest were replanted. At present, there is no corresponding requirement for poplar.

Forest plantations may be damaged by noxious insects, diseases and fire. To reduce these risks, a program for damage and fire prevention is in place.



15 Leases

The Group is lessee for a number of assets where real estate leases, such as rental of office and factory premises, warehouses and storages, represent the major part of the total value of leases. The Group's leases also include vehicles, IT equipment, machinery etc. With the exception of short-term leases and leases of low-value, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Lease payments are generally fixed, but a limited number of real estate leases are linked to periodic changes in an index. Variable lease payments, which do not depend on an index or a rate, are excluded from the initial measurement of the lease liabilities and assets.

Some leases contain options to extend the lease for one or more terms or to terminate the lease. Assessment of the likelihood of using extension or termination options are made and the amount of optional lease payments not included in the lease liabilities at December 31, 2019 amounted to 86 MSEK.

The average duration of the Group's lease liability was 2.1 years, including assessments of the likelihood of utilizing extension and termination options.

Leases at December 31, comprised the following:

Right-of-use assets	2019		
	Real estate	Other	Total
Carrying value at beginning of year	200	79	279
Additions	5	57	62
Terminations	0	-10	-11
Depreciation for the year	-46	-40	-87
Revaluations	6	-	6
Translation differences, etc.	3	2	6
Carrying value at end of year	168	87	255

Amounts recognized in the income statement are summarized below:

	2019
Depreciation right-of-use assets	-87
Variable lease payments not included in the lease liabilities	-25
Expenses for short term leases	-17
Expenses for low value leases	-2
Interest expense on lease liabilities	-12
Result from sale or cancellations of right-of-use assets	0
Total	-143

Variable lease payments not included in the related lease liability are expensed as incurred and mainly include usage payments on vehicles and for office and factory premises.

The Group's lease liabilities at December 31 comprised the following:

	2019
Current lease liabilities	81
Non-current lease liabilities	172

The maturity structure for future lease expenses included in the lease liabilities, with remaining terms of one year or more, is as follows:

Undiscounted future lease expenses included in the lease liabilities	2019
2020	89
2021	59
2022	39
2023	26
2024	19
2025-	66
Total	297

Total cash flow from leases, including variable lease payments and payments for short-term and low value leases in 2019, amounted to 138 MSEK.

Future variable lease payments not included in the measurement of the lease liabilities, in relation to the fixed lease payments are expected to remain at a similar level in all material aspects. The relative magnitude of variable lease payments related to the fixed payments for 2019 was 25 percent.

At December 31, 2019 the Group had committed to leases amounting to 34 MSEK which had not commenced. The commitments refer to rental of production facilities under construction in the Dominican Republic with expected access and completion between 2020 and 2022.

Operating lease agreements under IAS 17

Up until December 31, 2018 the Group's lease contracts have been reported as operating leases under IAS 17. The Group's leasing expenses for operating lease agreements for 2018 amounted to 103 MSEK.

At December 31, 2018, future annual minimum lease payments under the terms of non-cancellable operating lease agreements with initial or remaining terms of one year or more fall due as follows:

Minimum lease payments	2018
Within one year	91
Between 1-5 years	165
Later than 5 years	44
Total	299

Reconciliation of operating lease obligations to opening balance for IFRS 16

The difference between lease contracts reported as operating leases under IAS 17 and the IFRS 16 lease liability as per January 1, 2019 mainly pertained to the exemption of lease payments relating to short-term and low value lease contracts. Furthermore, the Group's lease liabilities also increased by future lease payments for periods included from the assessment of the likelihood of using extension options or not utilizing termination options. For further details, see the table below:

Total undiscounted lease liabilities at December 31, 2018	299
Less expenses for short-term leases	-7
Less expenses for low value leases	-3
Adjustments relating to likelihood of using extension/termination options	34
Adjustments relating to price changes in future lease payments	5
Total undiscounted IFRS 16 lease liabilities to be reported in the balance sheet at January 1, 2019	328
Discounted effect on lease liabilities	-49
IFRS 16 opening balance lease liabilities at January 1, 2019	279



16 Investments in associated companies

The Group's investments in associated companies have been accounted for in accordance with the equity method.

Investments in associated companies

Swedish Match investments in associated companies are a 32 percent ownership interest in Malaysian Match Co. SDN. BHD., a 25 percent interest in EB Road Cargo AB and a 49 percent interest in OTP d.o.o. Malaysian Match Co. SDN. BHD. is a Malaysian sales distributor for primarily matches and lighters in the Asia region. EB Road Cargo AB is a Swedish company which through its subsidiaries provides road transportation services with SMD Logistics AB as a major client. During 2019, Swedish Match invested in a 49 percent ownership interest in a newly established tobacco distribution company in Slovenia, OTP d.o.o (OTP). During the third quarter 2019, OTP acquired two distribution companies in Slovenia and Croatia. The acquisitions have been financed by a loan from Swedish Match amounting to 58 MSEK.

The numbers in the tables below represent the change in carrying value:

Associates	2019	2018
Carrying value at beginning of year	24	22
Investment in associated companies	13	-
Share of net profit/loss in associated companies	5	3
Dividends from associated companies	-1	-3
Translation differences, etc	0	1
Carrying value at end of year	42	24

The tables below specify the summary financial position of the associated companies and the corresponding carrying values. Operating results of investments in associated companies have been recognized with a time lag of one month, based on the investee's internal financial reporting. Adjustments resulting from annual audits of investee results are thereby reflected in the subsequent reporting periods in Swedish Match consolidated financial statements. The result for OTP has been included as of the acquisition date representing the period as of August to November, 2019.

	Associated companies	
	2019	2018
Sales	552	431
Operating profit	7	3
Net profit/loss (excluding other comprehensive income)	15	1
Total comprehensive income	15	1
Total current assets	236	133
Total fixed assets	108	72
Total current liabilities	192	94
Total non-current liabilities	79	57
Equity	73	55
Equity interest	24	18
Goodwill	18	6
Carrying value at end of year	42	24

Transactions with associated companies

In the normal course of business, Swedish Match conducts various transactions with associated companies. Transactions has conducted at an arms-length basis. Receivables from these companies totaled 11 MSEK (25). Total sales to associated companies amounted to 60 MSEK (76). Payables to these companies totaled 0 MSEK (-). Total purchases from associated companies amounted to 0 MSEK (-).

In addition, as per December 31, 2019, Swedish Match had a financial receivable on OTP amounting to 58 MSEK.

17 Other non-current receivables and other current receivables

Non-current receivables at December 31 comprised the following items:

Other non-current receivables	2019	2018
Non-current financial receivables	1,155	820
Net assets in pension plans	91	83
Other non-current receivables	5	7
Total	1,251	910

Non-current financial receivables include foreign exchange derivatives used to hedge the bond loans denominated in foreign currencies amounted to 839 MSEK (690). Most of the remaining value of the non-current financial receivables pertains to life insurance policies in a non-Swedish subsidiary.

Other current receivables at December 31 comprised the following items:

Other current receivables	2019	2018
Current financial receivables	109	154
VAT receivables	61	23
Other current receivables	205	385
Total	375	562

The assessed impairment on the Group's non-current and current receivables is deemed immaterial.

18 Inventories

Inventories at December 31, net of allowances for obsolescence, comprised the following items:

Inventories	2019			2018		
	Current	Non-current	Total	Current	Non-current	Total
Finished goods	628	-	628	504	-	504
Work in progress	73	-	73	60	-	60
Leaf tobacco	515	215	730	425	284	708
Other input materials and consumables	382	-	382	326	1	327
Total	1,598	215	1,813	1,315	285	1,600

During 2019, 34 MSEK (32) of inventory write-downs have been expensed.

Other input materials and consumables include harvested trees which are reported at fair value less estimated point-of-sale cost. Harvested trees constitute an immaterial part of other input materials and consumables.



19 Trade receivables

Trade receivables, net, at December 31 comprised the following:

Trade receivables	2019	2018
Trade receivables	1,733	1,661
Less provision for impairment of trade receivables	-14	-24
Net trade receivables	1,719	1,636

Movements, due to the changes in expectations, on the group provision for impairment of trade receivables are as follows:

Trade receivable provision	2019	2018
Carrying value at beginning of year	-24	-24
Provision	-3	-7
Recovery	4	3
Write-down	9	3
Translation differences, other deductions or additions, etc.	0	0
Carrying value at end of year	-14	-24

As of December 31, 2019 net trade receivables of 68 MSEK (50) were past due. The aging of trade receivables is as follows:

Aging of trade receivables	2019	2018
Current	1,651	1,587
Overdue < 31 days	59	37
Overdue 31 – 60 days	4	5
Overdue > 60 days	5	7
Total	1,719	1,636

Swedish Match does not generally hold collateral against trade receivable. The ten largest customers represent 38 percent (36) of total net sales. Trade receivables are generally held in domestic currencies, which have an insignificant impact on the foreign currency risk. The provision for account receivables mainly pertain to doubtful customer account receivables that have the potential risk for not being collected. As the time to maturity is short and the credit risk is low the impairment for trade receivables is assessed to be immaterial. For more information see *Note 28 Financial instruments and financial risks*.

20 Cash and cash equivalents

Cash and cash equivalents	2019	2018
Cash and bank	935	778
Other current investments	1,435	2,108
Total	2,370	2,886

Other current investments consist of short term deposits with banks and other institutions.

21 Assets held for sale

At December 31, 2019 the Group had assets held for sale at a book value of 16 MSEK referred to two forest plantations in Brazil. Management decision to sell the two forest plantations was made in December 2019.

There are no corresponding liabilities to these assets and the fair value less costs to sell are not expected to be lower than the carrying value.

22 Equity

Objectives, policies and processes for managing capital

The Board of Directors of Swedish Match has concluded that in view of the good and stable prospects for the business the financial policy is that the Group will strive to maintain a net debt that does not exceed three times EBITA. Excess funds shall be returned to shareholders through dividends and share repurchases. Swedish Match has the ambition to continuously grow dividend per share with a payout ratio normally within 40–60 percent, subject to adjustment for larger one-time items. The Board of Directors proposes a total dividend of 12.50 SEK per share. The proposed dividend of 12.50 SEK per share is equivalent to 49 percent of the adjusted earnings per share for the year. The proposed dividend amounts to 2,040 MSEK based on the 163.2 million shares outstanding at the end of the year. Dividend for 2018, paid in 2019, amounted to 1,777 MSEK, which was equivalent to 51 percent of the earnings per share for the year.

The Annual General Meeting on April 9, 2019 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 6.0 million shares held in treasury, with a simultaneous bonus issue, without issuing new shares, of an amount equivalent to the amount represented by the cancelled shares of 13 MSEK. The total number of outstanding shares of the Company, including treasury shares, after the cancellations, is 170.0 million shares.

During the year 6.9 million shares were repurchased for 2,989 MSEK at an average price of 428.03 SEK. As at December 31, 2019 Swedish Match held 6.7 million shares in its treasury, corresponding to 3.96 percent of the total number of shares. The number of shares outstanding, net after repurchase as per year end amounted to 163.2 million.

Number of shares held in treasury and cumulative repurchases of own shares included in retained earnings are detailed below:

	Number of shares (thousands)		Cumulative effect on equity (MSEK)	
	2019	2018	2019	2018
Balance at beginning of year	5,739	5,889	-31,440	-28,928
Repurchase of own shares during the year	6,982	5,700	-2,989	-2,512
Allocated to retained earnings by cancellation of treasury shares	-6,000	-5,850	13	13
Bonus issue	-	-	-13	-13
Balance at end of year	6,721	5,739	-34,429	-31,440

Since the buyback programs started in June 2000 the total number of share repurchased amounts to 255,3 million shares and the total number of cancellation of shares amounts to 234,0 million shares. Total number of shares sold as a result of option holders exercising options amounted to 14.6 million shares. Total shares bought back since the buyback program started have been repurchased at an average price of 138.74 SEK.

For information regarding number of registered shares in the Parent Company and outstanding shares quota value, see *Note 12 Equity* to the Parent Company financial statements.

Changes in reserves of cumulative other comprehensive income and non-controlling interest

	Hedge reserve	Translation reserve	Non- controlling interest
2018			
Balance at beginning of year	-191	475	1
Profit for the year pertaining to non-controlling interest	-	-	0
Translation differences related to foreign operations for the year	-	331	0
Translation differences included in profit and loss	-	-2	-
Effective portion of changes in fair value cash flow hedges	39	-	-
Income tax relating to components of other comprehensive income ¹⁾	-11	-	-
Balance at end of year	-163	804	1

¹⁾ For further details on tax components relating to the various other comprehensive income items, see *Note 10, Income tax*.



NOTE 22 Continued

2019	Hedge reserve	Translation reserve	Non-controlling interest
Balance at beginning of year	-163	804	1
Profit for the year pertaining to non-controlling interest	-	-	0
Translation differences related to foreign operations for the year	-	191	0
Translation differences included in profit and loss	-	-	-
Effective portion of changes in fair value cash flow hedges	122	-	-
Income tax relating to components of other comprehensive income ¹⁾	-25	-	-
Balance at end of year	-66	995	1

¹⁾ For further details on tax components relating to the various other comprehensive income items, see Note 10, Income tax.

Hedge reserve

The hedge reserve includes the accumulated effective portion of changes in fair value of cashflow hedges attributable to interest rate hedges.

Translation reserve

The translation reserve includes all exchange rate differences that arise in translation of the financial reports of foreign operations that have prepared their financial statements in a different currency from that which is used to present the consolidated financial reports. The Parent Company and the Group present their financial statements in Swedish krona (SEK).

Fair value reserve

The fair value reserve included the cumulative net change in the fair value of available-for-sale financial assets until the assets are derecognized or impaired.

23 Interest bearing liabilities

The Group's interest bearing liabilities consist of bond loans and also includes lease liabilities as of January 1, 2019 following the adoption of IFRS 16 Leases. The maturity structure of the Group's non-current interest-bearing liabilities is as follows:

Year	2019	2018
2020	-	1,301
2021	1,898	1,848
2022	1,443	1,409
2023	2,223	2,155
2024	3,140	3,077
2025 and later	3,598	2,493
Total	12,302	12,282

The Group's current interest-bearing liabilities at December 31 comprised the following items:

	2019	2018
Current interest-bearing liabilities		
Current portion of non-current loans	1,300	1,228
Current lease liabilities	81	-
Bank overdraft facilities utilized	-	1
Total	1,380	1,229

See further information on interest-bearing liabilities in Note 28 Financial instruments and financial risks.

24 Post-employment benefits

The Group has defined benefit pension plans in a number of subsidiaries, through which the employees are entitled to post-employment benefits based on their pensionable income and the number of service years.

Obligations related to post-employment employee benefits as of December 31 are reported in the balance sheet under the following balance sheet items:

Post-employment defined benefits	2019	2018
Defined benefit plans, net liabilities	378	271
Post-employment medical benefits, net liabilities	1,065	827
Other long term employee benefits, net liabilities	8	8
Provision for pensions and similar obligations	1,451	1,106
Defined benefit plans, net assets	-91	-83
Included in other non-current receivables	-91	-83
Net post-employment liability	1,360	1,024

The net defined pension and benefit liability increased during the year, as a result of net negative actuarial remeasurements, mainly due to lower discount rates partly offset by higher return on plan assets and gains from updated mortality assumptions. In addition, the net pension benefit obligation was affected by negative currency effects.

In December 2019, an excise tax under the Patient Protection and Affordable Care Act in the US was repealed, resulting in related plan amendment to the Company's US post-employment medical benefit plan. As a result of the plan amendment, past service cost of 22 MSEK has been recognized in 2019.

Overview of the Group's post-employment defined benefit plans

Post-employment defined benefit plans in US, together with the pension plan in UK, represents approximately 95 percent of the Group's total defined benefit obligation.

In the US, Swedish Match provides two qualified pension plans, a postretirement medical plan, a supplemental pension plan covering certain executives, and a long term disability plan. The qualified pension plans are funded, where benefit payments are made from a trustee-administered fund. The other plans are generally unfunded, where Swedish Match pays benefits as they come due, although the Group did establish two Voluntary Employee Beneficiary Association (VEBA) trusts for certain of its obligations under the US post retirement medical plan in 2017.

The largest qualified pension plan covers non-collectively bargained US employees and was closed for new entrants beginning in 2008. The plan is a final average pay pension plan, which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years pre retirement.

The second qualified pension plan covers collectively bargained US employees and is open for new entrants. The plan is a dollars times service pension plan, which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and dollar multipliers specified by the plan.

Normal retirement age for the US qualified pensions is 65 years and beneficiaries do not receive inflationary increases. Plan assets are held in trusts and there are pension plan fiduciaries as required under US pension law. The fiduciaries, jointly with Swedish Match, are responsible for the governance of the plans.

Plan assets are invested in accordance with the plans' Statement of Investment Guidelines. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The asset allocation strategy is to gradually move toward a higher fixed income allocation, following an interest rate matching strategy specifically referred to as a Liability Responsive Asset Allocation. As the funded status improves, the allocation to liability-oriented long duration bonds, or hedging assets, will increase, with a corresponding decrease to return-seeking assets, including equities, real estate, and hedge funds.

Actuarial valuations are completed annually for the US plans, and historically contributions have been made to satisfy minimum funding requirements and any additional discretionary amounts to avoid benefit restrictions, and to maintain a funded ratio of at least 80 percent under US pension law.



NOTE 24 Continued

The US post-retirement medical plan offers heavily subsidized health care coverage for employees and their beneficiaries after retirement. For noncollectively bargained employees, the plan was closed for new entrants beginning in 2008. The plan is still open for collectively bargained new entrants. In addition to retiree medical benefits, retiree life insurance benefits are also provided under the plan.

In the UK, Swedish Match provides a funded pension plan for former employees of Swedish Match UK Limited, providing benefits based on final pay. Approximately 70 percent of the liabilities relate to retired members already in receipt of pensions, and their dependents, with the balance relating to members with deferred pensions. There are no active members accruing further benefits, and no new members are able to join.

The plan is set up as a separate legal entity, and a separate trustee company, Swedish Match UK Pension Trustee Limited, is responsible for its governance. One third of the directors of the trustee company are nominated by the membership and two thirds are nominated by the employer. The strategic asset allocation is determined from time to time by the directors of the trustee company, after consulting with Swedish Match, based on professional advice and having regard to the level of risk.

At the end of 2011, the trustee undertook a significant exercise to reduce risk by purchasing a bulk annuity contract covering all of the liabilities for pensions in payment at that time. The trustee is currently following a largely growth based strategy for the remaining assets but is actively searching for opportunities to de-risk further as and when the funding position allows.

The other pension plans, representing a minority part of the Group's total pension plans, are final salary pension plans that provide benefits to members in the form of a guaranteed level of pension payable for life, or in a lump-sum at the date for retirement. The majority of benefit payments are from trustee-administered funds. Also, there are a number of unfunded plans where the Group meets the benefit payment obligation as it falls due. Plan assets held in trusts are governed by local regulations and practices in each country, as is the nature of relationship between Swedish Match and the trustees (or equivalent) and their composition. Responsibility for governance of the plans, including investment decisions and contribution schedules, lies jointly with Swedish Match and the board of trustees. The board of trustees is composed of representatives of Swedish Match and plan participants in accordance with the plans' regulations.

The table below specifies the net liability for defined benefit post-employment obligations:

	Defined benefit pension plans		Post-employment medical benefits	
	2019	2018	2019	2018
Post-employment defined benefits				
Present value of funded obligations	3,723	3,129	1,167	951
Fair value of plan assets	-3,644	-3,110	-102	-124
Deficit(+), net	78	18	1,065	827
Present value of unfunded obligations	208	170	-	-
Net liability(+) in the balance sheet	287	188	-	-
Amounts in the balance sheet				
Liabilities	378	271	1,065	827
Assets	-91	-83	-	-
Net asset(-)/liability(+) in the balance sheet	287	188	1,065	827

Actuarial assumptions

Provisions for the Group's post-employment defined benefit plans are reported based on actuarial valuations. The valuations are calculated based on actuarial assumptions for determining the discounted net present value of the obligations. Significant actuarial assumptions used are discount rate, future salary growth rate, future pension growth rate, inflation, future mortality expectancy and medical cost trend rate, as applicable.

The discount rate is set per country with reference to market yield on high quality corporate bonds of appropriate duration or government bonds for countries where a deep market of high quality corporate bonds is not available.

For the US defined benefit plans Swedish Match determined the obligation effective discount rate based on the single equivalent rate such as the present value of the plan's obligation cash flows using the single rate equals the present value of those cash flows using the corresponding spot rate along the yield curve.

The effective rates for interest on the defined benefit obligation and service cost are the single equivalent rates that result in the same value when applied to the defined benefit obligation and service cost, respectively.

For the larger US post-employment defined benefit plans the same process is applied to the plan's service cost cash flows to determine the effective discount rate associated with the service cost.

For the other plans Swedish Match applies a single weighted average discount rate based on the full eligible population to measure the obligations and pension expense.

Assumptions regarding future mortality expectancy are based on advice in accordance with published statistics and experience in each country. The interest income on plan assets is based on the discount rate and is a component of the return on plan assets. Changes in assumptions can give rise to remeasurement differences, i.e. actuarial gains and losses, in the valuation of the Group's defined benefit obligations and the outcome from the performance of plan assets. Actuarial gains and losses are recognized to the full amount as they occur in accordance with the actuarial valuation and reported in other comprehensive income for all plans except for the US long term disability plan where actuarial gains and losses are recognized directly in profit and loss, which constituted an immaterial amount as per December 31, 2019. The full recognition of actuarial gains and losses implies that the Group's net pension liability in the balance sheet includes all cumulative actuarial gains and losses.

Significant risks associated with the Group's post-employment defined benefit plans

Changes in market yields on corporate and government bonds would impact the plan liabilities. A decrease in market yields will decrease the discount rate assumption which increases plan liabilities for accounting purposes. However, for funded plans, this will be partially offset by an increase in the value of the trusts' bond holdings. As Swedish Match moves along the liability-driven investment glide path, this offset will increase and risk will be further mitigated.

Some pension plan trusts hold equities, whose growth is expected to outpace liabilities over the long term while providing volatility and risk in the short term. Poor equity performance will decrease funded status and will increase both accounting expense and required funding. As discussed above, over time, Swedish Match intends to reduce the level of equity investment risk by investing more in fixed income assets to better match the liabilities per the liability driven investment glide path set forth in the Statement of Investment Guidelines. The plans provide benefits for the life of participants (and often also their spouses). As such, increases in life expectancy will result in an increase in the plans' liabilities.

Other risks to which the plans are exposed include the risk that price inflation will increase, which will result in higher pension payments being due.

The post-retirement medical liabilities in the US reflect assumptions of increases in future US health care costs (health care trend). If actual cost increases outpace these assumptions, plan liabilities will increase.

Significant actuarial assumptions at the balance sheet date (expressed as weighted average):

Actuarial assumptions	Group			
	Defined benefit pension plans		Post-employment medical benefits	
	2019	2018	2019	2018
Discount rate, %	2.9	3.9	3.1	4.2
Price inflation rate, %	2.4	2.5	2.5	2.5
Future salary increases, %	3.3	3.3	3.2	3.2
Future pension increases, %	2.9	3.0	-	-
Medical cost trend rate, %	-	-	6.2	6.7

Sensitivity analysis of significant assumptions

Changes in the discount rate may have a significant effect on the Group defined benefit obligation. An increase in the discount rate of 0.5 percent would decrease the defined benefit obligation with 347 MSEK and a decrease of 0.5 percent in the discount rate would increase the defined benefit obligation with 378 MSEK. The effect from the sensitivity analysis is based on a change in the discount rate assumption while holding all other assumptions constant.

Changes in other actuarial assumptions are calculated not to have a material effect on the Group defined benefit obligation. A change in the future salary increases or the inflation rate of 0.5 percent are estimated to have an effect on the defined benefit obligation of around 1 percent respectively, holding other assumptions constant.



NOTE 24 Continued

Change in the defined benefit obligations and plan assets

The movements in the defined benefit obligation over the year were as follows:

Defined benefit obligations	Defined benefit pension plans		Post-employment medical benefits	
	2019	2018	2019	2018
Balance at beginning of year	3,298	3,214	951	1,006
Service costs ¹⁾	68	62	42	24
Interest expenses on obligation	126	102	39	35
Administrative expenses	0	-	-	-
Settlement payments from plan asset	-	-5	-	-
Contributions by plan participants	-	-	4	4
Benefits paid	-173	-160	-43	-32
Taxes paid	-1	-1	-	-
Changes in financial assumptions	518	-172	188	-174
Changes in demographic assumptions	-49	-14	-51	-5
Experience assumptions	1	42	3	5
Translation differences	143	229	34	89
Balance at end of year	3,931	3,298	1,167	951

¹⁾ Includes past service costs of 22 MSEK in 2019 related to reassessment for the US post-retirement medical plan.

Profile of plan members of the defined benefit obligation	Defined benefit pension plans		Post-employment medical benefits	
	2019	2018	2019	2018
Active employees	1,335	1,135	607	518
Deferred members	470	400	-	-
Members in retirement	2,126	1,764	560	433
Balance at end of year	3,931	3,298	1,167	951
Weighted average duration of defined benefit obligation	14 years	13 years	15 years	14 years

The movements in the fair value of plan assets of the year were as follows:

Plan assets	Defined benefit pension plans		Post-employment medical benefits	
	2019	2018	2019	2018
Fair value at beginning of year	3,110	3,035	124	135
Interest income on plan assets	114	92	4	5
Administrative expenses	-11	-6	0	-
Settlement payments from plan asset	-	-5	-	-
Employer contributions	35	139	1	3
Employee contributions	-	-	4	4
Benefits paid	-173	-160	-43	-32
Taxes paid	-1	-1	-	-
Return on plan assets, excl. interest income	437	-196	7	-3
Translation differences	133	211	5	12
Fair value at end of year	3,644	3,110	102	124

The actual return on plan assets was positive in 2019 and amounted to 562 MSEK compared to a negative return in 2018 of -102 MSEK.

Plan assets at December 31 are comprised as follows:

Plan assets	2019	2018
Equity securities ¹⁾	1,246	1,267
Debt instruments	1,420	1,071
Real estate	135	4
Other ²⁾	945	892
Total	3,746	3,234

¹⁾ Equity securities consist of quoted securities in all material respect. The Group's plan assets does not hold any own shares.

²⁾ A large part pertains to the UK pension scheme annuity insurance policies.

Income and expenses relating to post-employment benefit plans recognized in the income statement

The amounts reported in the income statement consist of the following:

Post-employment defined benefits income and expenses	Defined benefit pension plans		Post-employment medical benefits	
	2019	2018	2019	2018
Service costs	68	62	42	24
Interest expenses on obligation	126	102	39	35
Interest income on plan assets	-114	-92	-4	-5
Administrative expenses	11	5	0	-
Net expense reported in the income statement	91	78	77	54

The net expense for defined benefit plans are reported under the following headings in the income statement:

Post-employment defined benefits income and expenses	Defined benefit pension plans		Post-employment medical benefits	
	2019	2018	2019	2018
Cost of goods sold	25	24	11	12
Administrative expenses	31	18	21	0
Selling expenses	23	26	11	12
Interest income	-108	-92	-4	-5
Interest expenses	120	102	39	35
Net expense reported in the income statement	91	78	77	54

Income and expenses relating to post-employment benefit plans recognized in other comprehensive income

The amounts reported in other comprehensive income consist of the following:

Post-employment defined benefits income and expenses	Defined benefit pension plans		Post-employment medical benefits	
	2019	2018	2019	2018
Actuarial gains and losses on obligations, incl. payroll taxes	470	-143	140	-173
Return on plan assets, excluding interest income	-437	196	-7	3
Net income (-)/expense(+) reported in other comprehensive income statement	32	53	133	-171

Post-employment employee benefits per country

Defined benefit pension plans and post-employment medical benefits as at December 31 per significant country are comprised as follows:

2019	Present value of obligation	Fair value of plan assets	Net liability/asset in balance sheet
US	4,046	2,737	1,309
UK	806	767	39
Rest of the world	254	242	11
Total	5,106	3,746	1,360

2018	Present value of obligation	Fair value of plan assets	Net liability/asset in balance sheet
US	3,342	2,339	1,003
UK	690	665	25
Rest of the world	226	230	-4
Total	4,258	3,234	1,024



NOTE 24 Continued

Significant actuarial assumptions as at December 31 per significant country (expressed as weighted average):

Actuarial assumptions	US				UK		Rest of the world	
	Defined benefit pension plans		Post-employment medical benefits		Defined benefit pension plans		Defined benefit pension plans	
	2019	2018	2019	2018	2019	2018	2019	2018
Discount rate, %	3.1	4.2	3.1	4.2	1.9	2.8	4.1	4.7
Price inflation rate, %	2.2	2.2	2.5	2.5	3.3	3.4	2.3	2.3
Future salary increases, %	3.2	3.2	3.2	3.2	-	-	5.5	5.7
Future pension increases, %	-	-	-	-	3.2	3.3	1.4	1.5
Medical cost trend rate, %	-	-	6.2	6.7	-	-	-	-

Expected contribution next year

Expected contributions for post-employment benefit plans for the full year 2020 amounts to 45 MSEK.

Defined contribution plans

The Group has certain obligations under defined contribution plans. Contributions to these plans are determined by provisions in the respective plan. Costs for defined contribution plans charged to income statement for the year amounted to 160 MSEK (142).

Multi-employer insurance plan

In Sweden there is a multi-employer insurance plan for salaried personnel in Alecta. Due to that it is not possible to get sufficient information for each company's specific obligation and fair value of related assets defined benefit

accounting cannot be applied and the Alecta pension plan is therefore accounted for as a defined contribution plan. Swedish Match contribution to Alecta for the year ended December 2019 was 58 MSEK (56). This contribution represents 0.18 percent (0.20) of the total contributions paid to Alecta. Swedish Match active members in the multi-employer plan are 0.08 percent (0.08) of all active members in the plan. Alecta has a collective funding ratio as per December 2019 of 148 percent (142). The collective funding ratio is a buffer for Alecta's insurance commitments to protect against fluctuations in investment return and insurance risks. It is the difference between Alecta's assets and the company's insurance commitments to policyholders and insured individuals. The collective solvency is normally allowed to vary between 125 and 175 percent. If the level of collective solvency is less than 125 percent or exceeds 175 percent, measures are to be taken in order to create conditions for restoring the level of collective solvency to the normal interval.

25 Provisions

Non-current and current provisions at December 31 comprised the following:

Non-current provisions	2019	2018	Current provisions	2019	2018
Income tax	-	100	Restructurings	0	3
Restructurings	3	3	Other operating provisions	292	95
Other operating provisions	4	6	Total current provisions	293	98
Deferred compensation	378	347	Total non-current and current provisions	677	554
Total non-current provisions	384	456			

Movements in provisions during 2019 were as follows:

Provisions	Income tax provisions	Restructuring provisions	Other operating provisions	Deferred compensation	Total
Carrying value at beginning of year	100	6	100	347	554
Provisions made during the year	-	3	479	99	581
Provisions used during the year	-	-6	-294	-59	-359
Provisions reversed during the year and changes in estimates	-	-	-1	-2	-3
Reclassifications	-100	0	12	-18	-106
Translation differences, etc.	-	-	-1	11	10
Carrying value at end of year	-	3	296	378	677

Income tax provisions

Following the clarification in IFRIC 23 effective as of January 1, 2019 income tax provisions have been reclassified as income tax liabilities in the Group's balance sheet. In 2018, the income tax provisions pertained to tax disputes and other tax contingencies.

Restructuring provisions

Provisions recognized for restructuring charges are reported as restructuring provisions. The provisions are generally expected to be settled within one year, but a certain portion is expected to be settled within a period up to five years.

Other operating provisions

Provisions of operating character, and not related to restructuring or deferred compensation, are reported as operating provisions. Other operating provisions mainly pertain to provisions for sales discounts, expected product returns and outstanding redemptions of coupons. While provisions related to sales discounts, sales refund and coupons are expected to be realized within the year, they are replaced within the year, and as such the provisions are classified as current.

Deferred compensation

The deferred compensation provision pertain to the long term portion of the long term incentive plan for key management personnel, which will be settled within three years. Certain employees may elect to defer a portion of their normal salary and/or bonus awards until a later date, and may elect to defer compensation up until the date of retirement. From retirement, payments may be spread over a period not to exceed 15 years. The deferrals are invested and secured by corporate owned life insurance policies. The deferred amount develops each year by the investment return. Accordingly, the present value of the deferred amount is estimated to equal the initially deferred amount plus accumulated return. Provision for deferred compensation includes the long term portion of the long term incentive plan to managers which will be settled within three years. For more information on incentive programs and variable salaries see Note 6 Personnel.

For further information about provisions for pensions see Note 24 Post-employment benefits.



26 Other liabilities

Other non-current liabilities at December 31 comprised the following:

Other non-current liabilities	2019	2018
Non-interest bearing non-current liabilities ¹⁾	50	59
Non-current financial liabilities, derivatives	2	2
Vendor loan, acquisition Gotlandssnus	-	31
Total	52	93

¹⁾ Non-interest bearing non-current liabilities mainly pertains to additional obligations related to acquisition of patent rights.

Other current liabilities at December 31 comprised the following:

Other current liabilities	2019	2018
Tobacco taxes	1,179	1,372
VAT liabilities	452	407
Current financial liabilities, derivatives	91	20
Vendor loan, acquisition Gotlandssnus	32	-
Other	23	27
Total	1,778	1,826

27 Accrued expenses and deferred income

Accrued expenses and deferred income at December 31 comprised the following:

Accrued expenses and deferred income	2019	2018
Accrued wage/salary-related expenses	336	259
Accrued vacation pay	87	72
Accrued social security charges	79	75
Accrued interest	125	129
Other	299	403
Total	926	938

28 Financial instruments and financial risks

Operations

As a result of its international operations, Swedish Match is exposed to financial risks. The term "financial risks" refers to fluctuations in Swedish Match's cash flow caused by changes in foreign exchange rates and interest rates, and to risks associated with refinancing and credit. To manage its financial risks, Swedish Match has a finance policy in place established by the Board of Directors. The Group's finance policy comprises a framework of guidelines and principles governing the management of financial risks and finance operations in general. The central functions consist of Financial Services and Treasury, which are responsible for the Group's borrowing including securing financing needs, cash management including cash pools and handling the liquidity surplus, as well as currency and interest rate management. Treasury serves as an internal bank for the Group's financial transactions. The Group's financial risk management is centralized to capitalize on economies of scale and synergy effects, and to minimize operational risks.

Financial instruments

Swedish Match uses various types of financial instruments to hedge the Group's financial exposure arising in business operations and as a result of the Group's financing and asset and debt management activities. To reduce Swedish Match's financial exposure, derivative instruments, such as currency forwards, currency swaps and cross currency interest rate swaps are used. A table showing all the derivatives that affected the Group's balance sheet and income statement is provided below.

Outstanding derivatives

	2019			2018		
	Nominal	Assets	Liabilities	Nominal	Assets	Liabilities
Currency derivatives	3,298	-	91	2,374	1	20
Interest-rate and currency derivatives*	6,304	758	21	7,196	621	27
Total	9,602	758	112	9,570	622	47

* In cash flow hedges

There are no conditions in these transactions that can cause any significant differences in the hedging relation between these derivatives and their underlying liabilities.

Currency risks

Exchange rate fluctuations affect Group earnings and shareholders' equity in various ways:

- Earnings – when sales revenues and production costs are denominated in different currencies (transaction exposure).
- Earnings – when the earnings of foreign subsidiaries are translated to SEK (translation exposure).
- Earnings – if loans and deposits are made in other currencies than the unit's functional currency (translation exposure).
- Shareholders' equity – when the net assets of foreign subsidiaries are translated to SEK (translation exposure).

The consolidated income statement includes exchange rate gain of 7 MSEK (6) in operating profit and gain of 5 MSEK (3) in net finance cost.

Transaction exposure

A large part of the Group's inflow and outflow in foreign currencies are matched, which effectively limits the Group's transaction exposure. Transaction exposure arises when certain of the Group's production units in Europe make purchases of raw tobacco in USD, and through the European operations' exports of lighters and matches in USD. The largest exposure of the Group is in NOK due to the sales of snus in Norway which is produced in Sweden.

The anticipated commercial net currency flow in the same currencies (transaction exposure) amounts to 1,549 MSEK on an annual basis. It is divided as following: 979 MSEK in NOK (63 percent), 213 MSEK in USD (14 percent), 243 MSEK in EUR (16 percent), 35 MSEK in GBP (2 percent), 40 MSEK in PHP (3 percent) and in other currencies 40 MSEK (2 percent). As Swedish Match's transaction exposures are limited, few hedging transactions are executed. The hedging transactions are, if any, based on risk exposures, current market conditions and other strategic considerations. At December 31, 2019, no transaction exposure for 2020 has been hedged. A general rise



NOTE 28 Continued

of 10 percent in the value of the SEK against all of the Group's transaction currencies is estimated to reduce consolidated earnings before tax by 146 MSEK (127), of which 98 MSEK in NOK, 21 MSEK in USD, 24 MSEK in EUR and in other currencies by 3 MSEK.

Translation exposure

The most significant effect of currency movements on consolidated earnings arises from the translation of subsidiaries' earnings. Earnings in Group companies are translated at average exchange rates. Effects mainly pertain to USD, EUR, BRL and DKK. The single most important currency is the USD.

When the net assets of foreign subsidiaries are translated to SEK, translation differences arise that are recognized directly in equity. The exposures of net investment are 3,751 MSEK in USD (80 percent), 281 MSEK in EUR (6 percent), 255 MSEK in BRL (5 percent), 269 MSEK in DKK (6 percent) and 129 MSEK (3 percent) in other currencies. Swedish Match does not, as a general rule, hedge the net investments in foreign subsidiaries. If the SEK strengthens by 10 percent against all the currencies in which Swedish Match has foreign net assets, the effect on shareholders' equity would be a total positive net amount of approximately 346 MSEK, of which 375 MSEK in USD, 28 MSEK in EUR, 4 MSEK in GBP would give a positive effect and of which 25 MSEK in BRL, 27 MSEK in DKK, 7 MSEK in NOK and 2 MSEK in TRY would give a negative effect based on the exposure at December 31, 2019.

Interest-rate risk

The Swedish Match Group's sources of financing mainly comprise of shareholders' equity, cash flow from current operations, and borrowing. Interest-bearing loans and pension liabilities expose the Group to interest-rate risk. Changes in interest rates have a direct impact on Swedish Match's net interest expense. Swedish Match policy is that the average interest maturity should be less than 5 years. The speed with which a permanent change of interest rate impacts net interest expense depends on the interest maturity periods of the loans. The Group's objective for interest rate fixing is to achieve an even and low cost of interest. Cross currency interest rate swaps are used mainly to convert our borrowing in foreign currencies into SEK and fixed interest rates. The average interest cost for outstanding bonds (including derivative instruments) on December 31, 2019 was 2.1 percent (2.2). The average interest maturity period for Group loans was 3.7 years (4.1), taking into account cross currency interest rate swaps. The interest maturity structure at December 31, 2019 was as follows:

Year	Loans		Loans and effects from derivatives	
	Fixed	Variable	Fixed	Variable
2020	1,300	-	1,300	-
2021	1,848	-	1,848	-
2022	1,412	-	1,412	-
2023	1,753	450	1,953	250
2024	3,125	-	3,125	-
2025-	3,541	-	3,541	-
Total	12,980	450	13,180	250

At December 31, 2019, a general rise of 1 percent (100bp) in short term interest rates of debt with variable interest rates and cash surplus was estimated to increase consolidated earnings before tax by approximately 12 MSEK (5) on an annual basis. The net interest-bearing debt (including net pension obligations and lease liabilities) at the same date amounted to 11,925 MSEK (10,843).

If interest rates were to rise with 1 percent (100bp) the total effect on equity due to cash flow hedges would have a positive impact of 7 MSEK (9).

Refinancing risk and liquidity

Refinancing risk is defined as the risk that funds become scarce and thus more expensive than expected, and liquidity risk is defined as not being able to make regular payments as a consequence of inadequate liquidity or difficulty in raising external loans. Swedish Match applies a centralized approach to the Group's financing, whereby as much external borrowing as possible is conducted centrally. Subsidiary borrowing can, however, take place in countries where regulations and taxes make central financing impossible or uneconomical. Swedish Match tries to limit its refinancing risk by having a

good distribution and length on its gross borrowing, and not being dependent on individual sources of financing.

Swedish Match has a syndicated bank credit facility of committed 1,500 MSEK, which matures in December 2021. This was unutilized at year-end and contained no financial covenants. It is defined as a reserve facility. At year-end 2019, available cash funds and committed credit facilities amounted to 3,870 MSEK. Of this amount, confirmed credit lines amounted to 1,500 MSEK and cash and cash equivalents making up the remaining 2,370 MSEK. All cash and cash equivalents are available for use, none of this is pledged or similar.

Most of Swedish Match's financing consists of a global medium-term note program (MTN) with a limit amount of 2,000 MEUR. The program is an uncommitted borrowing program and the availability could be limited by the Group's creditworthiness and prevailing market conditions. In case of market stress, if this program cannot be efficiently used, the syndicated bank credit facility of 1,500 MSEK will be utilized if necessary. At December 31, 2019, a total of 13,453 MSEK of the global medium-term note program was outstanding. The average maturity of the Group's bond borrowing at December 31, 2019 was 3.7 years.

Swedish Match's undiscounted cash flows regarding sources of loans and lease liabilities, including interest payments, negative derivatives (derivatives with positive market values are excluded), accrued interest, trade payables and their maturity profiles are distributed as follows:

Year	Other financial liabilities incl. interest	Negative derivatives	Trade payables	Total cash flows	Total booked value
2020	1,696	4	365	2,065	1,856
2021	2,095	1	-	2,096	1,908
2022	1,623	1	-	1,624	1,452
2023	2,391	3	-	2,394	2,229
2024	3,279	-	-	3,279	3,144
2025-	3,803	-	-	3,803	3,607
Total	14,887	8	365	15,261	14,196

Under the global MTN program, Swedish Match has issued bonds in SEK, EUR, USD and CHF. Borrowing in EUR, USD and CHF is hedged into SEK by cross currency interest rate swaps.

Liquidity within Swedish Match is handled centrally through local cash pools. Group companies are required to deposit liquid funds in cash pool accounts or, if these are not available, with the Group's treasury unit. Exceptions are only allowed when regulations prohibit cash pools or internal deposits.

Cash flow and fair value hedges*Cash flow hedges*

The table below shows the yearly change of market value, from opening to closing balance for the year, with changes in the market values recognized in other comprehensive income net of amounts that have been reclassified in profit and loss during the year, previously recognized in other comprehensive income. There was no ineffectiveness in cash flow hedge accounting during 2019.

	2019			
	Jan 1	Change of market value	Allocated to earnings	Dec 31
Hedging instruments, derivatives	-206	122	-	-84
Total	-206	122	-	-84

	2018			
	Jan 1	Change of market value	Allocated to earnings	Dec 31
Hedging instruments, derivatives	-245	39	-	-206
Total	-245	39	-	-206



NOTE 28 Continued

Maturity profile over interest payments taking part in a cash-flow hedge:

	2020	2021	2022	2023	2024	2025–
Fixed rate interest on payments	-163	-163	-163	-150	-117	-102

Fair value hedges

At year end there were no fair value hedges outstanding.

Liquidity risks and credit risks

To limit liquidity and credit risks, investments and transactions in derivative instruments may be made only in instruments with high liquidity and with counterparties having high credit ratings. In addition to bank accounts, Swedish Match invests surplus funds in banks and institutions. At December 31, 2019, the average interest maturity for the Group's current investments was less than 1 month.

The Group's finance policy regulates the maximum credit exposure to various counterparties. The aim is that counterparties to Swedish Match in financial transactions should have a credit rating of at least category A from Standard & Poor's or equivalent from Moody's.

To reduce the credit risk in receivables from banks arising via derivative instruments, Swedish Match has entered into netting agreements, known as ISDA Master Agreements, with all of its counterparties. These agreements grant rights to net market valuations on assets and liabilities if the counterpart is in an event of default, as with suspended payments. The following table shows the netted exposures per December 31, 2019. No collateral has been received or pledged. The majority of the derivatives are related to the Group's central funding.

Financial instruments under master netting agreements

2019	Gross amount for financial instruments	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	Net
Derivatives – Assets	758	-34	723
Derivatives – Liabilities	112	-34	78

2018	Gross amount for financial instruments	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	Net
Derivatives – Assets	622	-33	589
Derivatives – Liabilities	47	-33	14

At December 31, 2019, credit exposure in derivative instruments amounted to 723 MSEK, and credit exposure in cash and deposits at banks amounted to 1,420 MSEK. Swedish Match reduces the risk of its customers failing to

Carrying value and fair value

Carrying value and fair value for financial instruments per December 31, 2019.

2019	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 ¹⁾	-	-	-	2	108	110	110
Cash and cash equivalents	-	2,370	-	-	-	2,370	2,370
Total assets	-	4,200	-	758	867	5,825	5,825
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 ¹⁾	-	-	106	19	800	926	926
Trade payables	-	-	365	-	-	365	365
Total liabilities	91	-	14,186	21	2,504	16,804	17,035

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 on deferred income*.

fulfill their undertakings with the result that payment is not received for accounts receivable as they are divided among many different customers. At the reporting date, there was no significant concentration of credit risk in the Group's accounts receivable. The total amount of the Group's trade receivables was 1,719 MSEK (1,636). For more information see *Note 19 Trade receivables*.

Credit ratings

At December 31, 2019, Swedish Match had the following credit ratings from Standard & Poor's and Moody's Investor Service:

	Standard & Poor's	Moody's
Long term rating:	BBB	Baa2
Outlook:	Stable	Stable

Carrying value and fair value

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

IFRS 13 is applied for financial instruments measured at fair value on the balance sheet which implies using a fair value hierarchy that reflects the significance of input used according to the following levels:

- 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. The input data consists mainly of the compounded interest rates from interest rate swaps, basis swaps and conversions rates for variable interest rates to create relevant Cross Currency Interest Rate Swap (CCIRS) rates. The created interest rates are used to calculate the market value by discounting the external outstanding CCIRS flows including the actual market valuation of involved currencies.
- Level 3 – Inputs that are not based on observable market data.

The following table shows carrying value (including accrued interest) and fair value for each category of financial instruments, including their levels in the fair value hierarchy, at December 31, 2019. Items measured at fair value through profit and loss (FVTPL) consist of derivatives, for which hedge accounting is not applied. Derivatives attributable to cash flow hedges are measured at fair value via other comprehensive income (FVOCI) in level 2 of the fair value hierarchy. In assessing the fair values of these derivatives, the Group uses a variety of methods and makes assumptions based on market conditions at each reporting date. Quoted market prices or dealer quotes for identical or similar instruments are used. Items not valued at fair value are measured at amortized cost. All items, except loans and borrowings, have a short duration and are considered non-interest bearing, and therefore, the total carrying value of the financial instruments corresponds to the estimated fair value. The carrying amount for loans and borrowings differ from their fair value as a consequence of changes in the market interest rates, determined by using current official market quotations for our outstanding bonds or similar instruments and discounting future cash flows. The values presented are indicative and may not necessarily be realized.



NOTE 28 Continued

Fair value measurement by level	Level 1	Level 2	Level 3	Total
Derivative financial assets	-	758	-	758
Derivative financial liabilities	-	112	-	112

The following table show carrying value and fair value for financial instruments per December 31, 2018.

2018	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	-	1,636	-	-	-	1,636	1,636
Other non-current financial receivables	-	-	-	485	424	910	910
Other current assets and financial receivables	1	13	-	134	414	562	562
Prepaid expenses and accrued income ¹⁾	-	-	-	2	118	119	119
Cash and cash equivalents	-	2,886	-	-	-	2,886	2,886
Total assets	1	4,535	-	621	956	6,113	6,113
Loans and borrowings	-	-	13,511	-	-	13,511	13,439
Other non-current financial liabilities	-	-	31	2	59	93	93
Other current liabilities	20	-	-	-	1,806	1,826	1,826
Accrued expenses and deferred income ¹⁾	-	-	104	25	809	938	938
Trade payables	-	-	371	-	-	371	371
Total liabilities	20	-	14,017	27	2,674	16,739	16,667

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 on deferred income*.

Fair value measurement by level	Level 1	Level 2	Level 3	Total
Derivative financial assets	-	622	-	622
Derivative financial liabilities	-	47	-	47

29 Pledged assets

Pledged assets at December 31 comprised the following:

Pledged assets for debt to credit institutions and other commitments	2019	2018
Floating charges	3	10
Endowment insurances	110	90
Other	2	22
Total	116	122

30 Commitments and contingent liabilities and assets

Contingent liabilities

Guarantees on behalf of subsidiaries pertained to undertakings on behalf of the companies over and above the amounts utilized and recognized as liabilities by the companies. Other guarantees and contingent liabilities pertained to contractual commitments with tobacco growers for future purchases of leaf tobacco, guarantees made to government authorities for Group companies fulfillment of undertakings in connection with imports and payment of tobacco taxes.

Contingent liabilities	2019	2018
Guarantees on behalf of subsidiaries	71	57
Other guarantees and contingent liabilities	199	179
Total	270	236

Legal disputes

The Company is involved in a number of legal proceedings. Although the outcomes of these proceedings cannot be predicted with any certainty, and accordingly, no guarantees can be made, management is of the opinion that obligations attributable to these disputes, if any, should not have any significant impact on the results of operations or the financial position of Swedish Match.

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.

Contingent assets

Resolution of indirect tax disputes in Brazil

In December 2019, Swedish Match received a favorable decision on three court-cases pertaining to indirect taxes (principally valued added taxes) in Brazil. Swedish Match has assessed its recovery rights for duplicative indirect taxes under the court's decision and methodology prescribed by the Brazilian tax authority to 37 MSEK (25 MSEK, net of taxes on income) which has been recognized as operating income in the Lights product segment in the fourth quarter of 2019. 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.



31 Group companies

Subsidiary holdings ¹⁾	Subsidiary's domicile, country	Ownership share, %	
		2019	2018
SM Comercio Importacao e Exportacao Ltda	Brazil	100	100
SM da Amazonia S.A.	Brazil	100	100
SM do Brazil S.A.	Brazil	99.7	99.7
V2 Tobacco A/S	Denmark	100	100
House of Oliver Twist A/S	Denmark	100	100
SM Dominicana, S.A.S.	Dominican Republic	100	100
SM France SAS	France	100	100
SM Deutschland GmbH	Germany	100	100
SM Lighters BV	Netherlands	100	100
SM Overseas BV	Netherlands	100	100
SM Distribution A/S	Norway	100	100
SM Norge A/S	Norway	100	100
SM Philippines Inc.	Philippines	100	100
SMINT Holdings Corp.	Philippines	100	100
Swedmat Corp.	Philippines	100	100
SM Philippine Sales Inc.	Philippines	100	100
Swedish Match Fósforos Portugal, SA	Portugal	100	100
Road Cargo Sweden Holding AB	Sweden	100	100
Lysstickan AB	Sweden	100	100
SMD Logistics AB	Sweden	100	100
SM Industries AB	Sweden	100	100
SM Intellectual Property AB	Sweden	100	100
SM North Europe AB	Sweden	100	100
Gotlands Snus AB	Sweden	95	95
Gotland Production AB	Sweden	95	95
Svenska Tändsticks AB	Sweden	100	100
Svenska Tändsticksbolaget Försäljningsaktiebolag	Sweden	100	100
SM Holding AB	Sweden	100	100
Swedish Match US AB	Sweden	100	100
SM (PM) International AB ²⁾	Sweden	-	100
Svenska Tobaks AB	Sweden	100	100
SM Jupiter AB	Sweden	100	-
SM Estongo AB	Sweden	100	-
Svenskt Snus AB	Sweden	100	100
Nyz AB	Sweden	100	100
V2 Distribution Sverige AB	Sweden	100	100
SM Treasury Switzerland AG	Switzerland	100	100
SM Kibrit ve Cakmak Endustri A.S.	Turkey	100	100
SM Cigars Holding Inc.	USA	100	100
SM Cigars Inc.	USA	100	100
SM USA Inc.	USA	100	100
SM Leaf Tobacco Company	USA	100	100
SM North America LLC	USA	100	100
Pinkerton Tobacco Co. LP	USA	100	100
The Pinkerton Tobacco Co. LLC	USA	100	100

¹⁾ The designation includes both directly and indirectly owned companies. Dormant companies are not included.

²⁾ SM (PM) International AB has been liquidated during 2019.

32 Supplementary information to cash flow statement

The definition and composition of cash and cash equivalents is cash and bank and other current investments.

Interest paid and interest received	2019	2018
Interest received	88	59
Interest paid	-279	-295
Total	-191	-235

Interest payments and interest receipts are reflected in cash flow from operations.

Adjustments for non cash items and other	2019	2018
Depreciation, amortization and write down ¹⁾	915	415
Result sale of fixed assets	-15	-2
Change in defined benefit plans	129	-18
Change in accrued interest	2	11
Change in market value revaluations and unrealized exchange rate differences	154	89
Realized exchange rate differences moved to financing	-156	-136
Other	-90	16
Total	938	374

¹⁾ 2019 includes depreciations relating to right-of-use assets of 87 MSEK following the adoption of IFRS 16 and an impairment charge for the European chewing tobacco business of 367 MSEK.

Investments in associated companies and other companies

Investments in associated companies during 2019 pertain to the investment of 13 MSEK in OTP d.o.o. For more information see *Note 16 Investments in associated companies*.

No investments were made in associated companies during 2018.

Investment of subsidiaries

No acquisitions of subsidiaries have been made during 2019.

During 2018 Swedish Match acquired House of Oliver Twist A/S and Gotlands Snus AB, including its subsidiaries. The total consideration paid, less acquired liquid funds, amounted to 541 MSEK.

For more information see *Note 4 Business combinations*.

Divestment of subsidiaries

No divestments of subsidiaries have been made during 2019 and 2018.

NOTE 32 *Continued***Reconciliation of liabilities arising from financing activities**

	Dec 31, 2018	Cash flows	Non-cash changes				Dec 31, 2019
			Revalued lease liabilities	Adj. current portion from non-current	Foreign exchange movement	Fair value changes	
Long-term borrowings	12,282	994	-	-1,298	152	-	12,130
Short-term borrowings	1,229	-1,082	-	1,298	-145	-	1,300
Lease liabilities	272	-94	68	-	7	-	253
Net assets held to hedge long-term borrowings	-619	-13	-	-	-1	-122	-755
Total liabilities from financing activities	13,164	-195	68	-	12	-122	12,927

33 Related parties

Swedish Match related parties include associated companies and key management personnel with significant influence over the Group. Key management personnel with significant influence over the Group are Swedish Match Board of Directors and members of the Group Management Team. Related parties transactions are conducted at an arms-length basis. For further information about the Group's transactions with associated companies, see *Note 16 Investments in associated companies*. For information about remuneration to the Board of Directors and Group Management Team, see *Note 6 Personnel*. Besides this, and disregarding intergroup transactions that are eliminated in the consolidated financial statements of the Group, no significant related parties transactions have been conducted during the year.

34 Subsequent events**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. The FDA further indicated that it intends to defer regulatory actions against cigars until May 2020 at which time substantial equivalence or new product application filings are due for products that were not in the market on February 15, 2007.

Issuance of new bond loan

In late February 2020, Swedish Match AB issued a public bond of 300 million EUR with a maturity of seven years for general corporate purposes.

35 Information about the Parent Company

Swedish Match AB (publ) is a company domiciled in Stockholm and registered in Sweden.

The Parent Company's shares are listed on Nasdaq Stockholm. The address of the head office is Sveavägen 44, postal address: SE-118 85 Stockholm, Sweden.

The consolidated financial statements for 2019 include the Parent Company and its subsidiaries, jointly referred to as the Group. The Group also comprises the Group's interest in associated companies.



Parent Company income statement

MSEK	Note	2019	2018
Sales	1	42	48
Administrative expenses	2, 7, 25	-300	-247
Other operating income and expenses	3	-3	-2
Operating loss		-261	-201
Result from participation in Group companies	4	97	-2
Interest income and similar items	4	0	-
Interest expenses and similar items	4	-293	-299
Loss after financial items		-458	-502
Appropriations	5	2,330	2,208
Profit before income tax		1,872	1,706
Income tax expense	6	-387	-378
Profit for the year		1,485	1,328

Parent Company statement of comprehensive income

MSEK	Note	2019	2018
Profit for the year		1,485	1,328
<i>Other comprehensive income that may be reclassified to the income statement</i>			
Effective portion of changes in fair value of cash flow hedges	24	122	39
Income tax relating to components of other comprehensive income	6	-25	-11
Other comprehensive income, net of tax for the year		97	28
Total comprehensive income for the year		1,582	1,356



Parent Company balance sheet

MSEK	Note	December 31, 2019	December 31, 2018
Assets			
Tangible assets	7	1	1
Non-current financial assets			
Participations in Group companies	8	31,151	31,151
Other non-current receivables	9	755	485
Deferred income tax assets	6	45	65
Total non-current financial assets		31,951	31,701
Total non-current assets		31,952	31,702
Current assets			
Receivables on Group companies		2,928	2,687
Receivables on Associated companies		1	-
Other receivables	10	24	175
Prepaid expenses and accrued income	11	26	24
Total current assets		2,980	2,886
Cash and other current deposits	24	400	1,000
TOTAL ASSETS		35,332	35,588
Equity			
Restricted equity	12		
Share capital		390	390
Unrestricted equity			
Reserve for fair value		-66	-163
Retained earnings		10,162	13,600
Profit for the year		1,485	1,328
TOTAL EQUITY		11,970	15,154
Untaxed reserves	13	2,325	1,785
Other provisions	14	98	78
Total provisions		98	78
Non-current liabilities			
Bond loans	15	12,130	12,278
Other liabilities	16	2	2
Total non-current liabilities		12,132	12,280
Current liabilities			
Bond loans		1,300	1,227
Trade payables		10	9
Liabilities to Group companies		7,149	4,767
Current income tax liabilities	6	166	104
Other liabilities		2	2
Accrued expenses and deferred income	17	180	182
Total current liabilities		8,807	6,290
TOTAL EQUITY AND LIABILITIES		35,332	35,588



Statement of changes in Parent Company equity

2018	Note	Restricted equity		Unrestricted equity		Total equity
		Share capital	Reserve for fair value ¹⁾	Retained earnings	Profit for the year	
Equity at beginning of year	12	390	-191	12,656	6,367	19,221
Profit for the year		-	-	-	1,328	1,328
Other comprehensive income, net of tax for the year		-	28	-	-	28
Total comprehensive income for the year		-	28	-	1,328	1,356
Allocation of profit		-	-	6,367	-6,367	-
Dividend		-	-	-2,911	-	-2,911
Repurchase of own shares		-	-	-2,512	-	-2,512
Cancellation of shares		-13	-	13	-	-
Bonus issue		13	-	-13	-	-
Equity at end of year		390	-163	13,600	1,328	15,154

¹⁾ Reserve for fair value consists of a hedge reserve.

2019	Note	Restricted equity		Unrestricted equity		Total equity
		Share capital	Reserve for fair value ¹⁾	Retained earnings	Profit for the year	
Equity at beginning of year	12	390	-163	13,600	1,328	15,154
Profit for the year		-	-	-	1,485	1,485
Other comprehensive income, net of tax for the year		-	97	-	-	97
Total comprehensive income for the year		-	97	-	1,485	1,582
Allocation of profit		-	-	1,328	-1,328	-
Dividend		-	-	-1,777	-	-1,777
Repurchase of own shares		-	-	-2,989	-	-2,989
Cancellation of shares		-13	-	13	-	-
Bonus issue		13	-	-13	-	-
Equity at end of year		390	-66	10,162	1,485	11,970

¹⁾ Reserve for fair value consists of a hedge reserve.



Cash flow statement for the Parent Company

MSEK	Note	2019	2018
Operating activities	24		
Profit after financial items		-458	-502
Adjustments for non-cash items and other		19	613
Income tax paid		-331	-352
Subtotal		-770	-240
Increase (-)/Decrease (+) in operating receivables		14	-15
Increase (+)/Decrease (-) in operating liabilities		5	4
Net cash used in operating activities		-751	-251
Investing activities			
Purchase of tangible assets		0	0
Shareholders contribution		-	-114
Net cash used in/from investing activities		0	-114
Financing activities			
Proceeds from non-current borrowings		999	2,846
Repayment of borrowings		-1,092	-1,250
Repurchase of own shares		-2,989	-2,512
Dividend		-1,777	-2,911
Changes in financial receivables/liabilities Group companies		5,010	3,292
Other		0	0
Net cash used in/from financing activities		151	-535
Net decrease in cash and cash equivalents		-600	-900
Cash and cash equivalents at the beginning of the year		1,000	1,900
Cash and cash equivalents at end of year		400	1,000



Notes for the Parent Company

All amounts referred to in the notes of the Parent Company financial statements are in millions of Swedish kronor (MSEK) unless stated otherwise.

The amounts within brackets refer to the preceding year, 2018.

For remuneration and other benefits to Parent Company President and other members of Group management, see *Note 6 Personnel* for the Group on page 91.

1 Sales

Sales pertains to services provided to Group companies.

2 Audit fees

Expenses for auditor's fees are included in the administrative expenses as set out in the table below. The audit firm for 2019 and 2018 was Deloitte.

Audit fees	2019	2018
Audit services	2	2
Tax services	0	0
Other services	0	1
Total	3	3

3 Other operating income and expenses

Other operating income and expenses 2019 mainly relates to foreign exchange gains and losses.

4 Financial items

Result from participation in Group companies	2019	2018
Dividends received	97	1,246
Write-downs of participations in subsidiaries	-	-1,247
Total	97	-2

The major part of the impairment loss during 2018 was recognized following dividends from subsidiaries, whereof a dividend in kind of 630 MSEK.

Interest income and similar items	2019	2018
Net foreign exchange gains	0	-
Total	0	-

Interest expenses and similar items	2019	2018
Interest expenses relating to Group companies	-19	-3
Interest expenses relating to other financial liabilities measured at amortized cost	-216	-228
Interest expenses relating to financial instruments measured at fair value in hedging relationships	-55	-64
Other financial expenses	-4	-3
Net foreign exchange losses	-	0
Total	-293	-299

5 Appropriations

Appropriations	2019	2018
Difference between reported depreciation and according to plan		
Equipment, tools and fixtures	0	0
Tax allocation reserve		
Appropriation for the year	-600	-570
Reversal appropriation	60	115
Group contributions		
Group contributions received	2,913	2,670
Group contributions granted	-43	-8
Total	2,330	2,208

6 Income tax

Income tax reported in income statement	2019	2018
Current tax expense for the period	-393	-379
Deferred tax due to temporary differences	6	1
Total	-387	-378

Income tax reported in other comprehensive income	2019	2018
Effective portion of changes in fair value of cash flow hedges	-25	-11
Total	-25	-11

	2019		2018	
	[%]		[%]	
Income before tax		1,872		1,706
Swedish statutory tax rate	21.4	-401	22.0	-375
Non-taxable dividends	-1.1	21	-16.1	274
Non-deductible expenses	0.3	-6	16.1	-275
Effect of enacted change of tax rate	0.0	1	0.1	-1
Taxes related to prior years	0.0	0	0.0	0
Standard interest income, tax allocation reserve	0.1	-2	0.1	-1
Reported effective tax	20.7	-387	22.2	-378

The change to the current tax liability during the period is explained below:

Current income tax liabilities	2019	2018
Carrying value at beginning of year	104	77
Current tax expense	393	379
Paid tax	-331	-352
Carrying value at end of year	166	104

Net tax liabilities amounted to 166 MSEK and consists of taxes to be paid on income for the year.



NOTE 6 Continued

The tax effects of deductible temporary differences that resulted in deferred tax assets at December 31 are summarized below:

	2019	2018
Deferred income tax assets		
Hedge reserve	17	42
Provision	28	22
Carrying value at end of year	45	65

The following reconciles the deferred tax assets at the beginning of the year to the end of the year.

2019	Balance Jan. 1	Charges to profit for the year	Charges to other comprehensive income	Balance Dec. 31
Hedge reserve	42	-	-25	17
Provision	22	6	-	28
Total	65	6	-25	46

2018	Balance Jan. 1	Charges to profit for the year	Charges to other comprehensive income	Balance Dec. 31
Hedge reserve	54	-	-11	42
Provision	21	1	-	22
Total	75	1	-11	65

7 Tangible assets

	2019	2018
Equipment, tools and fixtures		
Cost at beginning of year	4	4
Purchases/investments	0	0
Cost at end of year	4	4
Accumulated depreciation at beginning of year	-3	-3
Depreciation for the year	-1	-1
Accumulated depreciation at end of year	-4	-3
Net carrying value at end of year	1	1

Depreciation charges on tangible assets are included in administrative expenses in the income statement and amounted to -1 MSEK (-1). No borrowing costs have been capitalized during 2019 nor during 2018.

8 Group companies

2019	Balance Jan. 1	Acquisition	Shareholder's contribution	Liquidation	Impairments	Balance Dec. 31
Costs of acquisitions	57,516	-	-	-	-	57,516
Impairments	-26,365	-	-	-	-	-26,365
Carrying value	31,151	-	-	-	-	31,151

2018	Balance Jan. 1	Acquisition	Shareholder's contribution	Liquidation	Impairments	Balance Dec. 31
Costs of acquisitions	56,772	630	114	-	-	57,516
Impairments	-25,118	-	-	-17	-1,230	-26,365
Carrying value	31,654	630	114	-17	-1,230	31,151

Shares in subsidiaries, directly owned

Subsidiary	Corp. Reg.no.	Domicile	Number of shares	Ownership, %	2019	Ownership, %	2018
Svenskt Snus AB	556367-1261	Stockholm, Sweden	1,000	100	300	100	300
Swedish Match North Europe AB	556571-6924	Stockholm, Sweden	1,000	100	16,684	100	16,684
SMD Logistics AB	556571-7039	Stockholm, Sweden	1,000	100	2,350	100	2,350
Svenska Tändsticksbolaget Försäljningsaktiebolag	556012-2730	Stockholm, Sweden	34,403,000	100	8,949	100	8,949
Swedish Match Holding AB	556367-1253	Stockholm, Sweden	2,000	100	14	100	14
Swedish Match Industries AB	556005-0253	Tidaholm, Sweden	30,853	100	95	100	95
Swedish Match US AB	556013-4412	Stockholm, Sweden	96,000	100	0	100	0
Svenska Tändsticks AB	556105-2506	Stockholm, Sweden	1,000	100	0	100	0
Svenska Tobaks AB	556680-3028	Stockholm, Sweden	100,000	100	0	100	0
Swedish Match USA, Inc	62-1257378	USA	1,000	100	849	100	849
Swedish Match Cigars Holding Inc	81-0733029	USA	1,000	100	1,739	100	1,739
Swedish Match Dominicana S.A.	05338-2007-STI	Dominican Republic	9,249,907	99.99	171	99.99	171
Swedish Match Distribution A/S	930567647	Norway	500	100	0	100	0
SA Allumettiére Causemille ¹⁾		Algeria	10,000	100	0	100	0
The Burma Match Co Ltd ²⁾		Myanmar	300,000	100	0	100	0
Vulcan Trading Co. Ltd ³⁾		Myanmar	4,000	100	0	100	0
Carrying value at end of year					31,151		31,151

¹⁾ Nationalized in 1963.
²⁾ Nationalized in 1968.
³⁾ Nationalized in 1969.

In addition, shares are owned in Union Allumettiére Marocaine S.A. Ownership is purely formal. Group companies hold all rights and obligations.



9 Other non-current receivables

Other non-current receivables consisted of derivatives including exchange rate differences and fair values of cross currency and interest rate swaps of 755 MSEK (485).

10 Other receivables

Other receivables	2019	2018
Derivatives	-	134
Tax account	23	39
VAT receivables	1	2
Other current receivables	0	0
Carrying value at end of year	24	175

11 Prepaid expenses and accrued income

Prepaid expenses and accrued income	2019	2018
Accrued interest income	2	2
Prepaid bank charge	2	3
Prepaid rent	4	4
Other prepaid expenses	18	15
Carrying value at end of year	26	24

12 Equity

For information regarding the change in Parent Company equity see Statement of changes in Parent Company equity.

Number of registered shares in the Parent Company are detailed below:

Number of registered shares	2019	2018
Issued at beginning of year	175,950,000	181,800,000
Cancellation	-6,000,000	-5,850,000
Total shares outstanding at end of year	169,950,000	175,950,000
Of which held by Swedish Match AB	-6,721,687	-5,739,295
Total shares outstanding, net of shares held by Swedish Match AB	163,228,313	170,210,705
Total outstanding shares quota value	2.2919	2.2138

Repurchase of own shares

Repurchase of own shares encompass the acquisition cost for treasury shares owned by the Parent Company. At December 31, 2019, the Parent Company's holding of treasury shares amounted to 6,721,687 shares (5,739,295).

Number of shares held in treasury and cumulative repurchases of own shares included in retained earnings are detailed below:

	Number of shares (thousands)		Cumulative effect on equity (MSEK)	
	2019	2018	2019	2018
Balance at beginning of year	5,739	5,889	-31,440	-28,928
Repurchase of own shares during the year	6,982	5,700	-2,989	-2,512
Allocated to retained earnings by cancellation of shares	-6,000	-5,850	13	13
Bonus issue	-	-	-13	-13
Balance at end of year	6,722	5,739	-34,429	-31,440

The Annual General Meeting on April 9, 2019 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 6.0 million shares held in treasury, with a simultaneous bonus issue, without issuing new shares, of an amount equivalent to the amount represented by the cancelled shares or 13 MSEK. Furthermore, the shareholders approved the proposal that the reduction will be allocated to a fund for use pursuant to a resolution adopted by the Annual General Meeting.

During the year 6,982 million shares were repurchased for 2,989 MSEK at an average price of 428.03 SEK. Total shares bought back since the buyback program started have been repurchased at an average price of 138.74 SEK.

As per December 31, 2019 Swedish Match held 6.7 million shares in its treasury, corresponding to 3.96 percent of the total number of shares.

The number of shares outstanding, net, as per December 31, 2019, amounted to 163.2 million.

Dividend

After the balance sheet date, the Board proposed a dividend for 2019 of 12.50 SEK per share (10.50). The proposed dividend amounts to 2,040 MSEK based on the 163 million shares outstanding at the end of 2019. The ordinary dividend for 2018, paid in 2019, amounted to 1,777 MSEK, corresponding to 10.50 SEK per share.

Reserve for fair value

Reserve for fair value consists of a hedge reserve, the change during the year is explained below:

Hedge reserve	2019	2018
Carrying value at beginning of year	-163	-191
Effective portion of changes in fair value of cash flow hedges	122	39
Income tax	-25	-11
Carrying value at end of year	-66	-163

The hedge reserve includes the accumulated effective portion of changes in fair value of cash flow hedges attributable to interest rate hedges.

13 Untaxed reserves

Untaxed reserves	2019	2018
<i>Excess depreciation:</i>		
Tangible assets		
Carrying value at beginning of year	0	0
Excess depreciation for the year	0	0
Total	0	0
<i>Tax allocation reserve:</i>		
Carrying value at beginning of year	1,785	1,330
Reversal of appropriation	-60	-115
Appropriation current year	600	570
Total	2,325	1,785
Carrying value at end of year	2,325	1,785



14 Other provisions

Non-current and current provisions at December 31 comprised the following:

Other provisions	2019	2018
Pension obligations	69	48
Deferred compensation	28	30
Other operating provisions	1	1
Carrying value at end of year	98	78
Where of total non-current	93	72
Where of total current	5	6

Movements in provisions during the year were as follows:

2019	Pension obligations	Deferred compensation	Other operating provisions	Total
Carrying value at beginning of year	48	30	1	78
Provisions made during the year	19	15	1	36
Provisions used during the year	-1	-	-1	-2
Provisions reversed during the year and changes in estimates	4	0	-	4
Provisions reclassified to accrued expenses	-	-17	-	-17
Carrying value at end of year	69	28	1	98

2018	Pension obligations	Deferred compensation	Other operating provisions	Total
Carrying value at beginning of year	58	26	2	86
Provisions made during the year	3	15	1	19
Provisions used during the year	0	-	-2	-2
Provisions reversed during the year and changes in estimates	-13	4	0	-9
Provisions reclassified to accrued expenses	-	-16	-	-16
Carrying value at end of year	48	30	1	78

Pension obligations

Pension obligations pertain to provisions recognized for special income taxes on pension obligations secured in endowment insurances and provisions for post-employment defined benefit obligations. The major part of the pension provisions pertains to a pension trust for former employees in the divested Swedish Match UK Ltd. Due to a change in the assumption of the discount rate the provision for the UK pension obligations has increased. Payments relating to the pension obligations later than five years after balance sheet date are calculated to an amount of 26 MSEK.

Deferred compensation

Deferred compensation refers to long term incentive plans for certain managers which will be settled within three years.

Other operating provisions

Other operating provisions refers to restructuring provisions and special payroll tax on pension obligations.

15 Bond loans

Liabilities due for payment later than five years after the balance sheet date amounted to 3,541 MSEK (5,570).

16 Other liabilities

Other liabilities mainly consisted of the change in fair value of the derivatives, due to increase or decrease of interest rates and currencies. Derivative liabilities with maturity over five years after the balance sheet date amounted to 0 MSEK (0).

17 Accrued expenses and deferred income

Accrued expenses and deferred income	2019	2018
Accrued interest expenses	125	129
Accrued incentives including social security charges	41	39
Accrued social security charges	6	4
Accrued vacation pay	2	2
Personnel expenses	0	0
Other accrued expenses	4	5
Deferred income	1	1
Carrying value at end of year	180	182

18 Carrying value and fair value of financial instruments

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

IFRS 13 is applied for financial instruments measured at fair value on the balance sheet which implies using a fair value hierarchy that reflects the significance of input used according to the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets
- Level 2 – Inputs other than quoted prices that are observable, either directly or indirectly. The input data consists mainly of the compounded interest rates from interest rate swaps, basis swaps and conversions rates for variable interest rates to create relevant Cross Currency Interest Rate Swap (CCIRS) rates. The created interest rates are used to calculate the market value by discounting the external outstanding CCIRS flows including the actual market valuation of involved currencies.
- Level 3 – Inputs that are not based on observable market data

The following table shows carrying value (including accrued interest) and fair value for each category of financial instruments at December 31, 2019. Derivatives attributable to cash flow hedges are carried at fair value via other comprehensive income (FVOCI) in level 2 of the fair value hierarchy. In assessing the fair values of these derivatives, a variety of methods are used to make assumptions based on market conditions at each reporting date. Quoted market prices or dealer quotes for identical or similar instruments are used. Items not valued at fair value are measured at amortized cost. All other items, except loans and borrowings, have a short duration and are considered non-interest bearing, and therefore, the total carrying value of the financial instruments corresponds to the estimated fair value. The carrying amount for loans and borrowings differ from their fair value as a consequence of changes in the market interest rates, determined by using current official market quotations for outstanding bonds or similar instruments and discounting future cash flows. The values presented are indicative and may not necessarily be realized.



NOTE 18 Continued

Carrying value and fair value

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

2019	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
Other non-current financial receivables	-	-	755	-	755	755
Receivables on Group companies	2,928	-	-	-	2,928	2,928
Other current receivables	1	-	-	24	25	25
Prepaid expenses and accrued income ¹⁾	-	-	2	24	26	26
Cash and cash equivalents	400	-	-	-	400	400
Total assets	3,329	-	758	48	4,134	4,134
Loans and borrowings	-	13,430	-	-	13,430	13,661
Other liabilities	-	-	2	2	4	4
Liabilities to Group companies (current)	-	7,149	-	-	7,149	7,149
Accrued expenses and deferred income ¹⁾	-	106	19	55	180	180
Trade payables	-	10	-	-	10	10
Total liabilities	-	20,695	21	57	20,773	21,004

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	Level 1	level 2	Level 3	Total
Derivative financial assets	-	758	-	758
Derivative financial liabilities	-	21	-	21

The following table shows carrying value and fair value for financial instruments per December 31, 2018.

2018	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
Other non-current financial receivables	-	-	485	-	485	485
Receivables on Group companies	2,687	-	-	-	2,687	2,687
Other current receivables	-	-	134	316	451	451
Prepaid expenses and accrued income ¹⁾	-	-	2	22	24	24
Cash and cash equivalents	1,000	-	-	-	1,000	1,000
Total assets	3,687	-	621	338	4,647	4,647
Loans and borrowings	-	13,505	-	-	13,505	13,432
Other liabilities	-	-	2	2	4	4
Liabilities to Group companies (current)	-	4,767	-	-	4,767	4,767
Accrued expenses and deferred income ¹⁾	-	104	25	53	182	182
Trade payables	-	9	-	-	9	9
Total liabilities	-	18,385	27	55	18,467	18,394

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	Level 1	level 2	Level 3	Total
Derivative financial assets	-	621	-	621
Derivative financial liabilities	-	27	-	27

19 Derivatives under netting agreements

To reduce the credit risk in receivables from banks arising via derivative instruments, Swedish Match has entered into netting agreements, known as ISDA Master Agreements, with all of its counterparties. These agreements grant rights to net market valuations on assets and liabilities if the counterpart is in an event of default, as with suspended payments. The following table shows the netted exposures per December 31. No collateral has been received or pledged. All the derivatives are related to Group's central funding.

Financial instruments under master netting agreements

2019	Gross amount for financial instruments	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	Net
Derivatives – Assets	758	-16	741
Derivatives – Liabilities	21	-16	5

2018	Gross amount for financial instruments	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	Net
Derivatives – Assets	621	-22	599
Derivatives – Liabilities	27	-22	5



20 Operating lease agreements

Total expense for operating lease agreements for 2019 amounted to 17 MSEK (16). Operating leasing agreements mainly refer to rental of office and storage premises. The contracts are non-cancellable during the agreed leasing period and the agreements include indexation clauses.

Future annual minimum lease payments under the terms of non-cancellable operating lease agreements with initial or remaining terms of one year or more fall due as follows:

Minimum lease payments	2019	2018
Within one year	15	14
Between 1–5 years	1	16
Later than 5 years	–	–
Total	16	30

Certain parts of the leased premises are sub-leased to a Swedish Match AB's subsidiary. Rental income for the year relating to items that are being subleased to a subsidiary amounted to 12 MSEK (12).

21 Pledged assets and contingent liabilities

Pledged assets

Pledged assets pertained to endowment insurance policies pledged as security for pension obligations amounting to 106 MSEK (86).

In accordance with IAS 19, endowment insurance policies pledged as securities for certain defined contribution obligations have been netted against the pension obligation in other provisions.

Contingent liabilities	2019	2018
Guarantees on behalf of subsidiaries	71	57
Total	71	57

22 Distribution of earnings

Proposed distribution of earnings

Dividend [12.50 SEK based on 163,228,313 shares]	SEK	2,040,353,913
Retained earnings to be carried forward	SEK	9,540,070,316
Total amount	SEK	11,580,424,229

23 Related parties

Summary of transactions with related parties	Subsidiaries	
	2019	2018
Revenues		
Dividends	97	1,246
Group contribution	2,913	2,670
Sale of goods/services	42	48
Rental income	12	12
Expenses		
Group contribution	–43	–8
Interest expenses	–19	–3
Purchase of goods/services	–33	–28
Receivables	2,928	2,687
Liabilities	7,149	4,767
Contingent liabilities	71	57

Transactions with related parties are determined at an arms-length basis. For remunerations to key management personnel, see *Note 6 Personnel* for the Group.

In the normal course of business, the Parent company conducts various transactions with subsidiaries. For information about directly owned subsidiaries, see *Note 8 Group companies*.

During the year, transactions related to sale of goods/services, with the Group's associated companies amounted to 1 MSEK (–). Receivables, at the end of the year, amounted to 1 MSEK (–).

24 Supplementary information to cash flow statement

	2019	2018
Interest paid and received and dividend received		
Dividend received	97	616
Interest received, non-Group companies	–	0
Interest paid, non-Group companies	–277	–286
Interest paid, Group companies	–19	–3
Total	–199	327

Interest payments and interest receipts are reflected in cash flow from operations.

Adjustments for non cash items and other	2019	2018
Depreciation	1	1
Write-down of subsidiaries	–	1,247
Dividend in kind	–	–630
Change in accrued interest	1	9
Change in pension provision	17	–14
Exchange rate differences	1	0
Total	19	613

Cash and cash equivalents	2019	2018
Cash and bank	0	–
Other current deposits ¹⁾	400	1,000
Total	400	1,000

¹⁾ Other current deposits have been classified as cash and cash equivalents based on that they are readily convertible to known amounts of cash.



NOTE 24 Continued

Reconciliation of liabilities arising from financing activities

	2018	Cash flows	Non-cash changes			2019
			Adj. current portion from non-current	Foreign exchange movement	Fair value changes	
Long-term borrowings	12,278	999	-1,298	152	-	12,130
Short-term borrowings	1,227	-1,080	1,298	-145	-	1,300
Net assets held to hedge long-term borrowings	-619	-13	-	-1	-122	-755
Total liabilities from financing activities	12,885	-94	-	5	-122	12,675

25 Post-employment benefits

Swedish Match AB has post-employment benefit obligations that are insured by Swedish pension trust arrangements. Swedish Match AB also has assumed the role as sponsor and Principal Employer for a pension trust for former employees in the divested Swedish Match UK Ltd.

As per December 31, 2019 the larger Swedish pension trust arrangement showed a net surplus while a small plan reflected a net deficit. The pension plan for former employees in the UK showed a net deficit.

The tables below specify the pension obligations assumed by Swedish Match AB:

Defined benefit pension plans	2019	2018
Present value of funded obligations	906	791
Fair value of separately held assets	-954	-848
Surplus, net	-48	-56
Net surplus in pension trust not recognized in balance sheet	91	82
Net pension liability recognized in the balance sheet	43	26

Specification of movements in the net liability recognized in the balance sheet attributable to pension:

Net pension liability	2019	2018
Balance at beginning of year	26	40
Benefits paid	9	8
Contribution received from pension trust	-9	-8
Change in pension provision	17	-14
Balance at end of year	43	26

87 MSEK (81) of the total net pension asset is covered by "Tryggandelagen".

Specification of expenses and income attributable to pension:

Defined benefit pension plans	2019	2018
Difference between contribution received from pension trust and benefits paid	0	0
Interest cost on obligation	-22	-20
Actual return on separately held assets	96	-27
Change in pension provision	-17	14
Net income/expense for pension	57	-34
Pensions covered by insurance premiums:		
Costs for pension insurance premiums recognized in income statement	-16	-17
Change in surplus in pension trust	-74	47
Net pension costs recognized in income statement attributable to pension	-33	-3

The expenses attributable to pension are recognized in the income statement under administration costs.

The actual return on separately held assets expressed in percentage is 11.3 percent (-3.0 percent).

Separately held assets of the pension trusts are comprised as follows:

Separately held assets	2019	2018
Debt instruments	115	63
Equity securities	134	140
Other ¹⁾	705	645
Total	954	848

¹⁾ Large part pertains to the UK annuity policies at the insurance company Aviva.

Significant actuarial assumptions at the balance sheet date

The obligations are calculated based on a weighted average discount rate of 1.8 percent (2.7).

A contribution to the UK pension plan will be paid during the first quarter of 2020 in an amount of approximately 5 MSEK.

26 Subsequent events

Issuance of new bond loan

In late February 2020, Swedish Match AB issued a public bond of 300 million EUR with a maturity of seven years for general corporate purposes.



Auditor's report

To the general meeting of the shareholders of Swedish Match AB (publ) corporate identity number 556015-0756

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Swedish Match AB (publ) for the financial year 2019-01-01 – 2019-12-31. The annual accounts and consolidated accounts of the company are included on pages 30–33, 63–64 and 67–121 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2019 and their

financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's Board of Directors in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these

requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in

the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Valuation of intangible assets

Swedish Match reports intangible assets of MSEK 2 355 as of 31 December 2019. For cash generating units ("CGUs") which contain intangible assets, the determination of recoverable amount, being the higher of fair value less costs to sell and value in use, requires judgement on the part of management in both identifying and then valuing the relevant CGUs. Management prepared impairment assessments for the intangible assets by CGU, as required under accounting standards, which was based on a value in use calculation. Such calculations are based on management's view of variables such as sales growth, EBITDA margin, terminal growth rate of free cash flow, and discount rate.

Disclosures regarding intangible assets are included in note 1 Accounting principles and note 12 Intangible assets.

Our audit procedures included, but were not limited to:

- evaluated the design and implementation of relevant internal controls over the impairment assessment process including indicators of impairment;
- evaluated and challenged key assumptions in management's valuation models used, including assumptions of sales growth, EBITDA margin, terminal growth rate, and discount rate with the support of our valuation specialists;
- tested the mathematical accuracy of the cash flow models used by management;
- evaluated the impairment charge of the European chewing tobacco business, and
- evaluated the appropriateness of disclosures made in the financial statements.



Tax related contingencies

Swedish Match reports tax related contingencies of MSEK 320 as of 31 December 2019. The Swedish Tax Agency has decided to deny certain cost deductions in two cases which have been ruled in favor of the Swedish Tax Agency by the County Administrative Court. Swedish Match has appealed the cases to the Administrative Court of Appeal.

The two tax cases require accounting considerations and judgement on the part of management to assess the most likely final outcome of the cases. Judgements are based on tax regulations, interpretation of similar case rulings and assessment of external advisor.

Disclosures regarding tax related contingencies are included in note 1 Accounting principles and note 30 Commitments and contingent liabilities and assets.

Our audit procedures included, but were not limited to:

- evaluated and challenged key assumptions in management's judgment of most likely final outcome with the support of our tax specialists;
- read the Administrative Court of Appeal's ruling and significant correspondence with the company;
- obtained Swedish Match's external legal advisor's assessment of most likely final outcome, and
- evaluated the appropriateness of disclosures made in the financial statements.

Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages ii–29, 34–62, 65–66 and 126–129. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and

consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error

and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibilities for the audit of the annual accounts and consolidated accounts is located at the Swedish Inspectorate of Auditors website: www.revisorsinspektionen.se/revisornsansvar. This description forms part of the auditor's report.



Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Swedish Match AB (publ) for the financial year 2019-01-01 – 2019-12-31 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for

accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things

continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibilities for the audit of the management's administration is located at the Swedish Inspectorate of Auditors website: www.revisorsinspektionen.se/revisornsansvar. This description forms part of the auditor's report.

Deloitte AB, was appointed auditor of Swedish Match AB by the general meeting of the shareholders on the 2019-04-09 and has been the company's auditor since 2017-05-04.

Stockholm, March 5, 2020

Deloitte AB

Peter Ekberg
Authorized public accountant



Five year summary 2015–2019

Condensed consolidated income statement, MSEK	2019	2018	2017 ¹⁾	2016	2015
Sales	14,739	12,966	11,751	11,222¹⁾	10,556¹⁾
Gross profit	9,363	8,133	7,396	7,226	6,789
Larger one-time items	-367	-	373	2,254	-42
Operating profit	5,307	4,812	4,592	6,420	4,008
Net finance cost	-247	-281	-240	-431	-463
Profit before income tax	5,060	4,531	4,353	5,988	3,545
Profit for the year	3,896	3,578	3,400	5,123	2,803
EBITDA ²⁾	6,222	5,227	4,600	4,504	4,368

¹⁾ Financial statements for 2017 have been restated in accordance with IFRS 15. For the period 2015–2016, sales have for reasons of comparability been restated to reflect revenue recognition in accordance with agent accounting under IFRS 15.

²⁾ Excluding larger one-time items.

Condensed consolidated balance sheets, MSEK	2019	2018	2017 ¹⁾	2016	2015
Intangible assets	2,355	2,708	2,088	1,250	1,048
Property, plant and equipment ²⁾	3,255	2,941	2,558	2,543	2,240
Right-of-use assets	255	-	-	-	-
Investments in associated companies	42	24	22	122	4,845
Other non-current assets and operating receivables ³⁾	18	19	22	2,784	22
Other non-current financial assets and receivables	1,826	1,420	1,254	1,689	1,717
Total non-current assets	7,750	7,113	5,944	8,387	9,871
Other current financial receivables	195	226	263	251	59
Current operating assets and receivables	3,905	3,762	3,171	3,333	3,161
Cash and cash equivalents	2,370	2,886	3,998	3,364	1,732
Total current assets	6,471	6,874	7,432	6,948	4,952
Assets held for sale ⁴⁾	16	-	-	-	-
Total assets	14,237	13,987	13,376	15,335	14,824
Equity attributable to equity holders of the Parent	-6,324	-5,611	-4,202	-1,366	251
Non-controlling interests	16	16	1	1	1
Total equity	-6,308	-5,595	-4,201	-1,365	252
Non-current financial provisions	1,310	1,186	1,200	1,168	931
Non-current loans	12,130	12,282	10,277	8,169	7,613
Other non-current financial liabilities ⁵⁾	1,626	1,140	1,218	1,613	1,882
Other non-current operating liabilities	434	415	368	369	292
Total non-current liabilities	15,499	15,024	13,063	11,318	10,718
Current loans	1,300	1,229	1,253	2,047	653
Other current financial liabilities ⁶⁾	633	245	534	321	208
Other current operating liabilities	3,112	3,085	2,727	3,013	2,993
Total current liabilities	5,045	4,559	4,514	5,382	3,854
Total liabilities	20,544	19,582	17,577	16,700	14,572
Total equity and liabilities	14,237	13,987	13,376	15,335	14,824

¹⁾ Restated in accordance with IFRS 15.

²⁾ Includes forest plantations.

³⁾ Includes shares in STG recognized as a financial asset in 2016, pension assets and derivatives financial instruments.

⁴⁾ 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.

⁵⁾ Includes pension obligations and derivative financial instruments. 2019 includes lease liabilities following the adoption of IFRS 16 Leases.

⁶⁾ Includes short term derivatives financial instruments. 2019 includes lease liabilities following the adoption of IFRS 16 Leases.

Condensed consolidated cash flow, MSEK	2019	2018	2017	2016	2015
Net cash from operating activities	5,080	3,705	3,402	2,929	3,768
Net cash used in/from investing activities	-815	-1,204	1,594	3,408	-513
Net cash transferred to shareholders	-4,766	-5,423	-5,498	-6,771	-3,318
Net cash in/from other financing activities	-38	1,727	1,215	2,007	-605
Net decrease/increase in cash and cash equivalents	-539	-1,195	713	1,573	-669
Cash and cash equivalents at beginning of the year	2,886	3,998	3,364	1,732	2,312
Effects of exchanges rate fluctuations on cash and cash equivalents	23	83	-79	59	90
Cash and cash equivalents at end of year	2,370	2,886	3,998	3,364	1,732



Key data ¹⁾	2019	2018	2017	2016	2015
Net debt, MSEK	11,925	10,843	8,183	7,941	7,922
Investments in property, plant and equipment, MSEK	720	649	369	537	491
Operating margin from product segments, % ²⁾	40.6	39.1	38.1	37.9	37.4
Operating margin, % ²⁾³⁾	36.0	37.1	39.1	57.2	38.0
EBITA interest cover	23.4	17.5	12.6	10.1	8.9
Net debt/EBITA	2.1	2.2	1.9	1.9	1.9
<i>Share data</i>					
Share capital, MSEK	390	390	390	390	390
Ordinary dividend per share, SEK	12.50 ⁴⁾	10.50	9.20	8.50	8.00
Special dividend per share, SEK	-	-	7.40	7.50	21.50
Earnings per share basic, SEK					
Including larger one-time items	23.22	20.63	18.88	27.38	14.48
Including larger one-time items and excluding income from STG	23.22	20.63	18.38	26.44	12.62
Excluding larger one-time items and income from STG	25.41	20.63	16.40	14.39	12.79
Earnings per share diluted, SEK					
Including larger one-time items	23.22	20.63	18.88	27.38	14.48
Including larger one-time items and excluding income from STG	23.22	20.63	18.38	26.44	12.62
Excluding larger one-time items and income from STG	25.41	20.63	16.40	14.39	12.79

¹⁾ All key ratios have been calculated excluding larger one-time items, unless otherwise stated.

²⁾ 2017 has been restated in accordance with IFRS 15. For the period 2015–2016, the years have for reasons of comparability been restated to reflect revenue recognition in accordance with agent accounting under IFRS 15.

³⁾ Group operating margin including larger one-time items.

⁴⁾ Board proposal.

Sales by product segments, MSEK	2019	2018	2017 ¹⁾	2016 ¹⁾	2015 ¹⁾
Snus and moist snuff	7,484	6,127	5,484	5,277	5,090
Other tobacco products	5,679	5,240	4,634	4,283	3,829
Lights	1,200	1,246	1,291	1,314	1,295
Sales from segments	14,363	12,612	11,410	10,875	10,214
Other operations	376	353	342	348	342
Sales	14,739	12,966	11,751	11,222	10,556

¹⁾ 2017 has been restated in accordance with IFRS 15. For the period 2015–2016, the years have for reasons of comparability been restated to reflect revenue recognition in accordance with agent accounting under IFRS 15.

Operating profit/loss by product segments, MSEK	2019	2018	2017 ¹⁾	2016 ¹⁾	2015 ¹⁾
Snus and moist snuff	3,477	2,791	2,358	2,197	2,071
Other tobacco products	2,113	1,956	1,776	1,705	1,554
Lights	238	189	211	219	190
Operating profit from product segments	5,828	4,936	4,345	4,122	3,815
Other operations	-153	-124	-126	-132	-124
Impairment charge – European chewing tobacco business	-367	-	-	-	-
Share of net profit/loss in STG	-	-	-	176	360
Sale of STG shares	-	-	197	1,208	-
Gain on fair value of STG shares	-	-	-	902	-
Sale of distribution facilities	-	-	-	145	-
Income from defined benefit plan amendment	-	-	69	-	-
Costs for relocation of distribution facilities	-	-	-	-	-42
Capital gain from sale of land	-	-	107	-	-
Operating profit	5,307	4,812	4,592	6,420	4,008

¹⁾ 2017 has been restated in accordance with IFRS 15. For the period 2015–2016, the years have for reasons of comparability been restated to reflect revenue recognition in accordance with agent accounting under IFRS 15.

Operating margin by product segments, %	2019	2018	2017 ¹⁾	2016	2015
Snus and moist snuff	46.5	45.6	43.0	41.6	40.7
Other tobacco products	37.2	37.3	38.3	39.8	40.6
Lights	19.8	15.2	16.4	16.7	14.7
Operating margin from product segments	40.6	39.1	38.1	37.9	37.4

¹⁾ Restated in accordance with IFRS 15.



Quarterly data 2018–2019

Condensed consolidated income statements, MSEK	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	3,933	3,829	3,719	3,258	3,301	3,388	3,336	2,941
Gross profit	2,482	2,489	2,369	2,023	2,057	2,157	2,085	1,834
Operating profit	1,098	1,586	1,434	1,190	1,196	1,305	1,263	1,047
Net financial cost	-59	-60	-60	-69	-62	-73	-73	-73
Profit before income tax	1,039	1,526	1,374	1,121	1,134	1,232	1,190	974
Profit for the period	756	1 180	1 080	880	925	959	928	766
EBITDA¹⁾	1,615	1,725	1,566	1,316	1,313	1,406	1,363	1,144
¹⁾ Excluding larger one-time items.								
Key data	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Operating margin, %	27.9	41.4	38.5	36.5	36.2	38.5	37.9	35.6
Investments in property, plant and equipment, MSEK	173	191	177	180	185	179	171	115
Earnings per share, basic SEK	4.62	7.04	6.39	5.17	5.41	5.55	5.31	4.36
Sales by product segments, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and moist snuff	2,156	1,935	1,876	1,515	1,632	1,601	1,509	1,386
Other tobacco products	1,359	1,496	1,480	1,344	1,233	1,384	1,433	1,190
Lights	323	298	266	314	349	310	302	285
Sales from product segments	3,838	3,729	3,622	3,174	3,214	3,295	3,244	2,860
Other operations	95	100	98	84	87	93	92	81
Sales	3,933	3,829	3,719	3,258	3,301	3,388	3,336	2,941
Operating profit by product segments, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and moist snuff	987	940	874	676	725	752	691	623
Other tobacco products	437	579	578	518	456	519	557	425
Lights	100	88	6	43	66	46	46	31
Operating profit from product segments	1,525	1,607	1,458	1,238	1,246	1,317	1,293	1,079
Other operations	-59	-21	-25	-48	-50	-12	-30	-31
Impairment charge – European chewing tobacco business	-367	-	-	-	-	-	-	-
Operating profit	1,098	1,586	1,434	1,190	1,196	1,305	1,263	1,047
Operating margin by product segments, %	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and moist snuff	45.8	48.6	46.6	44.6	44.4	47.0	45.8	45.0
Other tobacco products	32.2	38.7	39.1	38.6	37.0	37.5	38.8	35.7
Lights	31.1	29.4	2.3	13.8	18.9	14.9	15.1	10.9
Operating margin from product segments	39.7	43.1	40.3	39.0	38.8	40.0	39.9	37.7
EBITDA by product segments, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and moist snuff	1,064	1,020	947	745	795	810	744	675
Other tobacco products	481	612	611	550	480	539	581	446
Lights	111	99	17	55	76	57	56	41
EBITDA from product segments	1,656	1,731	1,576	1,349	1,351	1,406	1,381	1,162
EBITDA margin by product segments, %	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and moist snuff	49.4	52.7	50.5	49.1	48.7	50.6	49.3	48.7
Other tobacco products	35.4	40.9	41.3	40.9	38.9	39.0	40.5	37.5
Lights	34.3	33.3	6.5	17.4	21.8	18.2	18.5	14.4
EBITDA margin from product segments	43.1	46.4	43.5	42.5	42.0	42.7	42.6	40.6
Depreciation, amortization and impairments, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Property, plant and equipment	108	101	95	89	102	85	84	81
Right-of-use assets	23	22	21	21	-	-	-	-
Intangible assets ¹⁾	19	16	16	16	16	16	16	16
Total	150	140	133	126	117	101	100	97
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	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Interest income	17	21	28	24	15	16	17	14
Interest expense	-82	-82	-82	-90	-81	-87	-86	-86
Net interest expense	-64	-60	-55	-66	-66	-71	-69	-72
Other finance costs, net	6	0	-5	-3	4	-2	-4	-1
Total net finance cost	-59	-60	-60	-69	-62	-73	-73	-73



Definitions

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
Dividend pay-out ratio (%)	$100 \times \text{Dividend (proposed after year-end)} \div \text{Earnings per share from continuing operations, basic}$	Used as a measure of the percentage of net profits distributed as a dividend to the shareholders.
Dividend yield (%)	$100 \times \text{Dividend (proposed after year-end)} \div \text{Year-end share price}$	Used as a measure of cash return to shareholders.
Total return (%)	$100 \times (\text{Share price at year-end} - \text{Share price at preceding year-end}) + [\text{Dividend paid} + \text{Return on reinvested dividend}] \div \text{Share price at preceding year-end}$	Used as a measure of the Group's total value creation for the shareholder, including cash returns and share price appreciation/depreciation.
P/E ratio	$\text{Share price at year-end} \div \text{Earnings per share}$	Used as a measure of the estimated market value based on net profit generation.
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.
EBIT multiple	$(\text{Stock market value at year-end} + \text{Net debt} + \text{Non-controlling interest}) \div \text{Operating profit}$	Used as a measure of Group enterprise value in relation to operating profit generation.
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 hedges relating to these loans + net provisions for pensions and similar obligations – 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	$\text{Profit for the period excluding larger one-time items} \div \text{Average number of shares outstanding}$	Used as an alternative measure of earnings per share which is not affected by items which impact comparability between periods.
Market capitalization	$\text{Share price at year-end} \times \text{Number of shares outstanding at year-end}$	Used as a measure of the market value of the Group.

Net debt, MSEK	2019	2018
Non-current loans	12,130	12,282
Current loans	1,300	1,229
Components of derivatives (liabilities) ¹⁾	91	20
Components of derivatives (assets) ²⁾	-839	-826
Non-current lease liabilities ³⁾	172	-
Current lease liabilities ⁴⁾	81	-
Net provision for pensions and similar obligations ³⁾	1,451	1,106
Net asset for pensions and similar receivables ⁵⁾	-91	-83
Cash and cash equivalents	-2,370	-2,886
Net debt	11,925	10,843

Larger one-time items, MSEK	2019	2018
Impairment charge – European chewing tobacco business	-367	-
Total larger one-time items in operating profit	-367	-

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.

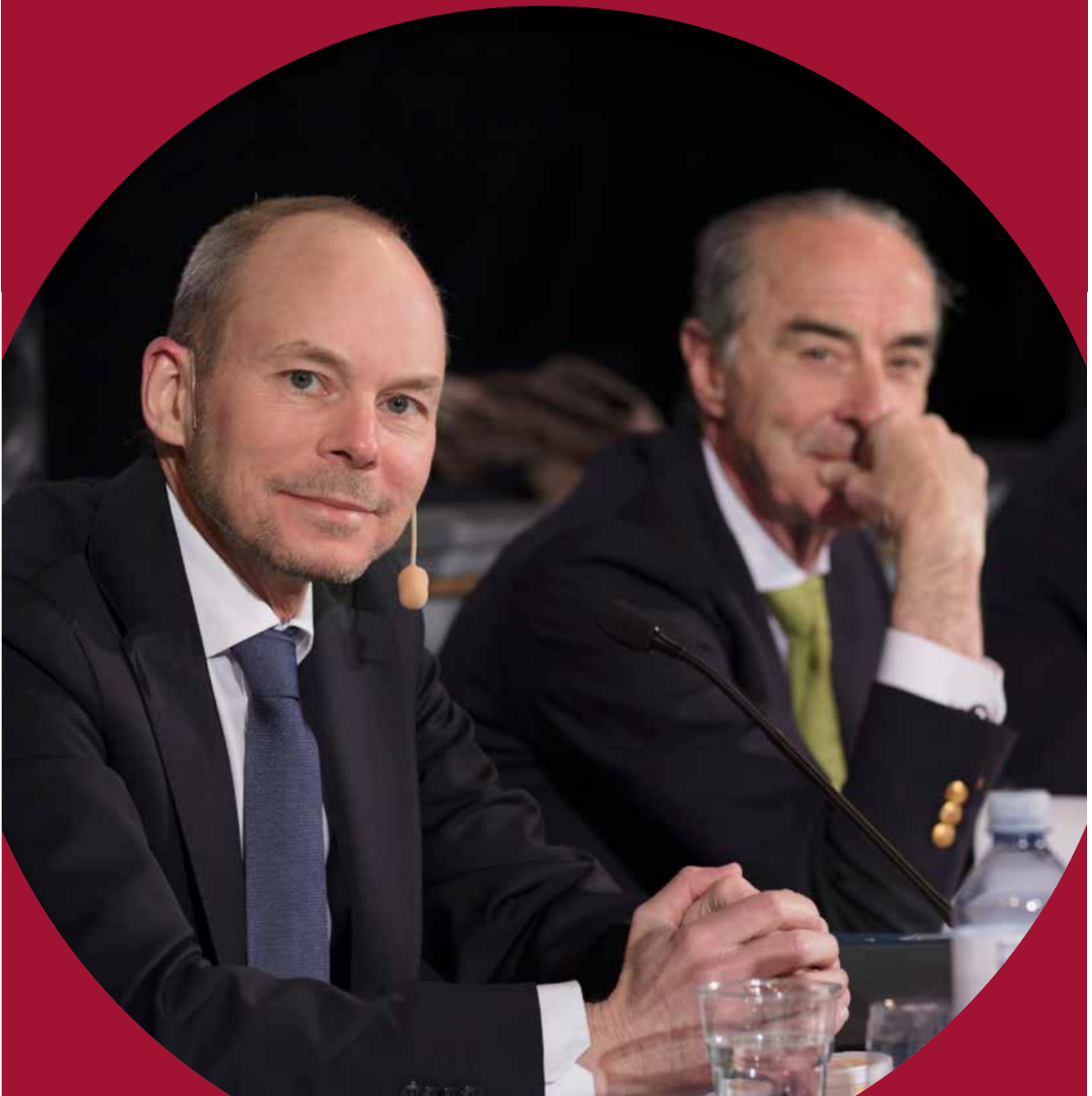
⁴⁾ Included in Other current financial liabilities in the condensed consolidated balance sheet.

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.



CORPORATE GOVERNANCE





Chairman's comment

This has been an exciting and eventful year at Swedish Match. Just as consumers are changing to embrace new alternatives to cigarettes, Swedish Match remains at the forefront of that change. This annual report provides a snapshot of the year's financial results and seeks to provide insight into Swedish Match activities over the past year, be they product introductions, new geographic markets, regulatory engagement, business ethics, or sustainability efforts. For Swedish Match, with its strong commitment to its vision of a world without cigarettes grounded in a strict adherence to its core values, the pathway to future growth is bright. As is the case for all companies, Swedish Match will face challenges, but I am confident that with proper governance and engaged employees, these challenges will be met with the same focused determination and enthusiasm that we have exhibited over these past years.

In addition to the financial figures, business risks, and discussion on products and markets, the report also highlights many of the efforts we have made in sustainability focus areas. I would like to highlight just a couple of areas where we have been recognized for our work – We were the first, and to date only, company to have been formally granted MRTTP status for General snus by the FDA in the US. Also, Swedish Match had its greenhouse gas emission targets approved by the Science Based Target initiative.

A growing and dynamic organization demands sound governance. Further details on the activities of the Board of Directors, as well as corporate governance and risk assessments during the year are presented on pages 132–138 in the Governance report.

One of the largest transformational changes for Swedish Match is the incredibly strong growth for ZYN nicotine pouches in the US, a testament to the dedicated efforts by the company in developing an outstanding concept, responsibly marketed to adult nicotine users. In keeping with its vision, Swedish Match took strides during 2019 in transforming its US portfolio from being one dependent largely on mass market cigars for growth to a portfolio where Smokefree products are playing the key role. Swedish Match is now working to build on its success by expanding its Smokefree portfolio into new markets, and we on the Board of Directors recognize that this will take time, dedication, and the willingness to face challenges with fortitude. In pursuit of its vision, business strategies and sustainability objectives, Swedish Match has always taken a long-term view, and I firmly believe this approach has merit.

Swedish Match will continue to invest what is needed to support its business, while also generating cash returns. Cash returns to shareholders during the year came in the form of both dividends and an ongoing share repurchase program. At the upcoming Annual General Meeting the Board will propose to shareholders that the annual dividend be increased to 12.50 SEK



per share. The Board remains committed to active engagement with Swedish Match's management and recognizes the vital role this engagement plays in the development of the Company. Those efforts are further supported by contributions made by our various board committees. The work this past year of the Board, the CEO, and his management team has been active, supporting our efforts to have the appropriate platforms for a well governed, growing and dynamic company, moving toward the Company's vision. I am proud and appreciative of the employees of Swedish Match. Their hard work and dedication are critical drivers in making Swedish Match the company that it is. I would also like to thank you, our shareholders, for your trust and support as the Company continues its journey.

Conny Karlsson
Chairman of the Board



Governance report

Swedish Match AB (publ) is a public Swedish limited liability company listed on Nasdaq Stockholm. The objective of the Company's operations, as stated in the Company's Articles of Association, is to directly or indirectly conduct business relating to the development and manufacture of and trade in tobacco products, matches, and lighters and to carry out other activities that are related to these businesses.

Swedish Match is subject to a variety of rules that affect its governance, including the Company's Articles of Association, the Swedish Companies Act, the Rule Book for Issuers on Nasdaq Stockholm, the Swedish Code of Corporate Governance, and other applicable laws and regulations.

Internal regulations and standards that affect Swedish Match's corporate governance include the Company's Articles of Association, the Board's rules of procedure, the Board's instructions to the CEO, the Group's Code of Conduct, and other policy documents issued within the Group. The Articles of Association are adopted by the General Meeting of shareholders.¹⁾ They do not contain any limitations on the number of votes that a shareholder may cast at a General Meeting or any specific provisions concerning the appointment and dismissal of directors or regarding amendments of the Articles of Association.

Swedish Match applies the Swedish Code of Corporate Governance (the Code).²⁾ The Code is based on the "comply or explain" principle, meaning that a company that applies the Code may deviate from regulations of the Code, but must provide explanations for each deviation. The Company is not reporting any deviations from the Code for 2019, except with regard to the Code's regulation that auditors are to review the Company's half year or nine-month report. The reason for this

deviation is that the Board of Directors, with reference to the Company's stable operations, is of the opinion that the extra cost that would be incurred by such a review is not warranted and that sufficient control is achieved through the Company's internal reporting and control systems.

This Corporate Governance report has been examined by the Company's auditors but does not represent part of the formal annual report.

Shareholding

The share capital of Swedish Match was 389,515,417.20 SEK distributed over 169,950,000 shares at the end of 2019. Each share carries one vote. On December 31, 2019, no shareholder had a shareholding in the Company representing one tenth or more of the votes of all shares of the Company.³⁾ The Swedish Match share is listed on Nasdaq Stockholm. Further information concerning Swedish Match's ownership structure and share performance are presented on pages 63–64 of the 2019 Annual Report.

Annual General Meeting 2020

Swedish Match's 2020 Annual General Meeting will be held on April 2, in Stockholm, Sweden. All shareholders who have been entered in the share register and have informed the Company of their attendance within the correct time limit stated in the notice are entitled to

participate personally or by proxy at the General Meeting and to vote according to the number of shares held. Notice of the General Meeting is published in Post- och Inrikes Tidningar and on the Company's website. Information that notice to a General Meeting has been issued, is published in the Swedish daily newspaper, Svenska Dagbladet.

Shareholders who wish to have a matter addressed by the Annual General Meeting must submit a written request to the Board in sufficient time prior to the meeting.⁴⁾

Nominating Committee for the Annual General Meeting 2020

The Nominating Committee for the Annual General Meeting in 2020 was announced on the Company's website on October 1, 2019. In addition to the Chairman of the Board of Swedish Match, Conny Karlsson, the Nominating Committee consists of the following members: Filippa Gerstädt (Nordea Funds), Hans Ek (SEB Investment Management AB), Will James (Standard Life Aberdeen PLC), and David Pawelkowski (Zadig Gestion (Luxembourg) S.A.) Filippa Gerstädt serves as Chairman of the Nominating Committee.

PROPOSALS TO THE NOMINATING COMMITTEE ARE TO BE SUBMITTED TO:

Swedish Match AB
The Nominating Committee
c/o General Counsel Marie-Louise Heiman
SE-118 85 Stockholm, Sweden
E-mail: nominating.committee@swedishmatch.com

¹⁾ Available on Swedish Match's website www.swedishmatch.com/governance.

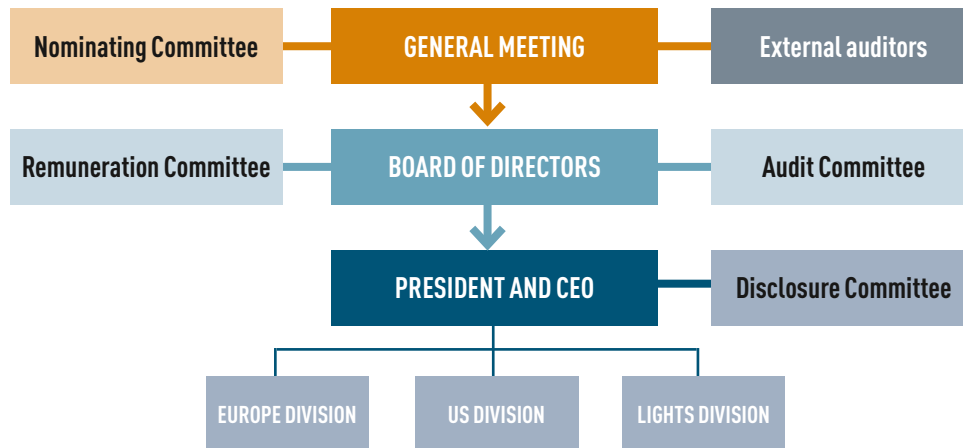
²⁾ Available on Swedish Corporate Governance Board's website www.corporategovernanceboard.se.

³⁾ Source: Euroclear Sweden AB.

⁴⁾ More information is available on Swedish Match's website www.swedishmatch.com/aggm.



GOVERNANCE OF THE SWEDISH MATCH GROUP



GENERAL MEETING

The Annual General Meeting (AGM) constitutes the highest governing body in a limited liability company, and shareholders' rights to participate in resolutions regarding the Company's affairs are exercised at General Meetings. The Company's shareholders are informed of their legal rights to have issues addressed at General Meetings through the Company's website www.swedishmatch.com/aggm. There are no special provisions on how the General Meeting works in the Articles of Association or, as far as known to the Company, due to any shareholders agreement. Resolutions adopted by General Meetings are generally resolved by a simple majority. However, according to the Swedish Companies Act, certain matters are to be resolved by a qualified majority.

The AGM must be held within six months of the close of the fiscal year. At the AGM, resolutions are adopted concerning such matters as dividend, approval of the annual report, discharge of the Board of Directors and the President from personal liability, election and compensation of the Chairman and members of the Board of Directors and auditors, guidelines for determination of compensation payable to senior executives, and other matters of importance to the Company.

Nominating Committee

The Nominating Committee is established according to the principles resolved by the AGM. The AGM also resolves on instructions for the Nominating Committee and according to the instructions the Nominating Committee shall submit to

the AGM proposals regarding any changes to these instructions. The Nominating Committee's duties are to prepare and submit proposals to the AGM concerning the election of the Chairman of the AGM, the election of the Chairman and other members of the Board, the amount of Board fees and their apportionment between the Chairman of the Board and other Board members and any fees for committee work, as well as the election of and fees to be paid to the auditors. The Nominating Committee's proposals are publicly announced no later than on the date of notification of the AGM. Shareholders may submit proposals to the Nominating Committee.

In the autumn of each year, the Board of Directors commissions an external consultant to evaluate the performance and functioning of the Board's work. The Chairman of the Board informs the Nominating Committee about the outcome of the evaluation. This evaluation gives the Nominating Committee a basis from which to assess the competence and experience of the Board members and requirements for the future. The Nominating Committee is to meet as often as necessary to discharge its duties, but at least once per year.

BOARD OF DIRECTORS

The Board of Directors is the Company's highest administrative body under the General Meeting. The Board of Directors is responsible for ensuring that the Group's organization is appropriate for its purpose and conducts ongoing evaluations of the financial position of the Company, of management guidelines and of the investment of company funds. The

Board also safeguards the Company's financial accounting, internal controls and the quality of its financial reporting through the internal control system described in detail in the section entitled Internal control over financial reporting. The Board is primarily responsible for establishing Swedish Match's strategic and financial Long Range Plan, monitoring the performance on an ongoing basis, evaluating the overall approach to managing risks of the Group, reviewing and approving the financial accounts, and taking decisions regarding larger investments and divestments.

The Board of Directors appoints and issues instructions for the President and monitors the President's work.

The working procedures for the Board of Directors are established annually at the statutory Board meeting. The working procedures include instructions relating to the role of the Chairman of the Board, the division of responsibilities between the Board of Directors and the President and the guidelines for financial reporting to the Board.

The Chairman of the Board is responsible for organizing and directing the Board's work and ensuring that the Board fulfills its obligations. The Chairman's other responsibilities include forwarding the owners' opinions to the Board of Directors.

Remuneration Committee

The Remuneration Committee is appointed annually by the Board of Directors and is a body within the Board. The Committee's duties are to prepare and submit to the Board proposals for



resolutions relating to remuneration and other terms of employment for the Company's President, principles regarding remuneration to senior executives, which the Board will present to the AGM for a resolution and other remuneration and employment term matters which by law or other regulations, the Swedish Code of Corporate Governance or established practice shall be resolved by the General Meeting or the Board of Directors.

The Board of Directors has delegated decision-making authority to the Remuneration Committee in certain issues such as calculation and payment of variable salary to the Company's President, salary and other compensation that, within the framework of the guidelines resolved by the AGM, is to be paid to members of the Group Management Team other than the President, including performance criteria, and targets in any long term incentive plan and approval of significant engagements outside the Company with respect to members of the Group Management Team other than the President.

The Committee is to meet as often as necessary but at least twice annually.¹⁾

Audit Committee

The Audit Committee is appointed annually by the Board of Directors and is a body within the Board. Although the Audit Committee's work is primarily of a preparatory and advisory nature, the Board of Directors delegates decision-making authority on specific issues to the Committee. The Committee is responsible for monitoring the Company and its subsidiaries' accounting and financial reporting processes as well as, in respect of the financial reporting, the efficiency of the internal controls, internal audit and risk management.

The Committee reviews and monitors the impartiality and independence of the auditors. The Committee's responsibilities are to large extent set by the EU Audit and Auditor Regulation, which includes responsibility for the audit selection procedure and otherwise to assist the Nominating Committee in preparing proposals regarding election of auditors and recommendations on audit fees. It keeps itself informed regarding the audit of the annual report and consolidated accounts. In conjunction with the Audit Committee's review of the financial reporting, the members of the Committee discuss accounting issues relating to the Company's financial reporting. The Committee establishes guidelines by which services other than auditing may be secured from the Company's auditors. The Audit Committee also discusses other important issues relating to the Company's financial reporting and reports its observations to the Board.¹⁾

PRESIDENT AND CEO

The President is appointed by the Board of Directors and manages the Company's operations within the framework of rules established by the Board.

With regard to the Board of Directors, the President's duties include responsibility for ensuring that the Board of Directors receives objective, comprehensive, and relevant information prior to Board meetings, thus enabling the Board to reach well-founded decisions. The President also submits proposals for decisions by the Board. On a monthly basis, the President provides Board members with the information required to monitor the position, liquidity and development of the Group, while also providing the Chairman with ongoing information regarding the operations of the Group.

Disclosure Committee

The President has appointed a Disclosure Committee whose primary responsibility is to ensure that all external reporting, including interim reports, annual reports, and press releases, whose content could have an impact on the share price or that contains financial information, is prepared in accordance with the Group's prevailing procedural routines.

External auditors

The auditors are elected by the AGM for a term of between one and four years. According to the Articles of Association, the number of authorized public auditors must be one or two with a maximum of one or two deputy auditors or one or two auditing firms.

The duties of the external auditors include auditing the management of the Board and the President as well as the Company's annual accounts and accounting records. The external auditors report continuously to the Board's Audit Committee and, in conjunction with preparation of the annual accounts, they also report their observations from the audit to the Board.

www.swedishmatch.com



¹⁾ Further information regarding for example the committees' respective responsibilities and authorizations, the Company's system of variable remuneration to senior executives as well as minutes from shareholders' meetings, is to be found on the Company's website, www.swedishmatch.com/governance.



GOVERNANCE OF THE SWEDISH MATCH GROUP 2019

ANNUAL GENERAL MEETING 2019

In 2019, the Annual General Meeting was held on April 9. The minutes of the meeting are available on the Company's website www.swedishmatch.com/agm.

The Annual General Meeting 2019 passed the following resolutions, amongst others:

- A dividend of 10.50 SEK per share for the 2018 fiscal year.
- Re-election of Charles A. Blixt, Andrew Cripps, Jacqueline Hoogerbrugge, Conny Karlsson, Pauline Lindwall, Wenche Rolfsen, and Joakim Westh as Board members. Re-election of Conny Karlsson as Chairman of the Board and Andrew Cripps as deputy Chairman of the Board.

- The Chairman shall receive 2,080,000 SEK, the deputy Chairman shall receive 980,000 SEK and the other Board members elected by the Meeting shall each receive 830,000 SEK. Furthermore, as compensation for committee work carried out, it was decided to allocate 270,000 SEK to the Chairman of the Remuneration Committee, 310,000 SEK to the Chairman of the Audit Committee and to allocate 135,000 SEK to each of the other members of these committees.
- Withdrawal of 6,000,000 repurchased shares in the Company.
- Authorization of the Board of Directors to acquire, on one or more occasions prior to the next Annual General Meeting, a maximum of as many shares as may be acquired without the Company's holding at any time exceeding 10 percent of all shares in the Company.

- Authorization of the Board of Directors to decide on transfer of the Company's own shares and to issue new ordinary shares.
- Principles for determining the salary and other remuneration of the President and other members of the Company's management.
- Adoption of income statements and balance sheets for 2018 and discharge from personal liability granted of the Board of Directors and the Chief Executive Officer.

For information on the utilization of the authorization granted by the General Meeting to the Board of Directors to acquire treasury shares, see section The share of the Board of Directors report, pages 63–64 of the 2019 Annual Report.

Nominating Committee

Pursuant to instructions established by the Annual General Meeting 2019, the Nominating Committee is to include the Chairman of the Board of Directors and one member appointed by each of the four largest shareholders who wish to appoint a member to the Nominating Committee. The four largest shareholders are to be identified on the basis of the known numbers of votes on July 31, the year before the forthcoming Annual General Meeting.

Nominating Committee for the Annual General Meeting 2019

The Nominating Committee for the Annual General Meeting in 2019 comprised the following five members: Tal Klausner (GIC Asset Management Private Limited), Filippa Gerstädt (Nordea Funds), Johan Strandberg (SEB Investment Management AB), Will James (Standard Life Aberdeen PLC) as well as Conny Karlsson (the Chairman of the Board). Johan Strandberg served as Chairman of the Nominating Committee.

The main task of the Committee is to propose Board members for election by the Annual General Meeting. As member of the Nominating Committee, the Chairman of the Board of Directors fulfills an important role to inform the Committee of the Company's strategy and future

challenges. Such insights are necessary for the Committee to be able to assess the competence and experience that is required by the Board. In addition, the Committee must consider independence rules applicable to the Board of Directors and its committees. When preparing proposals for the Board for the 2019 Annual General Meeting, the Nominating Committee paid particular attention to the issues of diversity and for gender balance on the board and the Committee thus applied Item 4.1 of the Swedish Corporate Governance Code as its diversity policy when preparing these proposals.

The Nominating Committee held three meetings during the period between the 2018 and 2019 Annual General Meetings combined. A report on the work of the Nominating Committee was presented to the Annual General Meeting 2019.

Board of Directors

Composition

According to the Articles of Association, the Company's Board of Directors shall consist of at least five and at most ten directors, apart from those persons who, pursuant to law, may be appointed according to other arrangements. At the end of 2019, the Swedish Match Board of Directors comprised seven members elected by the General Meeting plus three

employee representatives and their three deputies in accordance with the Trade Union Representatives (Status at the Workplace) Act.

The Nominating Committee advised before the Annual General Meeting 2019 that the Nominating Committee had applied the Swedish Corporate Governance Code, section 4.1, as diversity policy with the aim to propose a composition of Board members with complementing experiences and competencies that is diverse also in terms of age, gender and cultural/geographical background. The current Board composition is the result of the work of the Nomination Committee prior to the Annual General Meeting 2019.

Since the Annual General Meeting 2019, the Board of Directors consisted of the following directors elected by the General Meeting: Conny Karlsson, Charles A. Blixt, Andrew Cripps, Jacqueline Hoogerbrugge, Pauline Lindwall, Wenche Rolfsen, and Joakim Westh. Conny Karlsson served as Chairman of the Board. Employee representatives on the Board were, Patrik Englebretsson, Pär-Ola Olausson and Dragan Popovic, with Niclas Bengtsson, Niclas Ed and Matthias Eklund as deputies. Detailed information about individual Board members and deputies is provided on pages 139–140 of the 2019 Annual Report.



Independence of Board members

According to the Nominating Committee, all Board members elected by the Annual General Meeting are considered to be independent, under the rules of the Swedish Code of Corporate Governance, in relation to the Company's major shareholders and in relation to management and the Company.

Meetings

The Board of Directors convenes for at least six scheduled meetings and one statutory meeting per year. In addition to the scheduled Board meetings, the Board is summoned to additional meetings convened at the discretion of any director or of the President. The auditors participate in the Board meeting at which the annual accounts for the fiscal year are presented in order to communicate their observations from the audit. The auditors also meet

with the Board without the presence of the President or any other member of the Group Management Team.

Evaluation of the work of the Board of Directors

During autumn 2019, the Board's work was evaluated with the assistance of an independent consulting company. The Nominating Committee was informed of the result of the evaluation.

Compensation to the Board of Directors

Compensation to the Board for the period from the 2019 Annual General Meeting up to and including the 2020 Annual General Meeting was paid in accordance with the resolution adopted by the 2019 Annual General Meeting. No compensation for directorship work was paid to directors employed by the Swedish Match Group.

For further information about Directors' fees for 2019, see *Note 6 Personnel*, page 91 of the 2019 Annual Report.

Activities of the Board of Directors during 2019

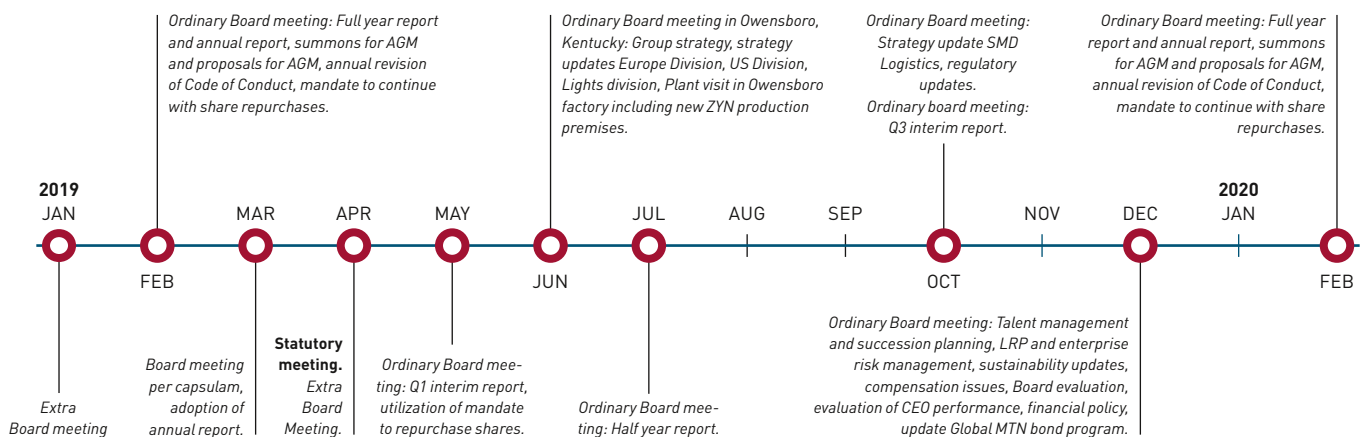
During the period from January 1, until December 31, 2019, the Board held ten scheduled meetings and one statutory meeting. During 2020 (until and including February) one Board meeting has been held.

At all scheduled Board meetings, with the exception of the statutory Board meeting, the Board received a general report from the CEO and discussed the activities and financial results of the Company and the associated companies, as well as other pertinent projects and matters.

All meetings held during the year followed an approved agenda. Prior to each

Composition of the Board and attendance 2019	Board of Directors	Audit Committee	Remuneration Committee	Independent ¹⁾	Member since	Compensation, TSEK
Total number of meetings	11	6	2			
Members elected by the General Meeting						
Conny Karlsson (Chairman)	11		2	Yes	2006	2,350
Andrew Cripps (Deputy Chairman)	11	6		Yes	2006	1,115
Charles A. Blixt	10		2	Yes	2015	965
Jacqueline Hoogerbrugge	11		2	Yes	2015	965
Pauline Lindwall	11			Yes	2017	830
Wenche Rolfsen	11	6		Yes	2013	965
Joakim Westh	11	6		Yes	2011	1,140
Employee representatives						
Patrik Engelbrektsson	9					
Pär-Ola Olausson	11					
Dragan Popovic	11					
Employee representatives (deputies)						
Niclas Bengtsson	10					
Niclas Ed	10					
Matthias Eklund	10					

¹⁾ As defined in the Swedish Code of Corporate Governance.





meeting, a proposed agenda and, where applicable, documents relevant to the items on the agenda were sent to the Board. The Company's auditors attended the Board meeting in February 2019 to present the audit report and observations from the audit. At the board meeting in June, which was held in Owensboro, Kentucky, the Board visited Swedish Match's Owensboro factory including new ZYN production premises. The Board also met with the company's employees who told about their business.

Audit Committee

In 2019, the members of the Audit Committee were Joakim Westh, (Chairman), Andrew Cripps, and Wenche Rolfsen.

Throughout the year, the Chairman of the Audit Committee kept the Board of Directors regularly informed of the committee's work and decisions. A total of six meetings were held in 2019. The Company's auditor, as well as the head of the Internal Audit, participated in all meetings of the Audit Committee in 2019 and, at two of these meetings, also met with the committee without the presence of the management of the Company.

Remuneration Committee

Following the AGM and the statutory meeting, the members of the Remuneration Committee in 2019 were Conny Karlsson (Chairman), Charles A. Blixt, and Jacqueline Hoogerbrugge. The Company's President presents reports on certain issues but is not a member of the committee and is not present when the committee prepares decisions regarding compensation to the President.

During the year, the Remuneration Committee's Chairman kept the Board of Directors regularly informed about

the committee's work and decisions. The committee is to meet as often as necessary but at least twice annually. Two meetings were held in 2019.

During 2019, the committee devoted special attention to determination of variable compensation for 2018 to be paid in 2019, and on targets relevant to variable compensation, proposals to the Board concerning adjustments of the President's salary and variable compensation for 2020, and determination of salaries and variable compensation for other members of the Group Management Team for 2020. In addition, the committee submitted a proposal to the Board concerning guidelines for the determination of salary and other remuneration paid to the President and other members of the Group Management Team.

Group Management Team

In 2019, the Swedish Match Group Management Team consisted of Lars Dahlgren, President and Chief Executive Officer; Richard Flaherty, President US Division; Thomas Hayes, Senior Vice President and Chief Financial Officer; Marie-Louise Heiman, Senior Vice President Group Legal Affairs; Lars Olof Löfman, Senior Vice President R&D, Europe Division; Fredrik Peyron, Senior Vice President Regulatory Affairs and Group Communication; Håkan Söderberg, President, Lights Division and Joakim Tilly, President, Europe Division.

Detailed information about the President and Chief Executive Officer Lars Dahlgren, including his and related persons shareholding in the Company, is provided on page 141 of the 2019 Annual Report. Lars Dahlgren has no significant shareholdings and partnerships in companies with which Swedish Match has important business relations.

Compensation to the Group Management Team

The 2019 Annual General Meeting established certain guidelines for determining salary and other compensation to the President and other members of the Group Management Team. For information on the guidelines established at the Annual General Meeting, see *Note 6 Personnel*, page 91 of the 2019 Annual Report. For information concerning compensation and other benefits to the Group Management Team, see *Note 6 Personnel*, page 91 of the 2019 Annual Report.

Audit and auditors

The accounting firm Deloitte AB was elected by the General Meeting 2019 as the Company's external auditors for the period from 2019 up to and including the Annual General Meeting in 2020. During 2019, in addition to auditing, Deloitte AB provided consultancy services to the Group constituting of tax and audit related services.

Peter Ekberg, authorized public accountant, served as auditor in charge. For information concerning compensation to the Swedish Match's auditors during 2019, see *Note 7 Audit fees*, page 94 of the 2019 Annual Report.

Disclosure Committee

Members of the Disclosure Committee during 2019 included the heads of Group Legal Affairs, Investor Relations, as well as Regulatory Affairs and Group Communications.



INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors is responsible for internal control over financial reporting pursuant to the Swedish Companies Act and the Swedish Corporate Governance Code. The Audit Committee has a specific responsibility for monitoring the effectiveness of risk management and internal controls regarding financial reporting. This report describes the Group's system for internal control and risk management regarding financial reporting.

Control environment

The foundation for internal control over financial reporting is the control environment that has been documented and communicated. It includes the Swedish Match Code of Conduct and internal policies and instructions on delegation of authority, accounting and reporting, internal control and information security. All governing documents are regularly updated and distributed to key individuals who implement them within their area of responsibility. Fundamental to creating an effective control environment is the Board of Directors', the Audit Committee's and management's dedication to reliable financial reporting. Swedish Match has established clear decision-making and review structures, including a system of regular review meetings between the Group, operating units and local management during which the Group values are reinforced.

Risk assessment

The Group applies a risk assessment and a risk management method to ensure that the risks to which the Group is exposed are managed within the established framework. Based on the risk assessment, the Group defines a standardized system of controls to ensure reliable financial recordkeeping, transparent financial reporting and disclosure, and protection of tangible

and intangible assets. These standardized controls are reviewed and updated annually. In addition, each operating unit is charged with the responsibility to assess company-specific risks and identify additional key internal controls not covered by the standardized system of controls.

Control activities

Based on the framework of Group policies and instructions, the heads of Swedish Match's operating units are charged with the responsibility to establish internal controls over financial reporting to meet the requirements of the standardized system of controls as well as to mitigate material company specific financial reporting risks. Control activities are established in all business processes and systems supplying information to the financial accounts in order to safeguard the reliability of the information.

Information and communication

The information and communication component includes the systems and procedures that support the identification, capture, and exchange of information in a form and timeframe that enable personnel to carry out their responsibilities and reliable financial reports to be generated. Management has established communication channels and forums to allow for an effective information flow relating to business conditions and changes affecting financial reporting. The Swedish Match Code of Conduct encourages employees to raise compliance concerns promptly and prohibits retribution for doing so.

Monitoring

The Group monitors compliance with governing documents in the form of internal policies and instructions, and evaluates the effectiveness of the control structure. Financial accounts

are provided on a monthly, quarterly and annual basis to the Group and operating unit management through a common reporting and consolidation system. Financial and operating management review the financial information to validate completeness and accuracy. The Board receives monthly reports, and the financial status of the Group is discussed at every scheduled Board meeting. At these Board meetings the Chairman of the Audit Committee also informs the Board on the work of the Audit Committee relating to the monitoring of the effectiveness of internal controls regarding financial reporting. The Disclosure Committee monitors the sufficiency of financial reports with regard to disclosure requirements.

The Group Internal Audit department is established with the primary task of independently evaluating the effectiveness of internal controls. Internal Audit's work is based on annual risk-focused plans that are updated throughout the year based on changes and events which influence the risks relating to the system for internal control. These plans are reviewed and approved by the Audit Committee and Internal Audit reports regularly on the results directly to the Audit Committee and to company management. The Audit Committee monitors that recommended actions are taken to improve the internal control regarding financial reporting. The head of Internal Audit reports directly to the Chairman of the Audit Committee and to the CFO. The Audit Committee also receives regular reports from the external auditor.

Stockholm, February 11, 2020

The Board of Directors of
Swedish Match AB

AUDITORS' REPORT ON THE CORPORATE GOVERNANCE REPORT

To the general meeting of the shareholders in Swedish Match AB (publ.), Corporate Identity Number 556015-0756

Engagement and responsibility

It is the Board of Directors who is responsible for the corporate governance statement for the financial year 2019-01-01 – 2019-12-31 on pages 130–142 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard *RevU 16 The auditor's examination of the corporate governance statement*. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Opinions

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm, March 5, 2020

Deloitte AB

Peter Ekberg
Authorized Public Accountant



Board of Directors 2019

Conny Karlsson



CONNY KARLSSON

Chairman of the Board of Directors since 2007. Chairman of the Remuneration Committee. Board member since 2006.

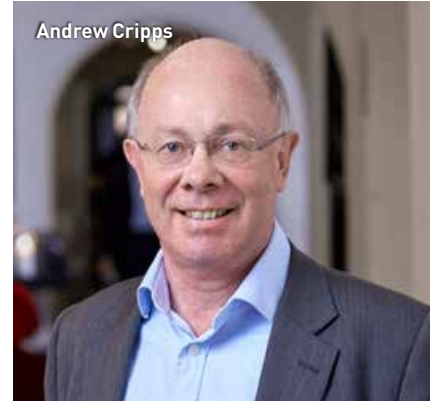
Born 1955. M.Sc. in Economics and Business from Stockholm School of Economics.

Other board assignments: Chairman of Cake 0 emission AB. Non-Executive Board member of Malte Månsson AB and Yrkesakademin AB.

Previous positions: Chief Executive Officer, Duni AB; Marketing Director, Procter & Gamble UK; Marketing Director and Regional Director, Procter & Gamble Scandinavia; Marketing Director, Procter & Gamble E&SO.

Own and related parties' shares: 30,000

Andrew Cripps



ANDREW CRIPPS

Deputy Chairman of the Board of Directors and member of the Audit Committee. Board member since 2006.

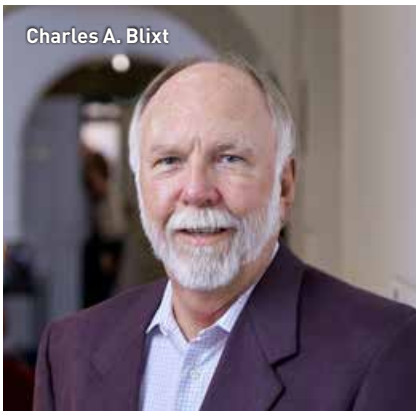
Born 1957. B.A. University of Cambridge. Chartered Accountant.

Other board assignments: Non-Executive Director and Audit Committee Chair of the Howden Joinery Group plc.

Previous positions: Director of Corporate Finance, Rothmans International; Director of Investments, British American Tobacco; President, Laurens International SA. Board member of a number of European consumer products businesses.

Own and related parties' shares: 19,200

Charles A. Blixt



CHARLES A. BLIXT

Member of the Remuneration Committee. Board member since 2015.

Born 1951. Jur. Dr. and B.A University of Illinois.

Other board assignments: Non-Executive Chairman, Atrium Coal Limited; Non-Executive Director, Lamb Weston Holdings Inc.

Previous positions: Interim General Counsel, Krispy Kreme Doughnuts Inc; Executive Vice President and General Counsel, Reynolds American Inc.

Own and related parties' shares: 3,000

Jacqueline Hoogerbrugge



JACQUELINE HOOGERBRUGGE

Member of the Remuneration Committee. Board member since 2015.

Born 1963. M.Sc. Chemical Engineering from the University of Groningen.

Other board assignments: Non-Executive Board member of Ikea Industry AB, Dometic AB, Broadview BV and BA Glass.

Previous positions: President Operations, Cloetta AB; President Operations, Leaf International BV; Vice President Operations, Danone's Medical Nutrition Division; Vice President Procurement, Numico Baby & Medical Food; various positions in engineering, manufacturing and procurement, Unilever; and various positions in engineering and sales, Fluor Daniel.

Own and related parties' shares: 3,200

Pauline Lindwall



PAULINE LINDWALL

Board member since 2017.

Born 1961. BSc., University of Växjö.

Other board assignments: Non-Executive Board member of McKesson Europe AG and Duni AB.

Previous positions: Category Director Coffee, France and Southern Europe Mondelez International; Country Business Manager, Nestlé Nutrition Germany & Austria; Country Business Manager, Nestlé Nutrition Indonesia; Nordic Marketing Director, Nestlé Nordic; Head of Nestlé Innovation, Out of Home Coffee UK; Nordic Marketing Manager, Nestlé Coffee & Beverages.

Own and related parties' shares: 2,165

Holdings of own and related parties shares as of December 31, 2019. For a detailed report of remuneration and benefits for the Board of Directors, refer to Note 6 Personnel.



Wenche Rolfsen

WENCHE ROLFSEN

Member of the Audit Committee.
Board member since 2013.

Born 1952. M.Sc. in Pharmacy and Ph.D. in Pharmacology from Uppsala University.

Other board assignments: Chairman of Index Pharmaceuticals and Bioarctic AB.

Previous positions: Vice President Quintiles Phase I, Europe; CEO, Quintiles, Scandinavia; Director, Quintiles, Sweden; Managing Director of Pharmacology, Pharmacia Upjohn; Head of Pharmacology, Pharmacia Ophthalmics; Head of Pharmacology, Pharmacia Läkemedel.

Own and related parties' shares: 3,180



Joakim Westh

JOAKIM WESTH

Chairman of the Audit Committee.
Board member since 2011.

Born 1961. M.Sc. Royal Institute of Technology and M.Sc. Aeronautics and Astronautics MIT.

Other board assignments: Chairman of the Board of Amexci AB. Board member and Chairman of the Audit Committee of Saab AB; Board member and Chairman of the HR Committee of CGI Inc; Non-Executive Board member of Absolent Group AB.

Previous positions: Senior Vice President and Head of Group Function Strategy and Operational Excellence and member of Group Management Team, Telefonaktiebolaget LM Ericsson; Group Vice President and member of the Executive Management Team, Assa Abloy AB; Chairman, Absolent AB; Partner, McKinsey & Co. Inc.

Own and related parties' shares: 2,500

AUDITOR

Deloitte AB, Peter Ekberg,
Authorized Public Accountant.
Swedish Match auditor since 2017.

SECRETARY

Marie-Louise Heiman,
Senior Vice President Group Legal
Affairs and General Counsel.
Secretary to the Board since 2015.

INDEPENDENCE OF BOARD MEMBERS

According to the Nominating Committee, all of the Board members elected by the Annual General Meeting are considered to be independent, under the rules of the Swedish Code of Corporate Governance, in relation to the Company's major shareholders and in relation to management and the Company.

CHANGES IN THE BOARD OF DIRECTORS

There were no changes in the Board of Directors during 2019.

EMPLOYEE REPRESENTATIVES

Patrik Engelbrektsson



Pär-Ola Olausson



Dragan Popovic

PATRIK ENGELBREKTSSON

Board member since 2013. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Chairman of the Trade Union Association at Swedish Match's snus factory in Gothenburg, Sweden.

Born 1965. Logistic Technician at Swedish Match's snus factory in Gothenburg.

Previous positions: Mill worker, Machine Operator, Forklift driver at Swedish Match's snus factory in Gothenburg.

Own and related parties' shares: 0

PÄR-OLA OLAUSSON

Board member since 2018. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Vice Chairman of IF Metall's Trade Union Association at Swedish Match's match factory in Tidaholm, Sweden.

Born 1972. Technical support at Swedish Match's match factory in Tidaholm.

Own and related parties' shares: 0

DRAGAN POPOVIC

Board member since 2017. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Board member of the Swedish Association of Management and Professional Staff (Ledarna) at the snus factories in Gothenburg and Kungälv, Sweden.

Born 1973. Area Manager Production at Swedish Match's snus factory in Gothenburg.

Previous positions: Area Manager Pilot Plant and Machine Operator, at Swedish Match's snus factory in Gothenburg.

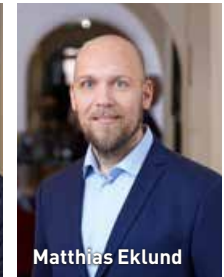
Own and related parties' shares: 0

EMPLOYEE REPRESENTATIVES (DEPUTIES)

Niclas Bengtsson



Niclas Ed



Matthias Eklund

NICLAS BENGTTSSON

Deputy member since 2018. Appointed by the Council for Negotiation and Co-operation (SACO) within Swedish Match.

Born 1969. Vice President Group Tax at Swedish Match's headquarters, Stockholm, Sweden.

Previous positions: Tax Director Group Finance, Swedish Match; Manager, Ernst & Young; Tax Litigation Officer, the Swedish Tax Agency.

Own and related parties' shares: 558

NICLAS ED

Deputy member since 2017. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Deputy Chairman of the Trade Union Association (Sälj-klubben) within Swedish Match Europe Division.

Born 1968. Sales Representative, Swedish Match Europe Division.

Previous positions: Sales Representative, JC - Brothers; Sales support, Skandia; Sales Representative, Ellte; Sales Representative, Nikko.

Own and related parties' shares: 0

MATTHIAS EKLUND

Deputy member since 2018. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Board member of the Swedish Food Workers' Trade Union Association (Livs) at SMD Logistics in Kungsängen, Sweden.

Born 1980. Warehouse worker at SMD Logistics in Kungsängen.

Previous positions: Warehouse worker, Swedish Match Distribution in Solna.

Own and related parties' shares: 0



Group Management 2019



Lars Dahlgren

LARS DAHLGREN

President and Chief Executive Officer, Swedish Match since 2008. Joined Swedish Match in 1996. Member of the Group Management Team since 2004.

Born 1970. M.Sc. in Business and Economics from the Stockholm School of Economics, Sweden.

Board assignments: Board member of Orkla ASA.

Previous positions: Senior Vice President and Chief Financial Officer, Swedish Match AB; Vice President Group Finance, Swedish Match AB; Finance Director, Swedish Match Philippines; Financial analyst, SBC Warburg.

Own and related parties' shares: 43,050



Richard Flaherty

RICHARD FLAHERTY

President, US Division, Swedish Match since 2008. Joined Swedish Match in 2000. Member of the Group Management Team since 2008. Born 1958. B.A. Economics, J.D. Law Rutgers University, and LLM Taxation New York University, USA.

Previous positions: Chief Operating Officer, Swedish Match North America Division OTP; Chief Financial Officer, Swedish Match North America Division; Chief Financial Officer, Bumble Bee Seafoods; Commercial Director, Unilever.

Own and related parties' shares: 20,125



Thomas Hayes

THOMAS HAYES

Chief Financial Officer and Senior Vice President, Group Finance, Swedish Match since 2018. Joined Swedish Match in 2006. Member of the Group Management Team since 2017.

Born 1966. B.S. in Accounting from Wake Forest University, USA.

Previous positions: Vice President and Chief Financial Officer, Swedish Match US Division; Chief Financial Officer Swedish Match International Division; Controller and Chief Accounting Officer, Chesapeake Corporation; Managing Director, PricewaterhouseCoopers.

Own and related parties' shares: 5,730



Marie-Louise Heiman

MARIE-LOUISE HEIMAN

Senior Vice President, Group Legal Affairs and General Counsel, Swedish Match since 2015. Joined Swedish Match in 1996. Member of the Group Management Team and Secretary to the Board since 2015.

Born 1965. Master of Laws (LLM), Uppsala University, Sweden.

Previous positions: Vice President Legal Affairs, Swedish Match AB; General Counsel Swedish Match North Europe AB; Legal Counsel, AB Fortos, BCP Branded Consumer Products AB and Procordia AB.

Own and related parties' shares: 3,300

**Lars Olof Löfman****LARS OLOF LÖFMAN**

Senior Vice President R&D, Europe Division, Swedish Match since 2017. Joined Swedish Match in 1987. Member of the Group Management Team since 2004. Born 1956. M.Sc. in Engineering and Controller DIHM, Sweden.

Previous positions: Senior Vice President Product Supply and Innovation, Swedish Match Scandinavia Division; President, Swedish Match Smokefree Products Division; President, Swedish Match Distribution AB; President, Swedish Match North Europe Division; Vice President Production & Development, Swedish Match North Europe Division; Vice President Operations, Swedish Match Snuff Division; Plant and Production Manager, Swedish Match North Europe Division.

Own and related parties' shares: 10,689

**Fredrik Peyron****FREDRIK PEYRON**

Senior Vice President, Regulatory Affairs and Group Communications. Joined Swedish Match in 2016. Member of the Group Management Team since 2016. Born 1967. Bachelor of Law (LLB), Lund University, Sweden.

Previous positions: Group Vice President, Legal Affairs, General Counsel and Secretary, Autoliv; Senior Vice President, Legal Affairs and General Counsel, Swedish Match AB; Vice President Corporate Affairs, Swedish Match AB; Legal Counsel, Akzo Nobel; Associate, Mannheimer Swartling law firm.

Own and related parties' shares: 3,100

**Håkan Söderberg****HÅKAN SÖDERBERG**

President, Lights Division, Swedish Match since 2017. Joined Swedish Match in 2007. Member of the Group Management Team since 2017.

Born 1969. M.Sc BA from the University of Stockholm, Sweden.

Previous positions: COO Lights International Division, Swedish Match; COO Continental Europe Division Netherlands, Swedish Match; Vice President Finance & IT International Division Netherlands, Swedish Match; Regional Finance Director Belgium, AstraZeneca; CFO South Africa, AstraZeneca; Director, Finance Supply chain and Logistics England, AstraZeneca; Director, Business logistics and Finance, AstraZeneca; Corporate controller, Astra AB.

Own and related parties' shares: 2,798

**Joakim Tilly****JOAKIM TILLY**

President, Europe Division, Swedish Match since 2013. Joined Swedish Match in 2004. Member of the Group Management Team since 2008. Born 1970. M. Sc. in Business and Economics from the Stockholm School of Economics, Sweden.

Previous positions: Senior Vice President, Group Finance and IT, and Chief Financial Officer, Swedish Match AB; Senior Vice President Group Finance, Swedish Match AB; Vice President Group Finance, Swedish Match AB; Chief Executive Officer and Chief Financial Officer, Netgiro International; Chief Financial Officer, Swedish Match Lighter Division.

Own and related parties' shares: 8,240

CHANGES IN THE GROUP MANAGEMENT TEAM 2019

There were no changes in the Group Management Team during 2019.

Swedish Match's vision is of a world without cigarettes.

*We create shareholder value
by offering tobacco consumers enjoyable products
of superior quality in a responsible way.
By providing products that are recognized as safer
alternatives to cigarettes, we can contribute
significantly to improved public health.*

**Swedish Match**[®]

Swedish Match AB (publ)

SE-118 85 Stockholm, Sweden

Visiting address: Sveavägen 44, 8th Floor

Telephone: +46 10 13 93 000

Corporate Identity Number: 556015-0756

www.swedishmatch.com

Contacts:

IR: investorrelations@swedishmatch.com

Media: media@swedishmatch.com

Sustainability: sustainability@swedishmatch.com