

*** Swedish Match®



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A world without cigarettes can be a reality

LONGSTANDING COMMITMENT, A CLEAR DIRECTION

Since 2014, Swedish Match has communicated its vision of a world without cigarettes. The road that led us to that vision began decades ago as we responded to consumer trends with the launch of snus in pouch format in 1973, thus reinvigorating the snus category. We took a further step down the road when we divested the cigarette business in 1999. This journey has continued more recently through our focus on smokefree alternatives in new formats, new categories and in new geographies. Swedish Match continues to adapt and raise the benchmark, in quality, performance, and consumer satisfaction for its smokefree products.



MILESTONES

1973 THE POUCH

The first portion snus product, in an easy to use pouch format, was launched in Sweden.



1999 DIVESTS CIGARETTE OPERATIONS

Swedish Match took the bold move to divest its cigarette business. The sale reinforced our longstanding commitment to harm reduction, and was an important step toward concentrating on growing categories, in line with consumer trends. Swedish Match devoted resources and product development into other areas, such as snus and other cigarette alternatives.



2000 GOTHIATEK® QUALITY STANDARD FOR SNUS



Swedish Match's quality standard for the Company's snus products is based on decades of research and development. Produced according to this standard the high quality of our snus products is ensured, with extremely low levels of undesired compounds, and resulting in a dramatically reduced health risk versus smoking.

2014 A WORLD WITHOUT CIGARETTES

Swedish Match has a clear and focused vision. By providing products that are recognized as safer alternatives to cigarettes, we can contribute significantly to improved public health.

2016 ZYN NICOTINE POUCHES GAINS A Foothold IN THE US

In 2016, when Swedish Match began expanding the availability of ZYN nicotine pouches in the US, the brand was available in approximately 4,000 stores in the western United States. By the end of 2020, ZYN was available in about 100,000 stores nationwide, and the clear market leader for nicotine pouches in the US – the world's largest nicotine pouch market.



2019 MRTP STATUS IN THE US

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.

Portfolio shifts

ZYN – THE WORLD’S #1 NICOTINE POUCH BRAND

Swedish Match is proud of its innovation work, continually striving to provide consumers with top quality products in line with consumer trends, helping us to move ever closer to our vision of a world without cigarettes. ZYN is the most sold brand of nicotine pouches in the US. In 2020, Swedish Match shipped nearly 130 million cans of nicotine pouches worldwide, primarily under the ZYN brand, making Swedish Match the world’s largest producer of nicotine pouches.

RAPIDLY CHANGING CONDITIONS

#1

ZYN, NICOTINE
POUCHES IN THE US



64%

SMOKEFREE PERCENT
OF GROUP SALES

Market shifts

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 offers

nicotine pouches. The nicotine pouch category is one of the fastest growing categories 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’s leading brand for nicotine pouches. The brand is available in the US and Sweden and has more recently been introduced in a number of European countries with the potential to expand into more geographies. The fact that *General* snus in the US has been designated MRTTP status provides us with opportunities to communicate with adult consumers on harm reduction.





THE GROUP AND OUR BUSINESS





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The Board of Directors Report and the formal audited part of this document comprises the following sections: financial strategy on page 9, risk management on pages 26–28, share information and dividends on pages 66–67, financial overview and consolidated financial accounts and disclosures, including proposed distribution of earnings are presented on pages 71–122. Definitions are presented on pages 129–130.

Sustainability information is found on pages 30–62. The Corporate Governance report is found on pages 131–143. 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.

This is Swedish Match

Swedish Match develops, manufactures, and sells quality products with market leading brands. The Group's product segments are Smokefree, Cigars, 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), *ZYN* (nicotine pouches), *Longhorn* (moist snuff), *Onico* (pouch products with neither tobacco nor nicotine), *Red Man* (chewing tobacco), *Thunder* (chew bags), *Oliver Twist* (tobacco bits), *White Owl* (HTL, homogenized tobacco leaf cigars), *Game* (natural leaf cigars), *Fiat Lux* (matches), and *Cricket* (lighters).

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

Group sales for 2020 amounted to 16,698 MSEK and the average number of employees was 6,733.

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

HIGHLIGHTS

SALES, MSEK

16,698

OPERATING LOCATIONS

11

AVERAGE NO OF EMPLOYEES

6,733



PRODUCTS AND BRANDS

SMOKEFREE



In the US, the Company is the biggest participant in the nicotine pouch market with its ZYN brand, as well as the largest producer of chewing tobacco. The Company also holds the third largest position in the moist snuff category, and has a longstanding presence with its General snus.

In Scandinavia, Swedish Match enjoys the market leading position for its snus products, as well as holding the number two position in the Scandinavian market for its nicotine pouches¹.

In Europe, Swedish Match has introduced nicotine pouches in a number of countries. The Company is also present with its niche chewing tobacco products of chew bags and tobacco bits, as well as with snus in Switzerland.

Production of nicotine pouches takes place in the US, Sweden, and Denmark. Production of snus occurs in Sweden and Denmark, while moist snuff is produced in the US. Pouch products with neither tobacco nor nicotine are produced in Sweden. For chewing tobacco, production takes place in the US and chew bags and tobacco bits are produced in Denmark.

>> Read more on page 12.

CIGARS

Swedish Match holds the number two position in the US market for mass market cigars. Swedish Match has strong positions within both the natural leaf and HTL segments. Production of cigars takes place 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.



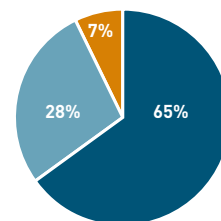
¹ Nicotine pouches are oral products that contain nicotine, but no tobacco. There are certain markets, like Norway, that do not currently allow nicotine pouches without tobacco. In those markets, nicotine pouches refer to products that contain small amounts of tobacco.

2020 IN BRIEF

- Record sales and operating profit were driven by strong traction for ZYN nicotine pouches in the US. Double-digit operating profit growth in local currencies was achieved for the Smokefree and Cigar product segments.
- COVID-19 related effects are estimated to have elevated sales and operating profit.
- In local currencies, sales increased by 17 percent. Reported sales increased by 13 percent to 16,698 MSEK (14,739) despite significant strengthening of the Swedish krona during the year versus the US dollar, the Norwegian krona and the Brazilian real.
- In local currencies, operating profit from product segments¹ increased by 28 percent. Reported operating profit from product segments increased by 23 percent to 7,160 MSEK (5,812).
- Operating profit amounted to 6,991 MSEK (5,307).
- Profit after tax amounted to 4,888 MSEK (3,896).
- Adjusted earnings per share increased by 27 percent to 32.16 SEK (25.41). Earnings per share amounted to 30.38 SEK (23.22).
- Proposed dividend of 15.00 SEK per share.²

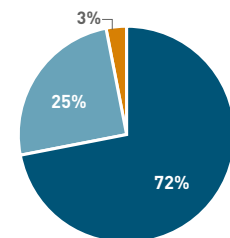
¹ Excludes Other operations and larger one-time items.
² Board proposal.

SALES BY PRODUCT SEGMENT



● Smokefree
● Cigars
● Lights

OPERATING PROFIT BY PRODUCT SEGMENT



● Smokefree
● Cigars
● Lights

KEY DATA

| MSEK | 2020 | 2019 | 2018 |
|---|--------------------|--------|--------|
| Sales | 16,698 | 14,739 | 12,966 |
| Sales from product segments | 16,332 | 14,363 | 12,612 |
| Operating profit from product segments ¹ | 7,160 | 5,812 | 4,918 |
| Operating profit, excluding larger one-time items | 6,991 | 5,675 | 4,812 |
| Operating profit | 6,991 | 5,307 | 4,812 |
| Operating margin from product segments, % ¹ | 43.8 | 40.5 | 39.0 |
| Operating margin, % ¹ | 41.9 | 38.5 | 37.1 |
| EBITDA from product segments | 7,684 | 6,296 | 5,282 |
| EBITDA | 7,580 | 6,222 | 5,227 |
| Profit for the year | 4,888 | 3,896 | 3,578 |
| Earnings per share, basic and diluted, SEK | 30.38 | 23.22 | 20.63 |
| Earnings per share, adjusted, basic and diluted, SEK ² | 32.16 | 25.41 | 20.63 |
| Dividend per share, SEK | 15.00 ³ | 12.50 | 10.50 |

¹ Excluding larger one-time items.

² Larger one-time items during 2020 amounted to -286 MSEK and during 2019 to -367 MSEK. There were no larger one-time items in 2018.

³ Board proposal.



Living our core values

Swedish Match promotes a culture in which our employees are actively engaged, demonstrating the Company's core values of passion, ownership, innovation and quality.

PASSION, OWNERSHIP, INNOVATION, QUALITY

Swedish Match's core values are central to the Company's business ethics and, as such, they are demonstrated in all relations with stakeholders and are a natural part of the way the Company conducts business.



PASSION

- We are proud and engaged ambassadors for our products and our company
- We are devoted to our consumers and always want to exceed their expectations
- We have a passion to win, will walk the extra mile, and help one another succeed



OWNERSHIP

- We take full ownership of our tasks ensuring that all links in the chain, from start to finish, can deliver; we never allow anything to fall between the cracks
- We evaluate our performance and always strive for improved results the next time around
- We work quickly and cost-efficiently, recognizing that the market and competitors never stand still



INNOVATION

- We continuously search for better solutions and encourage new ideas
- We nurture and develop ideas, carefully selecting those that we will invest time and effort behind to implement
- The ideas that we choose to implement are pursued 100 percent



QUALITY

- We strive for uncompromised quality in everything we do, our end goal is to have the most satisfied consumers
- We help one another develop through direct and constructive feedback
- We behave responsibly towards customers, consumers, and the environment





Lars Dahlgren
President and CEO

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

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

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

While 2020 will be remembered for many things, the COVID-19 pandemic has left a permanent mark on society, changing everyday life in dramatic ways and sparing few from some form of loss. As an

organization, Swedish Match has effectively implemented protocols to minimize the spread of the virus, and the efforts have been remarkable in ensuring that our consumers have had access to the Swedish Match brands that they enjoy. During the course of 2020, COVID-19 resulted in temporary factory closures, but with the exception of cigars, we have recorded minimal supply disruptions. As a result of the outstanding efforts by the supply chain professionals across our Group, production levels as we exited 2020 reached pre-COVID-19 levels across our portfolio. For cigars, our dual factory footprint proved to be a distinct competitive advantage as our US based facility contributed with significant volumes of HTL cigars that compensated for supply constraints of natural leaf varieties that we manufacture in the Dominican Republic.

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



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

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

The Lights business benefitted from some special income items in both 2020 and 2019 (like capital gains on sales of land and forestry assets not needed in operations), but on an underlying basis the results from the Lights business were solid over the course of 2020. The improvement relative to the 2019 performance was especially pronounced during the first half of the year.

The rapid growth of ZYN in the US shows that many cigarette smokers and other tobacco consumers are looking for alternatives. This represents great potential from a business perspective but also in terms of improved public health. A fact that has been clearly demonstrated during the year is that for harm reduction to be effective on a wider scale in practice, a prerequisite is attractive low

risk products that appeal to broader parts of the cigarette smoking population. Adoption of ZYN nicotine pouches by smokers in the US has far outpaced the relatively limited traction we have seen for our snus portfolio despite the MRTP designation received in 2019. To that end, we were pleased to be the first company to have filed its PMTA applications for nicotine pouches with FDA in March 2020. Our cigar operations also engaged extensively with the FDA during the year, as SE applications were filed for our entire cigar portfolio.

In Europe, the regulatory environment for smokefree products remains counter-productive from a public health angle for tobacco based smokefree alternatives and is underdeveloped for nicotine pouches. Our German chewing tobacco business was severely impacted in an adverse manner as a Bavarian court, according to our firm opinion, erroneously classified some of our chewing tobacco products as snus and therefore subjected to the EU snus ban that applies outside Sweden. The competitive environment for nicotine pouches reflects that in most European countries, there is no category specific legislation for these types of products. Swedish Match considers the current situation as unsustainable and strongly advocates the implementation of responsible, proportionate and harmonized product and marketing regulation for this category.

With 2019 being a year of transformation and 2020 being a year of adaptability, we enter 2021 as a stronger, yet different, company. The success that we experienced in 2020 would not have been possible without the tireless dedication and ingenuity of our employees, the long-forged relationships that we have with our vendors and the continued passion and trust that our customers and consumers place in Swedish Match and its brands.

I would like to thank everyone at Swedish Match, as well as our customers, consumers, vendors, shareholders, and other stakeholders, for being a part of Swedish Match's journey.

Stockholm, March, 2021

Lars Dahlgren
President and CEO

SALES, MSEK

16,698

OPERATING PROFIT, MSEK

6,991

EPS, SEK

30.38



Vision

A WORLD WITHOUT CIGARETTES

We create shareholder value by offering adult 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 platforms with a focus on product development, quality and consumer satisfaction based on thorough consumer insights.

- In the US, we will focus on faster growing market segments such as nicotine pouches and moist snuff pouches.
- 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.
- Outside the US and Scandinavia, 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 selectively 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 cigar business, we will focus on faster growing 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 centered on capital efficiency with a focus on financial flexibility and stability requirements.

Net debt

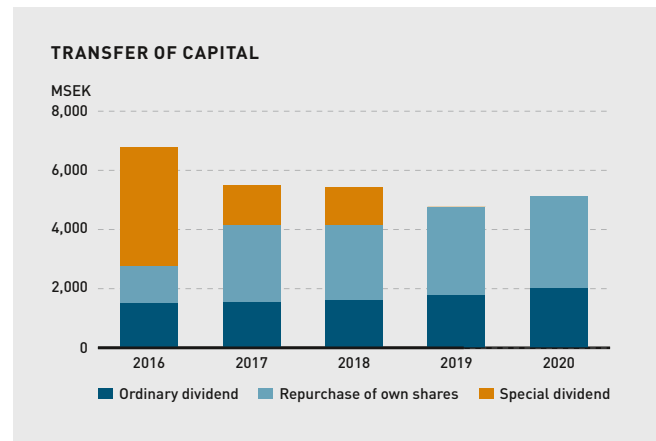
The Board of Directors has determined that the Group will strive to maintain a net debt that does not exceed 3 times EBITA. The actual level of net debt will be assessed against:

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

The Board of Directors' long-term goal is to optimize the capital structure of the Group which in the current environment entails maintaining a Standard & Poor's BBB and a Moody's Baa2 long-term rating.

Shareholder distribution

Swedish Match has the ambition to continuously grow dividend per share with a payout ratio normally within the range of 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 overarching goal in our sustainability efforts is to have positive contributions toward the environment and society at large while also ensuring Swedish Match's long-term business success. Our vision of a world without cigarettes is central to our sustainability strategy and how we contribute to making the world a better place.

For best impact and transparency, our sustainability strategy is founded on two basic principles – focus and organizational ownership. Through this strategy, we emphasize five focus areas – Improve public health, Ensure ethical business practices, Reduce environmental impact, Human rights in our supply chain, and Equal opportunity – areas where we believe we have the ability to directly or indirectly influence meaningful outcomes or where adverse developments could have a negative impact on our businesses. Swedish Match has set a series of tangible commitments and goals for each of the focus areas. Upholding these commitments will enable Swedish Match to contribute to nine Sustainable Development Goals (SDG) defined by the United Nations in 2015. Through our general business contribution and societal engagement, we also contribute to seven of the remaining eight SDGs.

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 our employees to conduct business activities in a responsible manner, demonstrating integrity and respect to our stakeholders and society as a whole.

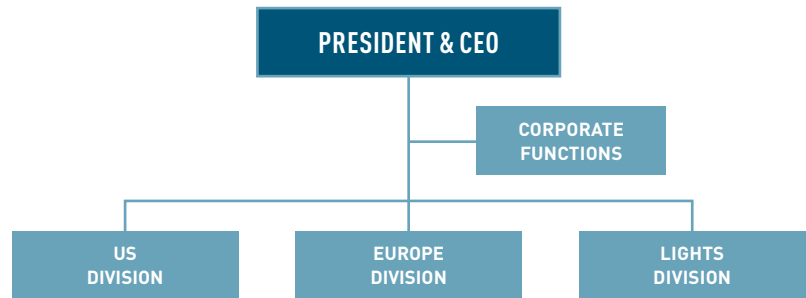
FOCUS AREAS





How we operate

The organization comprises three divisions as well as Corporate functions. The average number of employees in the Group was 6,733 in 2020. Swedish Match operates in eleven countries and our products are sold across the globe.



US Division

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

Europe Division

Europe Division manufactures and markets snus, nicotine pouches, and other smokefree products for both Scandinavia and other European countries, while exploring opportunities in countries outside Europe and North America.

Lights Division

Lights Division manufactures and markets matches and lighters throughout the world. 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.

Corporate functions

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

PRODUCTION AND OFFICE LOCATIONS



The number of employees refers to the average number of employees in specified country during 2020.



Our products and markets

For more than 20 years, Swedish Match has been at the forefront of change. While other large global tobacco companies still rely on cigarettes for the vast majority of their business models, Swedish Match decided long ago to take a different route.

The markets in which Swedish Match engages, and the market segments in which Swedish Match competes, reflect the Company's intentional and longlasting evolution of its portfolio of products, in harmony with changing consumer trends, in line with a strategy that contributes to the vision of a world without cigarettes.

The largest contributor to both revenues and profits falls within the Swedish Match portfolio of smokefree products, which runs the range from more traditional offerings, such as moist snuff and chewing tobacco in the US, to more modern forms of snus in

Scandinavia, to nicotine pouches which are becoming increasingly available in a number of countries. In the US, Swedish Match also sells machine made cigars, which has historically played an important part of the overall product portfolio, providing opportunities for income growth, while also providing support for our entire portfolio of products on the US market. Swedish Match also participates in the markets for other products, such as matches and lighters for household and other uses, sold in many countries throughout the world.



SHORT FACTS

- The global tobacco market is composed of smoking tobacco products, such as cigarettes, cigars, and pipe tobacco, as well as smokefree tobacco products, such as snus, moist snuff, and chewing tobacco.
- The largest segment of the global tobacco market is cigarettes, accounting for more than 85 percent of all tobacco consumed globally.¹⁾ With no cigarettes in its portfolio and vision of a world without cigarettes, Swedish Match stands apart.
- Modern smokefree products, including nicotine pouches, provide an attractive alternative to cigarettes. Other examples of cigarette alternatives, both with and without tobacco, include e-cigarettes, vaping products and heat-not-burn devices.
- In the US, the dominant forms of smokefree products are moist snuff and chewing tobacco, while snus is a niche category.
- In the US, the nicotine pouch category is rapidly growing and accounted for more than 30 percent of smokefree pouch volumes (measured in cans) in 2020.²⁾
- In Scandinavia, the dominant form of smokefree is snus, while nicotine pouches are an increasingly important and rapidly growing category.
- Outside of the US and Scandinavia, snus is only available in a limited number of countries. The sale of snus is banned within the European Union and certain other markets. Nicotine pouches are becoming more widely available in a number of countries, including EU member states.
- Other smokefree products include chewing products such as chew bags and tobacco bits, which are available in a number of European countries.
- The US machine made cigar market grew to exceed 8 billion sticks in 2020.
- The global match market is dependent upon strong local brands and the category is declining in most countries. The market for premium disposable lighters is declining in many western countries while growing in certain other markets.

¹⁾ Source: Euromonitor.

²⁾ Based on MSA distributor shipments and include nicotine pouches, snus and moist snuff pouches, full year 2020.



Smokefree

Robust growth driven by ZYN in the US

Among the Swedish Match portfolio of smokefree products, ZYN nicotine pouches in the US led the way for impressive growth during 2020.

Changes in consumer purchasing patterns, having been impacted by COVID-19 related restrictions, supported consumption for both moist snuff and chewing tobacco in the US. In Scandinavia, Swedish Match's largest market for snus, consumption of Swedish Match's smokefree portfolio remained strong, while severe travel restrictions and border controls to some extent had a negative effect on volumes and resulted in distorted flows of goods between markets.

Strategy

Swedish Match's vision is *A world without cigarettes*, providing consumers with enjoyable alternatives that are both satisfying and dramatically safer than smoking. Smokefree alternatives with and without tobacco and including 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 smokefree category in the US, Scandinavia and other markets, thereby contributing significantly to improved public health.

The Company's major competitive strengths include its high-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, as well as its capabilities in the areas of analyzing the needs of consumers, conducting research, product innovation, and servicing customers.

Swedish Match will leverage its unique smokefree platforms with a focus on product development, quality and consumer satisfaction based on thorough consumer insights. In the US, we will focus on faster growing market segments such as nicotine pouches and moist snuff pouches. 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. Outside the US and Scandinavia, 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 selectively exploit opportunities in these niche segments.

Financial development

Sales for the product segment during the year increased by 19 percent to 10,651 MSEK (8,914). Operating profit for the year grew by 29 percent to 5,142 MSEK (3,997). In the US, Swedish Match's smokefree sales increased by 47 percent in local currency, driven by strong sales growth for nicotine pouches. In Scandinavia, Swedish Match's sales grew despite lower shipment volumes (negatively impacted by COVID-19 related restrictions) on positive price/mix effects. The operating margin for the product segment was 48.3 percent (44.8) for the year.

Market development and highlights

In the US, the nicotine pouch category continued to demonstrate impressive growth, with Swedish Match benefiting from its leading position. The Company also has a presence within snus, a stable niche category. The moist snuff category is the largest smokefree category in the US. The fastest growing segments in 2020 were pouches and tubs, while for loose products (excluding tubs) volumes grew at slower pace. Swedish Match has a significant presence in the growing value price segment and has a strong competitive position in both pouches and tubs. The Company holds the number one position for US chewing tobacco, which is typically a declining category but which in 2020, experienced volume stability versus the prior year.

In Scandinavia¹⁾ the smokefree category²⁾ grew in 2020, driven by modern and innovative products such as nicotine pouches. In other parts of Europe, there is a potential for innovative smokefree products and Swedish Match has during the year continued to introduce nicotine pouches in additional countries, and the Company also has a presence with chew bags and tobacco bits.

¹⁾ Scandinavia refers to Sweden, Norway and Denmark.

²⁾ The Scandinavian smokefree category is composed of snus, nicotine pouches, chew bags, tobacco bits as well as pouches that do not contain nicotine.



THE US

In the US, Swedish Match sells nicotine pouches under its *ZYN* brand, the number one brand of nicotine pouches. The Company sells its snus products under its *General* brand. 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 moist snuff brand in the US. In the US chewing tobacco category, Swedish Match's premium brand, *Red Man*, is the country's number one selling brand, and *Big Duke* is the Company's largest brand within the value price segment. The primary channel of distribution is convenience stores. The products are also sold in food stores, gas stations, specialty tobacco shops and e-commerce among other classes of trade.

COVID-19 impacts

Due to changes in purchase patterns and changed consumer usage behavior, Swedish Match estimates that there were increased purchases by consumers most notably for moist snuff and chewing tobacco during periods when restrictions were highest.

Market development and highlights

Nicotine pouches

The nicotine pouch category in the US has grown dramatically over the past five years, and in 2020 Swedish Match estimates that the size of the category exceeded 150 million cans, more than doubling in size compared to 2019. The growth potential for nicotine pouches is high, as these products appeal to a broad portion of the adult tobacco consuming population who desire a discrete alternative to both smoking and smokeless tobacco. Competition intensified during 2020 as major cigarette manufacturers as well as some smaller companies expanded their geographic and store footprint for their nicotine pouch portfolios, often accompanied by aggressive promotional activities. Swedish Match maintained its strong leading position both in the western part of the US, where Swedish Match has been present for the longest period of time, as well as in its expansion markets outside of the west. Based on the measure of distributor shipments to retail, *ZYN* is by far the largest brand in the nicotine pouch category, with more than a 70 percent national share in volume terms.

- Shipments of *ZYN* in the US more than doubled compared to the prior year and amounted to 114.1 million cans, up from 50.4 million cans in 2019. The volume growth was attributable to both increased store velocities and an increase in store count. By the end of 2020, *ZYN* was available in around 100,000 stores in the US.
- The Company expanded the availability of both non-flavored and flavored varieties of *ZYN*, such as Smooth, Chill, and Citrus.
- Swedish Match has invested significant resources into US production capacity for *ZYN*, a project that was initiated in 2017. The third phase of the project began in 2020 and is expected to be completed during the first half of 2021, effectively doubling capacity installed through the first two phases. The fourth expansion phase is planned to be completed in 2022.
- In March 2020, the Company filed premarket tobacco product applications (PMTA) for its current portfolio of *ZYN* nicotine pouches with the US Food and Drug Administration (FDA) and after a preliminary review, the FDA determined the applications met filing requirements for a new tobacco product seeking a marketing order.



Snus

The snus category in the US amounted to approximately 55 million cans in 2020.¹⁾ Based on the measure of distributor shipments to retail, Swedish Match estimates its volume share to be approximately 9 percent, holding the number 3 position in the category.

- The *General* snus brand, which in 2019 was the first and to date the only snus brand to be granted authorization from the FDA designating eight *General* snus varieties, including its mint and wintergreen varieties, as Modified Risk Tobacco Products (MRTP). The MRTP designation allows Swedish Match to inform US consumers about the difference in health risk between cigarettes and our US snus products under the *General* brand.
- During 2020, a number of MRTP related communication efforts were made by the Company. However, the efforts have so far had a limited effect on demand.

Moist snuff

Moist snuff is the largest smokefree category in the US and in 2020 the category is estimated by Swedish Match to have grown by 3 percent and amounted to 1.5 billion cans. In recent years, the category growth has been driven by pouches. In 2020, the pouch segment accounted for approximately 17 percent of the category, growing by approximately 4 percent in volume terms compared to prior year. Swedish Match primarily competes in the value priced segments of the category, segments which account for approximately 70 percent of the total category volume. Swedish Match's *Longhorn* branded pouch products were one of the fastest growing offerings in the market during 2020. Swedish Match estimates its share within the moist snuff category to be approximately 9 percent in volume terms.

¹⁾ Source: Swedish Match and industry estimates, full year 2020.



- Swedish Match's moist snuff shipment volume measured in number of can equivalents grew by 8 percent compared to 2019, supported by a number of programs including a more efficient pricing and promotional strategy for the Company's leading moist snuff brand, *Longhorn*.
- Swedish Match volumes grew in both the loose and pouch segments as well as for its tubs packaging format.
- Swedish Match's share of the growing pouch segment increased during the year, reaching approximately 9 percent of that segment.¹⁾

Chewing tobacco

In most years, the chewing tobacco category in the US has declined in volume terms in the range of 5 to 7 percent per year. However, in 2020, with changes in consumer behavior, impacted by COVID-19, the category experienced an unusual year with stable volumes versus 2019. In recent years the category has experienced a shift away from premium products toward the value segment. In 2020, this trend continued, with the size of the value segment in volume terms surpassing the size of the premium segment. Swedish Match holds the leading position in the premium segment and despite the shift away from premium products, the Company maintained its total category market share of approximately 40 percent in volume terms.¹⁾

- In 2020, Swedish Match increased its share in both the premium and value segments.¹⁾
- The Group's *Red Man* premium brand is the largest chewing tobacco brand in the US, accounting for approximately one third of all volumes sold.¹⁾
- The *Big Duke* brand is Swedish Match's best-selling value priced product and the brand has demonstrated impressive share growth within the growing value price segment.

SCANDINAVIA

Within the Scandinavian smokefree market²⁾, snus is the largest category, comprising around 78 percent of the total market. The second largest and the fastest growing category is nicotine pouches. Chewing tobacco, which includes chew bags and tobacco bits, is a niche category. The primary channel of distribution is food stores, convenience stores, tobacconists, gas stations and e-commerce. The smokefree consumer has been steadily migrating from traditional loose products to pouch products and increasingly to the most modern varieties of pouch products. While the snus category is skewed toward men, especially for more traditional loose varieties, an increasing percentage of smokefree consumers are women, a trend that has been accentuated with the introduction of nicotine pouches.

There are some notable differences between the various markets in Scandinavia, relating to regulation and taxation, price segmentation, and product offerings. For example, in Norway, in order for nicotine pouches to be sold, they must contain at least small amounts of tobacco, and are regulated and taxed exactly like snus, and sold in plain packaging. In Sweden, snus and nicotine pouches do not require plain packaging. In Norway there is a small degree of price segmentation, while in Sweden there is a broad range of price points. In Denmark, snus is not allowed to be sold, and nicotine pouches, chew bags, and chew bits are therefore the most used forms of smokefree products.

COVID-19 impacts

During 2020, there were severe travel restrictions and border controls both in Scandinavia and in the rest of Europe which resulted in unusual purchase patterns and market distortions in both the size of markets and categories and growth dynamics. With these restrictions, Norwegian domestic purchases increased dramatically. Purchases through Swedish border trade and travel retail outlets were severely impacted with minimal consumer purchases. Shipment flows to wholesalers and retailers were similarly affected by these dynamics.

Market development and highlights

In Scandinavia, the smokefree category is estimated to have amounted to approximately 485 million cans in 2020, up by close to 4 percent from the previous year. Most of this growth came from nicotine pouches, which by the end of 2020 represented approximately 16 percent of the total smokefree category in volume terms.³⁾ Swedish Match estimates that approximately 70 percent of total Scandinavian smokefree consumption comes from the Swedish market and roughly 25 percent from Norway. Albeit at this point only a small part of the Scandinavian market, Denmark is the fastest growing market with an estimated consumption of 15 million cans in 2020, a trebling in size compared to 2019.

Swedish Match is the market leader within the smokefree market and holds the number one position for snus and the number two position within nicotine pouches. The Company's *General* brand is the largest smokefree brand in Scandinavia, holding a leading position in both Sweden and in the traditional snus category in



¹⁾ Based on MSA distributor shipments, full year 2020.

²⁾ The Scandinavian smokefree category is composed of snus, nicotine pouches, chew bags, tobacco bits as well as pouches that do not contain nicotine.

³⁾ Market shares for the Scandinavian smokefree category exclude tobacco bits.



Norway. Other major Swedish Match brands include *Kronan* and *Kaliber* (value priced snus brands primarily for the Swedish market), *Göteborgs Rapé* (snus and chew bags), *ZYN* (nicotine pouches in Sweden and Denmark), *G.4* (nicotine pouches in Norway), *Thunder* (chew bags), *Oliver Twist* (tobacco bits), as well as *Onico* and *Qvitt* (pouch products with neither tobacco nor nicotine). During the latter part of the year, the Company also launched *Swave* nicotine pouches on a limited basis in Sweden.

- Swedish Match's Scandinavian shipment volumes were adversely impacted by trade and distributor inventory adjustments and travel restrictions, which contributed to the decline in shipment volumes of 4 percent.
- Swedish Match's market share within the smokefree category is estimated to have amounted to approximately 50 percent in volume terms. Swedish Match maintained its share within the snus category but noted some share erosion within the nicotine pouch and chew bag categories.¹⁾

Sweden

- Sweden has more than 1 million snus and nicotine pouch consumers, and the consumer base continues to grow. It is estimated that more than 24 percent of Swedish men and more than 13 percent of Swedish women use snus/nicotine pouches on a regular basis.²⁾
- It is estimated that more than half of the nicotine pouch consumers are women.²⁾
- Swedish Match holds the number one position within the smokefree category, and a volume share of more than 60 percent within snus.³⁾

- Swedish Match nicotine pouch volumes, including *ZYN*, grew at a slightly slower pace than the overall nicotine pouch category.
- In 2020, the Company relaunched and expanded its *ONE* range of products. *ONE* is a premium brand at an attractive price.

Norway

- Over the last decade, daily users of cigarettes have declined dramatically as smokefree consumption has gone up. In the age bracket 25–74 daily cigarette usage amounted to 11 percent in 2020, while the number daily users of smokefree products had grown to a level of 12 percent.⁴⁾
- Domestic purchases for the snus and nicotine pouches grew at an exceptionally strong pace, attributable to severe travel restrictions to and from Norway.
- While Swedish Match gained market share within snus, the Company lost share in the rapidly growing nicotine pouch category compared to the prior year.³⁾
- In December, the Norwegian government announced a significant excise tax decrease for snus (effective January 1, 2021), but not for cigarettes – bringing further opportunity for more price sensitive cigarette smokers to make the switch.

Denmark

- The nicotine pouch category in Denmark is relatively new, but the growth rate has been rapid.
- Toward the latter part of the year, price levels for *ZYN* nicotine pouch portfolio were reduced in an effort to enhance consumer trial and spur increased market share.
- The chew bag category grew in volume terms versus the prior year, while Swedish Match volumes declined.



¹⁾ Market shares for the Scandinavian smokefree category exclude tobacco bits.

²⁾ Source: Ipsos Sweden, Market Report, 2020.

³⁾ Source: Swedish Match estimates of can volume using Nielsen data (excluding tobacconists in Sweden), full year 2020.

⁴⁾ Source: Statistics Norway, 2020.



OTHER MARKETS

In other markets outside of the US and Scandinavia, Swedish Match continued its efforts to establish nicotine pouches, and the Company sees good opportunities for its nicotine pouch products over the long term. Swedish Match's nicotine pouch products are primarily sold under the ZYN brand. The Group also sells snus, chew bags and tobacco bits in certain countries where allowed. The primary channel of distribution is tobacconists/convenience stores as well as e-commerce.

- In 2020, Swedish Match expanded the availability of its nicotine pouch products on a limited scale to a number of new countries, and at the end of 2020 the Company was present in stores in 18 countries in other markets.
- Activities behind the expansion of nicotine pouches in other markets were slowed due to COVID-19 related restrictions.
- In addition to the rollout of nicotine pouches, Swedish Match also sells snus in Switzerland and certain other countries, such as Malaysia and Thailand.

- Swedish Match is present with chew bags in a number of countries, primarily in Europe, with *Thunder* being its largest brand.
- The German chewing tobacco business was severely impacted in an adverse manner as a Bavarian court classified, which Swedish Match believes did so erroneously, some of the Company's chewing tobacco products as snus and therefore subjected to the EU snus ban that applies outside Sweden.
- The competitive environment for nicotine pouches reflects that in most European countries the category remains unregulated. Swedish Match is a strong advocate for responsible, proportionate and harmonized product and marketing regulation and considers the current situation unsustainable.



An example of a ZYN display in the UK.



FACTS AND FIGURES

SMOKEFREE HIGHLIGHTS

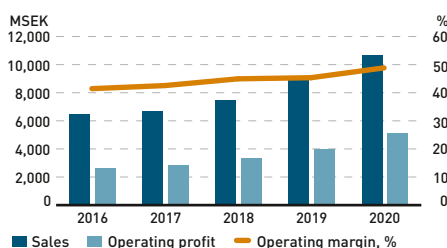
- Sales and profit growth led by US nicotine pouches
- In local currencies, sales up 23 percent, operating profit up 34 percent
- US smokefree sales up 47 percent in local currency, led by ZYN
- Scandinavia smokefree volumes lower, due in large part to travel restrictions
- Investments for future growth in several countries outside the US and Scandinavia

KEY DATA¹⁾

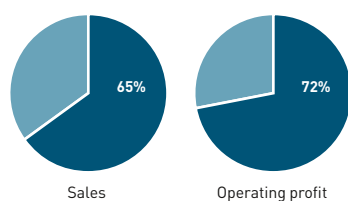
| MSEK | 2020 | 2019 | 2018 |
|---|--------|-------|-------|
| Sales | 10,651 | 8,914 | 7,477 |
| Operating profit | 5,142 | 3,997 | 3,317 |
| Operating margin, % | 48.3 | 44.8 | 44.4 |
| EBITDA | 5,539 | 4,353 | 3,580 |
| EBITDA margin, % | 52.0 | 48.8 | 47.9 |
| Depreciation, amortization and impairment | -397 | -356 | -262 |
| Capital expenditures | 1,003 | 593 | 552 |
| Average number of employees | 2,005 | 1,841 | 1,672 |

¹⁾ Excluding larger one-time items.

SALES AND OPERATING PROFIT



SHARE OF PRODUCT SEGMENTS 2020



THE US

NICOTINE POUCHES, SNUS, MOIST SNUFF AND CHEWING TOBACCO

Main brands:

Nicotine pouches: ZYN

Snus: General

Moist snuff: Longhorn, Timber Wolf

Chewing tobacco: Red Man, Big Duke

KEY DATA

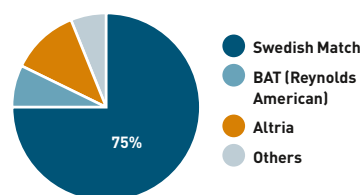
| | 2020 | 2019 | Change, % |
|---|-------|-------|-----------|
| Financials | | | |
| Sales, MSEK | 5,818 | 4,082 | 43 |
| Operating profit, MSEK | 2,802 | 1,534 | 83 |
| Operating margin, % | 48.2 | 37.6 | |
| Shipment volumes | | | |
| Nicotine pouches, million cans | 114.1 | 50.4 | 126 |
| Moist snuff, million cans | 133.3 | 124.0 | 8 |
| Chewing tobacco, thousands of pounds (excluding contract manufacturing volumes) | 5,687 | 5,681 | 0 |

MARKET SHARES¹⁾

| Percent | 2020 | 2019 | Change, pts |
|--|------|------|-------------|
| Nicotine pouches | 74.5 | 83.4 | -8.9 |
| Moist snuff | 8.8 | 8.3 | 0.5 |
| Chewing tobacco (excluding contract manufacturing volumes) | 40.5 | 40.3 | 0.1 |

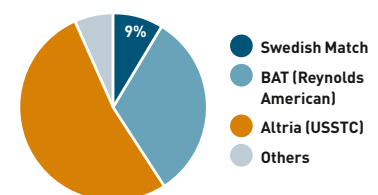
¹⁾ Swedish Match volume shares based on MSA distributor shipments, full year 2020 and 2019. Figures for 2019 have been restated to reflect changes in MSA store measurements.

COMPETITION - NICOTINE POUCHES



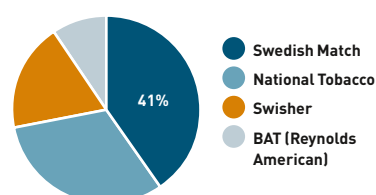
Source: Swedish Match and industry estimates, full year 2020, on a can equivalent basis.

COMPETITION - MOIST SNUFF



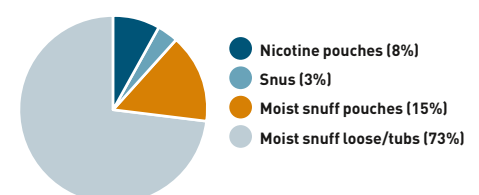
Source: Swedish Match and industry estimates, full year 2020, on a can equivalent basis.

COMPETITION - US CHEWING TOBACCO



Source: Swedish Match and industry estimates, full year, 2020, thousands of pounds.

CATEGORIES - US



Source: Based on MSA distributor shipments, full year 2020, on a can equivalent basis.



FACTS AND FIGURES

SCANDINAVIA¹⁾

SNUS, NICOTINE POUCHES AND CHEWING TOBACCO

Main brands:

Snus – Sweden: General, Göteborgs Rapé, Kaliber, Kronan, Ettan

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

Nicotine pouches – Sweden and Denmark: ZYN

Nicotine pouches – Norway: G.4²⁾

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

Chew bags – Denmark: Göteborgs Rapé, Thunder

Tobacco bits – Sweden, Norway, Denmark: Oliver Twist

¹⁾ Scandinavia refers to Sweden, Norway and Denmark.

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

KEY DATA

| | 2020 | 2019 | Change, % |
|--|-------|-------|-----------|
| Financials | | | |
| Sales, MSEK | 4,675 | 4,624 | 1 |
| Operating profit, MSEK | 2,465 | 2,432 | 1 |
| Operating margin, % | 52.7 | 52.6 | |
| Shipment volumes | | | |
| Snus, million cans | 243.6 | 260.2 | -6 |
| Nicotine pouches, million cans | 13.1 | 8.6 | 52 |
| Chew bags and tobacco bits, million cans | 4.4 | 3.6 | 21 |

MARKET SHARES, SCANDINAVIA¹⁾

| Percent | 2020 | 2019 | Change, ppts |
|--------------------------------|-------------|-------------|--------------|
| Snus ²⁾ | 60.0 | 60.1 | 0.0 |
| Nicotine pouches ³⁾ | 16.0 | 17.8 | -1.8 |
| Total⁴⁾ | 53.6 | 56.7 | -3.1 |

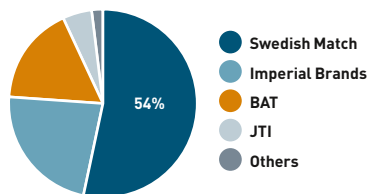
¹⁾ Based on Nielsen data (excluding tobacconists and e-commerce): full year 2020 and 2019. All figures have been restated to reflect changes in Nielsen store measurements.

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

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

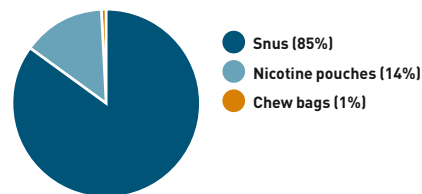
⁴⁾ Includes snus in Sweden and Norway, chew bags in Denmark, and nicotine pouches in all three countries.

COMPETITION – SCANDINAVIA



Source: Swedish Match estimates of can volume, using Nielsen data (excluding tobacconists in Sweden), full year 2020. Excludes tobacco bits.

CATEGORIES – SCANDINAVIA



Source: Swedish Match estimates of can volume, using Nielsen data (excluding tobacconists in Sweden), full year 2020.

OTHER MARKETS

SNUS, NICOTINE POUCHES AND CHEWING TOBACCO

Main brands:

Snus: General

Nicotine pouches: ZYN

Chew bags: Thunder

Tobacco bits: Oliver Twist

KEY DATA

| | 2020 | 2019 | Change, % |
|--|-------|------|-----------|
| Sales, MSEK | 158 | 208 | -24 |
| Operating profit, MSEK | -125 | 32 | |
| Operating margin, % | -79.1 | 15.2 | |
| Shipment volumes, million cans ¹⁾ | 7.9 | 10.9 | -28 |

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



Cigars

Another record year, led by *White Owl*



Swedish Match's broad portfolio of US mass market cigars provided a strong competitive platform in a very unusual year. This past year our HTL assortment, led by the *White Owl* brand, achieved significant volume gains, enabling Swedish Match to once again deliver record results.

The Cigars product segment derives its sales and profit almost exclusively from the US operations. In the US, Swedish Match maintains a strong presence with its machine made mass market cigars in the natural leaf segment¹⁾, as well as in the homogenized tobacco leaf segment (HTL)²⁾ which is the largest cigar segment in the US. The Group's portfolio of products is broad, covering a wide range of price points, formats, brands, and taste. Its natural, sweet and flavored varieties are offered under well-known brands such as *Game* and *Garcia y Vega* for its natural and natural rolled leaf varieties, and *White Owl* and *Jackpot* in the HTL segment. Swedish Match manufactures its more labor intensive natural leaf varieties exclusively in its cigar plant in the Dominican Republic, while its HTL cigars are produced both in the Dominican Republic and at its Dothan US facility. The primary channel of distribution is convenience stores. The products are also sold in food stores, gas stations, specialty tobacco shops, e-commerce among other classes of trade.

Strategy

In our cigar business, we will focus on faster growing segments with an objective to maximize long term profitability and cash generation.

Financial development

Sales for the product segment for the year increased by 7 percent to 4,533 MSEK (4,249), while operating profit increased by 14 percent to 1,796 MSEK (1,577). In local currency, sales increased by 10 percent and operating profit increased by 17 percent. The operating margin was 39.6 percent (37.1).

Market development and highlights

The US machine made mass market cigar category has experienced notable growth over the past several years. Based on distributor shipments to retail in 2020, the market excluding little cigars³⁾ increased by more than 16 percent in volume terms and amounted to approximately 8.4 billion cigars. The strong category growth appears to have been positively impacted by COVID-19 related effects on consumption patterns. While both the HTL and natural leaf segments grew in 2020, the growth for natural leaf cigars continued to exceed that of HTL cigars. The market is highly competitive.

- Swedish Match's cigar shipment volumes increased by 12 percent compared to the prior year, with strong volume growth for HTL and good growth for natural rolled leaf cigars more than offsetting volume declines for other natural leaf varieties.
- Based on MSA measures of distributor shipments to retail, Swedish Match's volume increase was 19 percent, which was a somewhat higher level than the level of shipments from Swedish Match to distributors. This difference was impacted by production limits for natural leaf varieties, and resulted in somewhat lower inventory levels at distributors and at retail for those varieties.

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⁾ 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 consistency of look, feel, and quality.

³⁾ Little cigars are typically filter tipped and packaged in packs of 20. Swedish Match does not participate in this segment.



- Swedish Match estimates that the Company's share of the category grew slightly and was approximately 23 percent in 2020.
- The Company's share within HTL grew and amounted to approximately 15 percent, while for natural leaf, Swedish Match's share declined and was approximately 38 percent.
- Within HTL the *White Owl* brand grew strongly, while the value priced *Jackpot* brand grew modestly.
- Due to the onset of the COVID-19 pandemic, the decision was made by Swedish Match to suspend the cigar operations of its subsidiary Swedish Match Dominicana for two weeks beginning in late March.
- In conjunction with the resumption of factory operations, adequate hygiene and social distancing measures, as well as other initiatives to lower the risks related to COVID-19 for the employees, were implemented. These actions had a negative effect on factory output and productivity, but over the course of the second half of the year notable progress in restoring supply levels was achieved.
- The US FDA required that cigar manufacturers submit regulatory filings for all their cigars which they wish to remain on the US market (with few exceptions) as part of the SE/PMTA¹⁾ process. Swedish Match submitted applications for its entire current US cigar portfolio prior to the September 9 cut-off date.

¹⁾ More information about substantial equivalence (SE) and premarket tobacco product application (PMTA) can be found at the Company's website.





FACTS AND FIGURES

CIGARS HIGHLIGHTS

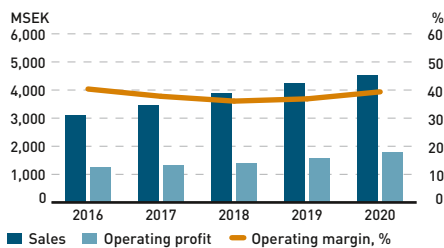
- Record year, with volume growth driven by HTL varieties
- Sales up 10 percent and operating profit up 17 percent in local currency
- Market share grew, from gains within the HTL segment
- Production of natural leaf cigars negatively impacted by COVID-19 related factory adaptations

KEY DATA¹⁾

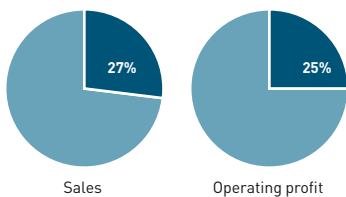
| MSEK | 2020 | 2019 | 2018 |
|---|-------|-------|-------|
| Sales | 4,533 | 4,249 | 3,890 |
| Operating profit | 1,796 | 1,577 | 1,412 |
| Operating margin, % | 39.6 | 37.1 | 36.3 |
| EBITDA | 1,883 | 1,662 | 1,473 |
| EBITDA margin, % | 41.5 | 39.1 | 37.9 |
| Depreciation, amortization and impairment | -87 | -85 | -61 |
| Capital expenditures | 74 | 52 | 40 |
| Average number of employees | 3,487 | 3,202 | 2,757 |

¹⁾ Excluding larger one-time items.

SALES AND OPERATING PROFIT



SHARE OF PRODUCT SEGMENTS 2020



CIGARS IN THE US

Main brands:

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

US SHIPMENT VOLUMES

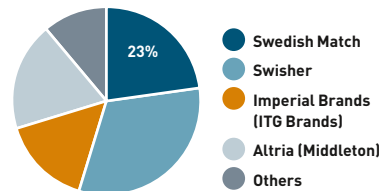
| | 2020 | 2019 | Change, % |
|---|--------------|--------------|-----------|
| Homogenized tobacco leaf (HTL) cigars, million sticks | 838 | 625 | 34 |
| Natural leaf cigars, million sticks | 1,065 | 1,067 | 0 |
| Cigars total | 1,903 | 1,692 | 12 |

MARKET SHARES¹⁾

| Percent | 2020 | 2019 | Change, pts |
|---------------------------------------|-------------|-------------|-------------|
| Homogenized tobacco leaf (HTL) cigars | 15.3 | 12.5 | 2.8 |
| Natural leaf cigars | 37.7 | 43.4 | -5.8 |
| Cigars total | 22.9 | 22.5 | 0.4 |

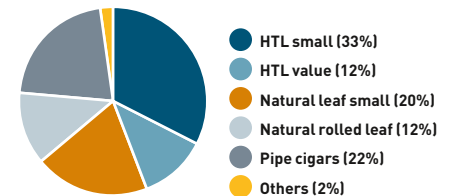
¹⁾ Based on MSA distributor shipments: Mass market cigars (excluding little cigars), full year 2020 and 2019. Figures for 2019 have been restated to reflect changes in MSA store measurements.

COMPETITION – US MASS MARKET CIGARS (EXCLUDING LITTLE CIGARS)



Source: Swedish Match and industry estimates, full year, 2020.

SEGMENT – US MASS MARKET CIGARS (EXCLUDING LITTLE CIGARS)



Source: Swedish Match and industry estimates for mass market cigars excluding little cigars, full year 2020.



Lights

Solid underlying performance over the course of 2020

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. A weakening Brazilian real weighed on results.

Swedish Match offers a wide range of lighter products which include *Cricket* premium disposable lighters as well as products for household and other uses. 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 safety, quality, reliability, design, and innovation. Match brands tend to be local, with some brands being iconic in their own countries. 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, its fast and flexible production, and tight cost controls, Swedish Match is able to provide consumers and customers with the quality



products they demand at attractive prices. Swedish Match use its highly committed sustainability efforts as a competitive tool in its marketing to both consumers and customers. Additionally, in optimizing its asset base Swedish Match will work to dispose of forestry assets which are not required for its raw material supply.

Financial development

Sales for the Lights product segment for the year declined by 4 percent to 1,149 MSEK (1,200) but excluding currency translation effects, sales grew by 7 percent. The largest contributor to the sales growth in local currency was the Brazilian market with good performance across the portfolio. Operating profit declined by 7 percent to 222 MSEK (238). Operating profit excluding currency translation effects increased by 7 percent. The operating profit in the current year includes income related to the favorable resolution of indirect tax disputes as well as a capital gain from land sale aggregating 31 MSEK while the prior full year's result also included capital gains from land and forestry sales as well as favorable resolutions of indirect tax disputes and restructuring costs in Brazil amounting to a net total of 17 MSEK. The operating margin was 19.3 percent (19.8).



Market development and highlights

Matches

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.

- 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 grew when adjusting for currency translation effects, as shipment volumes grew by 6 percent. Operating profit was also higher when adjusting for currencies as well as adjustments for positive one-time gains in both 2020 and 2019.
- During 2020, Swedish Match continued its cost and efficiency efforts at the factory level and successfully divested part of the forestry assets not needed in operations.

Lighters

Market volumes are 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 North America and Brazil. The lighter business is characterized by variability in volumes and mix, depending on the timing and type of products delivered, geography, and currency fluctuations.

- 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 for lighter production at the Assen lighter factory including the *Cricket Eco* lighter which is made from 100 percent recycled nylon.
- *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.
- Sales for lighters increased compared to the prior year on an underlying basis when excluding currency translation effects, but declined in reported currency. The underlying sales increase was mainly due to product mix. Operating profit for lighters benefitted from cost controls, reduced raw materials pricing (primarily nylon) and portfolio mix.

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. Reported sales for complementary products, compared to prior year, declined in SEK but increased excluding currency translation effects. The underlying increase was driven by solid growth across the *Fiat Lux* portfolio in Brazil.



FACTS AND FIGURES

LIGHTS HIGHLIGHTS

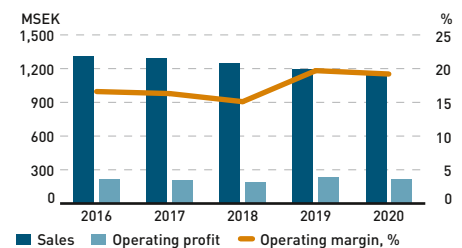
- Sales up 7 percent excluding currency translation effects
- Sales up for lighters, matches, and complementary products when adjusting for currency translation

KEY DATA ¹⁾

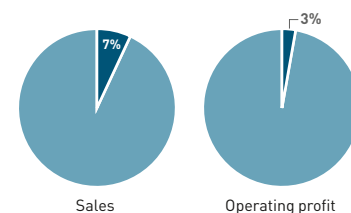
| MSEK | 2020 | 2019 | 2018 |
|---|-------|-------|-------|
| Sales | 1,149 | 1,200 | 1,246 |
| Operating profit | 222 | 238 | 189 |
| Operating margin, % | 19.3 | 19.8 | 15.2 |
| EBITDA | 261 | 282 | 230 |
| EBITDA margin, % | 22.7 | 23.5 | 18.4 |
| Depreciation, amortization and impairment | -39 | -44 | -41 |
| Capital expenditures | 29 | 43 | 40 |
| Average number of employees | 929 | 932 | 967 |

¹⁾ Excluding larger one-time items.

SALES AND OPERATING PROFIT



SHARE OF PRODUCT SEGMENTS 2020



SHIPMENT VOLUMES, WORLDWIDE

| | 2020 | 2019 | Change, % |
|-------------------------|-------|-------|-----------|
| Matches, billion sticks | 57.3 | 54.3 | 6 |
| Lighters, million units | 293.4 | 304.5 | -4 |

COMPETITION

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



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.

| CHANGES TAKING PLACE | HOW SWEDISH MATCH RESPONDS |
|--|---|
| <p>Health awareness and risk reduction</p> <p>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.</p> | <p>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 Swedes consume nicotine containing products on a comparable level to other European countries. Researchers refer to this phenomenon as "the Swedish Experience".</p> <p>The Company is marketing its nicotine pouch products in the US, as well as other countries, with the success of this product assortment providing a platform for continued growth in response to consumer needs.</p> |
| <p>Shift away from "one-size-fits-all" regulations</p> <p>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.</p> | <p>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.</p> |
| <p>Heightened focus on sustainability issues</p> <p>Stakeholders are increasingly demanding improved transparency with regard to environmental, social and economic impacts as well as corporate behavior. Consumers are 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.</p> | <p>Swedish Match's approach to sustainability and the Company's development go hand in hand. Pursuing our vision represents a great commercial opportunity as well as a potential to make significant positive impacts on society. While our sustainability efforts cover a broad range, we target 5 specific focus areas where we believe we can have the greatest positive impact and which are well aligned with issues identified through stakeholder engagement as part of our materiality process. We purchase raw tobacco from large international suppliers and monitor our supply chain closely, covering a number of issues, including human rights and child labor as well as areas of environmental concern. We employ thorough testing at several stages of the value chain, including the selection of raw tobacco and other materials. 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 to increase the recycling rate of used products by consumers.</p> |
| <p>Adaptation to evolving consumer demand</p> <p>Today's nicotine consumers are seeking less harmful, convenient and enjoyable options to cigarettes that best suit their lifestyles. Both women and men expect high quality products that deliver satisfaction whenever and wherever they choose to use them.</p> | <p>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.</p> |



Regulatory engagement in line with our vision of a world without cigarettes

Regulation – an opportunity to transform the marketplace in favor of public health by encompassing harm reduction as a basic principle.

Cigarette smoking is one of the most common preventable causes of illness and death world-wide. Even though tobacco is the world's most regulated legal consumer product, over a billion consumers smoke cigarettes daily and more than 8 million people die annually because of their habit. It's a fact that requires a new approach to regulation. Swedish Match believes that the only viable way forward is a regulatory framework which puts consumer insights at the center and is based on the principle of harm reduction.

The vast majority of tobacco related disease is attributable to cigarette smoking. Swedish snus has dramatically lower negative health effects than cigarettes due to the absence of inhalation of smoke and the low levels of harmful and potentially harmful components. In nicotine pouches, almost all of these constituents have been reduced even further to levels where they cannot even be measured. Many cigarette consumers do not want to or are not able to quit using nicotine. They deserve healthier alternatives and should be given proper incentives to switch. Large public health gains will be achieved if smokers switch to Swedish snus or to similar products like nicotine pouches.

Swedish Match's regulatory interactions and engagements are based on our vision of a world without cigarettes. It is clear that our vision will not be realized through heavier regulatory burdens for cigarettes alone. Significant reduction of cigarette consumption will also require regulation that promotes switching to healthier tobacco and nicotine containing products.

It is Swedish Match's aspiration to see a move from "one-size-fits-all" tobacco regulation to an approach that encompasses 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 smokefree products can play in responsibly transitioning adult cigarette consumers to less harmful products, but also allow for continued innovations that will benefit adult consumers.

Smokefree tobacco and nicotine regulation should ultimately be based upon standards (including appropriate maximum levels of nicotine per nicotine pouch) which strive to ensure that consumers receive attractive products with the highest possible product quality with minimal risk.

In our regulatory engagement we support:

- Regulation that promotes consumer shifting from cigarettes to less harmful nicotine and tobacco products.
- Regulation of nicotine and tobacco products to ensure that minors don't have access to the products, that there are coherent warning labels on the products and that there are appropriate restrictions on marketing.
- Product regulation for the nicotine pouch and smokefree tobacco categories to ensure that there are scientifically based thresholds for harmful and potentially harmful constituents.
- Restrictions on characterizing flavors in smoked tobacco products provided that such restrictions are universally applicable to all smoking products in any given market.
- Excise taxation according to relative risk between different tobacco and nicotine products.

Regulation should not be designed to make smokefree nicotine and tobacco products unappealing to cigarette consumers looking for an alternative or to implement an absolute or de facto ban on such products.

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.



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 the 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.

Integration of sustainability risks into ERM process

Swedish Match addresses sustainability risks with the same priority as financial and operational risks. During 2020, in conjunction with the updated materiality assessment, key sustainability risks have been identified and incorporated into the ERM process at division level. The central coordination responsibilities for sustainability risk assessment are designated to the same function as for the ERM process. This facilitates the sustainability risks to follow the same management approach as the rest of the key risks for the organization.



RISK AREAS

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

| RISK | MITIGATION |
|---|---|
| Competition | |
| Swedish Match operates in highly competitive markets, which require an agile organization in a continually changing environment. There is a risk to both customer purchases and the ability to realize pricing 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 or global health crises such as a pandemic 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 have been 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. By having multiple facilities producing core products, Swedish Match strives to reduce the potential impact of harmful incidents to any single facility. |
| 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 suppliers identified as critical. 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 portfolio of smokefree products and their relative health characteristics compared to cigarettes. The differences in relative risk among different tobacco and other nicotine-containing consumer products and the potential to migrate consumers to less harmful products are often referred to as harm reduction. |



RISK AREAS *Continued*

| RISK | MITIGATION |
|---|---|
| Currency and interest rate risks | |
| <p>The dynamic financial market conditions are continuously changing with fluctuating currency exchange rates, interest rates and availability of funds.</p> <p>Currency rate risks 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.</p> <p>Interest rate risk Higher interest rates could have a negative impact on net finance expense.</p> | <p>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.</p> <p>Swedish Match is a highly cash generative company with a stable financial policy. 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 and to tie nearly all of its borrowings to fixed interest rates. 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 <i>Note 27 Financial instruments and financial risks</i> to the Group Consolidated Financial Statements.</p> |
| Climate risk | |
| <p>Physical risk Tobacco is the most important agricultural commodity for Swedish Match business operations. Changes in precipitation patterns, soil content and heat patterns could negatively affect the yield, quality and availability of the tobacco crop. This could result in shortage of supplies and increasing raw material costs. Our direct operations are also exposed to acute physical risks caused by extreme weather events such as cyclones, hurricanes, or floods which could disrupt the manufacturing and distribution in the affected areas.</p> <p>Transition risk Our operations are subject to potential transition risks triggered by for instance new carbon-related regulations and shift in consumer preferences. These risks might impact how the Company can operate its business and interact with its stakeholders. This could imply direct financial impact in the form of increased compliance costs, or decreased revenue due to reduced demand for our products.</p> | <p>In response to physical risks, Swedish Match sources raw materials from a broad geography, therefore reducing its risk of exposure to climate change which may occur in any single geographic area. We also mitigate the risk through various activities such as climate impact assessment for our tobacco suppliers through the Sustainable Tobacco Program (STP) and a commitment to Science Based Targets initiative (SBTi) to do our part in reducing greenhouse gas emissions in our entire value chain. For our production facilities that have been identified as critical, periodic inspections are conducted by an independent third party. These third party assessments address, among other aspects, the potential risk exposure related to natural disasters and whether a business continuity plan is in place to prevent and recover from such acute situations.</p> <p>With regard to transition risks, the Company closely monitors the regulatory and policy development related to for instance packaging and enhanced emissions-reporting obligation. We also continuously monitor market trends and changing consumer needs by conducting targeted market research. This insight forms the basis for our product development decisions.</p> <p>During 2020, to better manage the climate risk, we have integrated climate risk assessment into our annual ERM process and aligned the methodology with the recommendations of TCFD.</p> |
| Child labor risk | |
| <p>The risk of child labor has been identified as one of Swedish Match main sustainability risks and therefore is included in 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.</p> | <p>Swedish Match sources its raw tobacco primarily from global suppliers. These suppliers have their own strict policies with regard to human rights, child labor and farming practices and are audited by other large international tobacco companies as well.</p> <p>The Company also 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.</p> <p>The major due diligence tools for the raw tobacco supply chain are the STP and associated procedures, of which Swedish Match has been a key contributor in their development.</p> <p>The Company evaluates 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 by Swedish Match to strengthen relationships and to pursue a proactive dialogue, including follow-up on action plans. The Company is also a member of and represented on the board of the Eliminating Child Labour in Tobacco Growing Foundation (ECLT).</p> |



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 8–9.

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-term 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 26–28.

FINANCIAL STRATEGY, SHAREHOLDER RETURNS AND FINANCIAL PERFORMANCE

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

The Company's financial liquidity remains very strong and the steps Swedish Match took during the year not only resulted in an improved financial performance for 2020 but also an improvement in capital efficiency despite the significant investments the Company made in support of future growth.

>> Read more under the following sections **Financial strategy** on page 9, **The share** on pages 66–67 and **Financial overview** on pages 71–74.

GUIDELINES FOR EXECUTIVE REMUNERATION

>> See **Financial overview** page 74 and **Note 5 Personnel** pages 90–93.

PROPOSED DISTRIBUTION OF EARNINGS

>> See page 75.

The Board of Directors Report has undergone reasonable review by Swedish Match auditors. See the Auditor's Report on pages 123–125.

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 30–62 and the Corporate Governance Report is presented on pages 131–143 in this publication. The Corporate Governance Report includes information on internal control over financial reporting, see further on page 139. 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.



SUSTAINABILITY





CEO comment

“ Sustainability remains a key focus for Swedish Match.”



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

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

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

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

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

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

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

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

Lars Dahlgren
President and CEO



HIGHLIGHTS 2020

-7% CO₂e

emissions compared to 2019



Close to 100%

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

100%

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

97%

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



49%

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



Improvement

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

Launch of

Cricket Eco

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

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



Our materiality assessment

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

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

SWEDISH MATCH GROUP FOCUS AREAS

Focus area

Goal

Target

Value chain



Improve public health

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

- Development and commercialization of nicotine harm reduction products that are attractive to cigarette users and dramatically safer sources of nicotine compared to cigarettes.
- Increased consumer awareness and consumer reach of snus and nicotine pouches.
- Increased consumer awareness of the difference in relative risk between cigarettes and smokefree tobacco and nicotine products.
- Increased understanding among regulators of the role that snus and nicotine pouches can play in improving public health.

Raw material
Supplier
Own operations
Transport/Distribution
Customer
Consumer



Ensure ethical business practices

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

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

Supplier
Own operations
Transport/Distribution
Customer
Consumer



Reduce environmental impact

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

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

Raw material
Supplier
Own operations
Transport/Distribution
Customer
Consumer



Human rights in our supply chain

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

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

Raw material
Supplier
Own operations



Equal opportunity

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

- No employees should feel that they are, or could be, the subject of discrimination at the workplace.
- To have at least 40 percent of each gender in senior management¹¹.
- To increase diversity in cultural backgrounds.

Own operations

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



ASSESSMENT PROCESS

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

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

1. Scanning of general trends and identification of topics

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

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

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



2. Stakeholder dialogue

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

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

3. Review and validation by the Group Management Team

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

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

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

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

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



OTHER TOPICS OUTSIDE OUR FOCUS AREAS

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

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

Deforestation and biodiversity

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

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

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

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

Water stress

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

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

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

Occupational health and safety

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





Our contribution to the UN SDGs

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

UN SUSTAINABILITY DEVELOPMENT GOALS ALIGNED WITH OUR FOCUS AREAS

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

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



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

SDGs 2030

How Swedish Match contributes to the SDGs 2030 targets



NO POVERTY

End poverty in all its forms everywhere.

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

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



ZERO HUNGER

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

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



QUALITY EDUCATION

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

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



CLEAN WATER AND SANITATION

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

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



CLEAN ENERGY

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

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



INDUSTRY, INNOVATION AND INFRASTRUCTURE

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

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



LIFE ON LAND

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

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



Management approach

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

Focus and organization ownership

Our sustainability strategy is founded on two basic principles – focus and organizational ownership. While our sustainability work spans across a broad array of topics, for best impact and transparency we believe that group-wide efforts and reporting are most effective if concentrated to key areas of focus with strong organization ownership. Through this strategy, we emphasize five focus areas – Improve public health, Ensure ethical business practices, Reduce environmental impact, Human rights in our supply chain, and Equal opportunity – areas where we believe we have the ability to directly or indirectly influence meaningful outcomes or where adverse developments could have a negative impact on our businesses. These focus areas form the basis for our common roadmap; this is where we put extra effort and coordinate external reporting. Swedish Match has set a series of tangible commitments and goals for each of the focus areas and will continue to measure and report its progress. Our Code of Conduct forms a foundation for our sustainability approach and efforts throughout the Group. It represents the commitment of Swedish Match and all of our employees to conduct business activities in a responsible manner, demonstrating integrity and respect to our stakeholders and society as a whole.

Swedish Match is a global company made up of largely autonomous divisions. We have ensured that the ownership and action in our sustainability work is strongly supported at the local operating level within each division, where efficient and creative ideas and solutions are most likely to come up and best followed

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

Integrating sustainability

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

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



Code of Conduct

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

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

Our Code of Conduct covers, among other things, our commitment to and guidance on respect for human rights and internationally proclaimed human rights conventions and

guidelines¹⁾, including non-discrimination and fair treatment, employment terms, freedom of association, the right to collective bargaining and the elimination of forced or compulsory labor as well as of child labor. The Code of Conduct includes guidance on anti-corruption and anti-bribery practices, as well as gifts, loans and hospitality, responsible marketing practices and fair competition. It also includes guidance on eco-efficiency and the importance of following a precautionary principle in environmental management, as well as occupational health and safety, competence development, talent management, and supplier due diligence.



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

Lars Dahlgren, President and CEO

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

www.swedishmatch.com

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

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Our value chain

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

FOCUS AREAS



Improve public health



Ensure ethical business practices



Reduce environmental impact



Human rights in our supply chain



Equal opportunity

1

FARMS / FORESTRY / RAW MATERIALS



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

2

SUPPLIER



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

3

FACTORY / WAREHOUSE / OFFICE



Swedish Match manufactures snus, nicotine pouches, moist snuff, chewing tobacco, cigars, matches and lighters at 15 facilities – in Sweden, the US, the Dominican Republic, Denmark, the Netherlands, the Philippines and Brazil. The Company's head office is located in Stockholm, Sweden.

4

TRANSPORT / DISTRIBUTION



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

5

CUSTOMER



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

6

CONSUMER



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

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

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

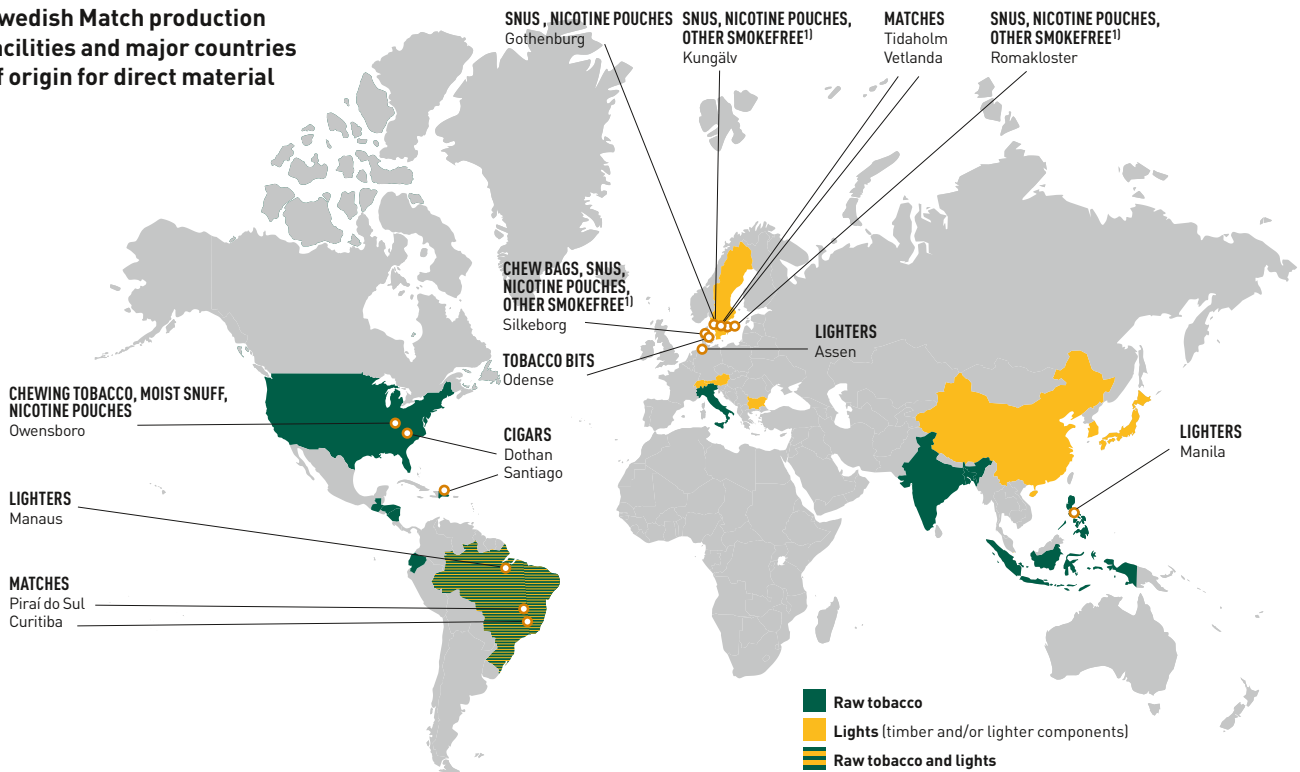


Permits and obligatory reporting

All plants satisfy the requirements of their permits. The snus and nicotine pouches plants in Gothenburg and Kungälv in Sweden are subject to obligatory reporting in accordance with the Swedish Environmental Code. The plant in Vetlanda, Sweden produces splint as well as skilllets that are used for match production. These operations require a permit in accordance with the Environmental Protection Act. The permit is valid indefinitely. Noise levels, storage of timber and solvent emissions are regulated. The plant in Tidaholm,

Sweden produces matches and firestarters. These operations require permit according to the Environmental Protection Act. The permit entitles the plant to increase production up to certain levels and specifies limits for wastewater, the dust content in ventilation outflows and noise levels. For plants in other countries where Swedish Match has production operations, the Group has permits in accordance with the legislation in each country.

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



DIRECT MATERIALS

Raw tobacco

Swedish Match does not own tobacco plantations. The Company sources raw tobacco from major tobacco suppliers who source from 23 countries for Swedish Match products. Eleven of these countries (pictured in map above) account for close to 85 percent of Swedish Match's raw tobacco purchases. The largest sources come from India, Indonesia, and the US. With the GOTHIA TEK® quality standard for snus, testing of the tobacco takes place at several stages of the value chain, including the selection of raw tobacco. Testing often starts at the farm level. This way of working has influence on how we engage with other raw material supplies.

Timber

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

roughly 4,500 hectares of planted poplar and pine in the south of the Paraná state and in the north of the Santa Catarina state. Our plantations adhere to strict growing requirements beyond those levels set by local laws and regulations. Aspen used for the production of matches in Sweden is sourced from the southern part of Sweden in the vicinity of our splint factory and is primarily sourced through major timber suppliers. Relatively small quantities are also sourced directly from individual forest owners. Swedish Match Industries AB, the entity producing matches in Sweden, is certified according to FSC's standards for Chain of Custody and Controlled Wood.

Nylon and lighter components

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

Core values



Quality standards

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



Sustainable Tobacco Program (STP)

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

Why we perform due diligence through STP

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

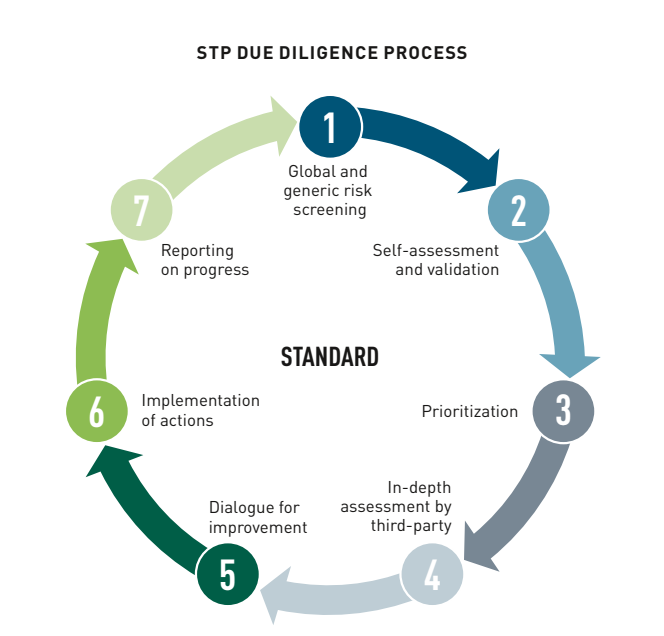
STP is developed in line with relevant UN SDGs as well as global standards, guidelines and reporting frameworks, e.g. WHO, UN Guiding Principles on Business and Human Rights, ECLT Pledge, ILO, GAP US, OECD-FAO and CDP. The program is governed by the STP Steering Committee and managed by the STP Secretariat.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

Evolution of STP

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

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

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





IMPROVE PUBLIC HEALTH

OUR COMMITMENT

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



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

OUR GOAL

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

- Development and commercialization of nicotine harm reduction products that are attractive to cigarette users and dramatically safer sources of nicotine compared to cigarettes.
- Increased consumer awareness and consumer reach of snus and nicotine pouches.
- Increased consumer awareness of the difference in relative risk between cigarettes and smokefree tobacco and nicotine products.
- Increased understanding among regulators of the role that snus and nicotine pouches can play in improving public health.

OUR APPROACH

Product strategy

Swedish Match provides a wide range of enjoyable alternatives to cigarettes that are both satisfying and dramatically safer than smoking. Our smokefree portfolio consists of snus, moist snuff, chewing tobacco¹⁾ as well as innovative products such as nicotine pouches. The vast majority of our R&D efforts and capital expenditures are dedicated to our smokefree business and all the acquisitions made in recent years have been done to strengthen our smokefree portfolio. Currently our smokefree business accounts for 70 percent of total Swedish Match sales of tobacco and nicotine products. Our goal is that this percentage shall continue to grow.

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

Product quality and safety

As far back as in year 2000, Swedish Match decided to make its 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 detected in ZYN.

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

www.swedishmatch.com

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



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



Consumer accessibility

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

Openness and transparency

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

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

Protecting vulnerable consumer groups

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

OUR PROGRESS

HIGHLIGHTS 2020

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

Progress update

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

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

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



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

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

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

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

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

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

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

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

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

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

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

²⁾ All volumes are converted to portion equivalent.

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

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

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

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

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

Going forward:

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



ENSURE ETHICAL BUSINESS PRACTICES

OUR COMMITMENT

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



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

OUR GOAL

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

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

OUR APPROACH

Our Code of Conduct

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

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

Business Ethics Council and Procurement Council

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

Corruption and bribery

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

Fair competition

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

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



www.swedishmatch.com

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



Anti-money laundering

Money laundering is prohibited by Swedish Match in line with the anti-money laundering laws of various countries. Money laundering is a global problem with potentially very serious consequences. Swedish Match remains vigilant to this concern in our business relations and acts diligently to prevent our products from being used for money laundering. E-learning on anti-money laundering is required for relevant employees within the organization.

Raising concerns and the whistleblower function

To further secure sound business ethics within the organization, we encourage all employees to speak up if they become aware of behavior that is not in line with the Code of Conduct. When raising a concern, employees can always contact their managers, their manager’s immediate manager, division heads, or the HR or legal departments. Swedish Match also has a whistleblower function that provides employees with the opportunity to report suspicion of non-compliance with the Code of Conduct to the Chairman of the Audit Committee when applicable. All raised concerns are treated seriously and investigated. Appropriate actions are taken in cases of misconduct. All expectations raised and actions are reported to the Audit Committee. External auditors are also present at the time of these reports.

Our Supplier Code of Conduct

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

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

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

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www.swedishmatch.com



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

“Adult only Tobacco and Nicotine” policy

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

Source: Swedish Match Code of Conduct

Responsible marketing

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

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

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

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



OUR PROGRESS

HIGHLIGHTS 2020

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

Progress update

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

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

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

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

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

¹ Relates to individual training for employees with personal e-mail accounts as well as group session training performed for employees in factories without personal e-mail accounts. As of October 2020, consultants on contracts with a duration of over three months are included in the figure.

² Decrease due to expanded coverage of relevant employees.

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

Going forward:

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



REDUCE ENVIRONMENTAL IMPACT

OUR COMMITMENT

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



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

OUR GOAL

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

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

OUR APPROACH

Addressing climate change in a science-based manner

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

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

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

Accounting for GHG emissions in our value chain⁴

We report GHG emissions from our own facilities (Scope 1 direct emissions), emissions from energy used in our own operations (Scope 2 indirect emissions), and emissions in our full value chain according to the Corporate Value Chain Standard (Scope 3) of the Greenhouse Gas Protocol⁵.

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

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

² The "Other industry" sector includes all industries that cannot be allocated to the industry sectors Iron & steel, Cement, Aluminum, Pulp & paper and Chemicals & petrochemicals, e.g. food, beverage and tobacco processing.

³ IPCC Fourth Assessment Report.

⁴ Figures described in this section are based on best available information and are subject to revision. Revised figures will be presented on the Company's website when available.

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



Supplier engagement

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

Addressing waste and littering from our products

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

Environmental Management System

The majority of our production facilities (9 of 15) are ISO 14001 certified. Non-certified factories include our match factories in Curitiba and Pirai do Sul, Brazil, lighters factory in Manaus, Brazil, and businesses acquired¹⁾ since 2017.

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

CDP

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

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

²⁾ CDP (formerly Carbon Disclosure Project) is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.

HIGHLIGHTS 2020

Reduction of GHG emissions:

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

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

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

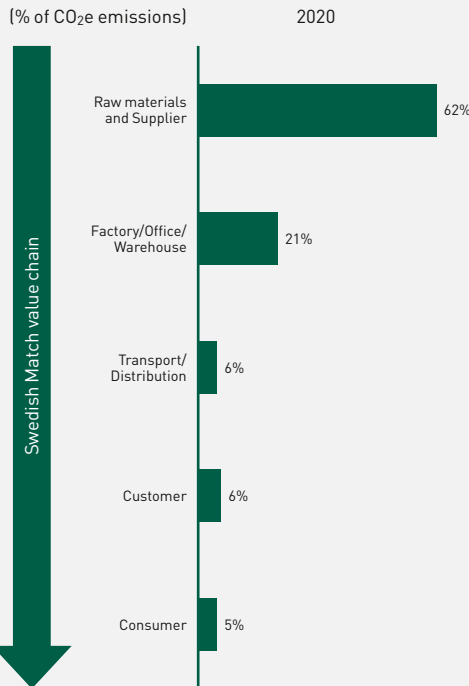
Reduction of waste and littering prevention:

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



OUR PROGRESS

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



Example of initiatives to reduce environmental impact of our business

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

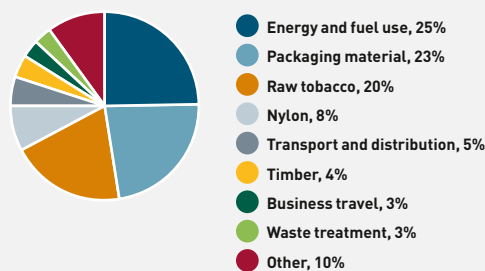
GHG emissions from Swedish Match's main products per unit of production (gram CO₂e)¹¹

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

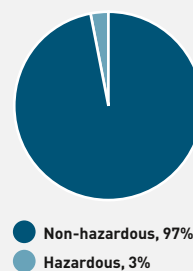
Waste from Swedish Match's main products per unit of production (gram)¹¹

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

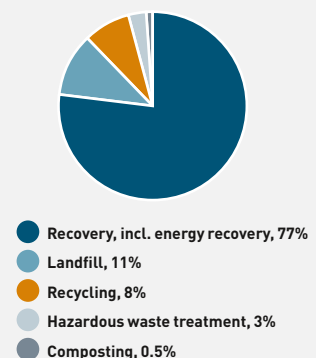
2020 GHG EMISSIONS BY SOURCE



2020 WASTE BY TYPE



2020 WASTE BY TREATMENT METHOD



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



Progress update

Reduction of GHG emissions

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

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

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

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

Reduction of waste and littering prevention

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

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



Biobed at our factory in Kungälv, Sweden.



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

¹⁾ Figures restated due to refined data collection.

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

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

¹⁾ Figures restated due to refined data collection.

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

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

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

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

¹⁾ Figures restated due to refined data collection.

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

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

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

Going forward:

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



HUMAN RIGHTS IN OUR SUPPLY CHAIN

OUR COMMITMENT

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

Elimination of child labor is the center of focus in our efforts. We respect the rights of the child, including the right to education, the right to rest and play and the right to have the child's basic needs met, in accordance with the UN Convention on the Rights of the Child. Swedish Match does not accept child labor anywhere in our supply chain.

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



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

OUR GOAL

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

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

OUR APPROACH

Assessing risk related to human rights in our supply chain

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

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

The due diligence for our supply chain

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

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

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



Smokefree tobacco supply chain

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

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

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

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

Table with 3 columns: Stages, Participants, and Description. Rows include: Global, generic risk screening; Self-assessment and validation; Prioritization; In-depth assessment by third party; Dialogue for improvement; Implementation of actions.

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

Cigar tobacco supply chain

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

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

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

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

Direct material other than raw tobacco

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

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



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

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

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

ECLT Foundation

Swedish Match is a member of and represented on the board of the ECLT Foundation – Eliminating Child Labour in Tobacco Growing Foundation. The foundation is committed to pursuing collaborative solutions for children and their families that combat the root causes of child labor in tobacco-growing communities. Founded in 2000, this multi-stakeholder initiative brings several stakeholders from different parts of the tobacco industry together toward a common goal. Since 2011, the ECLT Foundation has supported over 920,000 children, farmers and families in the fight against child labor and are currently active in projects in Guatemala, Indonesia, Malawi, Mozambique, Tanzania and Uganda.

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



The “Let’s PLAY” After School Program

In complement to our due diligence we have supported an after-school program in the Philippines. This is a project under Universal Leaf’s “Let’s PLAY” program, providing after school activities in selected communities where children have been observed to participate in harvest activities, giving children an alternative to working and allowing them to thrive in new activities. Along with conducting interesting alternative activities and improving the quality of the children’s health and education, the objective is also to increase awareness of parents, teachers and community leaders on child labor prevention. This project complements other activities, implemented by this supplier, to mitigate the risk of child labor. Swedish Match’s engagement in this project complements our own efforts to manage our supply chain sustainably. Learnings from participating in the program also provide us with enhanced understanding of conditions on the ground in areas from which we source raw tobacco.





OUR PROGRESS

HIGHLIGHTS 2020

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

Progress update

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

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

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

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

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

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

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

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

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

³⁾ New KPIs added in 2020.

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

Going forward:

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



EQUAL OPPORTUNITY

OUR COMMITMENT

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

At Swedish Match we put equal opportunities first and foremost in our work toward non-discrimination and diversity. We are dedicated to having an open and inclusive work environment where all our employees shall have equal opportunities to achieve their full potential, regardless of personal status. We take a proactive approach for diversity and against structural discrimination and norms that may stand in the way of equal opportunities.



The scope of this focus area is our own operations.

OUR GOAL

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

- No employees should feel that they are, or could be, the subject of discrimination at the workplace.
- To have at least 40 percent of each gender in senior management¹¹.
- To increase diversity in cultural backgrounds.

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

OUR APPROACH

Tone from the top for equal opportunity

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

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

How we achieve equal opportunity

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

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





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

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

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

How we monitor our progress

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

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

Our businesses in both the US and Sweden present status reports within their organizations, concerning to protected groups and those from other cultural backgrounds or country of origin. In Sweden, information is being gathered to identify the percentage employees and managers who are either born in countries outside of Sweden, or who have two parents born in another country. In the US, ethnic or racial background is a factor which is reviewed.

OUR PROGRESS

HIGHLIGHTS 2020

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

Progress update

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

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



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

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

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

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

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

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





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

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

²⁾ Represents figures at year-end.

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

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

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

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

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

Going forward:

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

AUDITOR'S REPORT ON THE STATUTORY SUSTAINABILITY REPORT

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

Engagement and responsibility

The Board of Directors is responsible for the statutory sustainability report for the year 2020-01-01 – 2020-12-31 on pages 30–62 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

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

Opinion

A sustainability report has been prepared.

Stockholm, March 15, 2021

Deloitte AB

Peter Ekberg
Authorized Public Accountant



SHAREHOLDER INFORMATION





Shareholder communication

SWEDISH MATCH'S INFORMATION CHANNELS



SWEDISHMATCH.COM

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

Financial reports are available on the Company's website. The website 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



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, recent events, and operational changes. Presentations of Swedish Match's results, operations and activities are periodically made to investors and analysts in conjunction with conferences and seminars as well as on roadshows generally after the release of interim reports.

During 2020, in addition to quarterly reporting and telephone conferences,

Swedish Match participated in a number of virtual conferences and seminars as well as individual meetings, reaching a broad range of investors and analysts who want to learn more about the Group. Most of the meetings (both individual and in conjunction with conferences and seminars) were held by phone or in a virtual setting. Some of the topics that were of particular interest to investors and analysts during 2020 included the

growth for nicotine pouches – particularly in the US, as well as regulatory issues and developments in the US. Also of interest were the competitive dynamics and market share performance for snus and nicotine pouches in Scandinavia, along with the Group's approach to sustainability and related ESG matters.



ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of Swedish Match AB (publ), will be held on Tuesday, April 13, 2021.

In light of the continued COVID-19 pandemic, the AGM will be conducted pursuant to so called mail-in procedures, meaning that no shareholders will attend the AGM in person or through proxy. Instead, Swedish Match welcomes shareholders to exercise their voting rights at the AGM by advance voting in the manner described below and in the notice. Information on the decisions taken by the AGM will be published on April 13, 2021, as soon as the outcome of the advance voting has been finally compiled.

In order to participate in the AGM, a shareholder must

- be registered in the register of shareholders maintained by Euroclear Sweden AB as of Thursday, April 1, 2021, and
- notify attendance at the AGM no later than Monday, April 12, 2021. The exercise of voting rights in accordance with the mail-in procedure will be considered as a notification from the shareholder to attend the meeting.

Shareholders whose shares are nominee registered and who wish to participate in the AGM must temporarily re-register such shares in their own name (i.e. voting right registration) in order to be entitled to participate in the AGM via the mail-in process. 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 Thursday April 1, 2021. Voting rights registration that has been registered by the shareholder in such time that the registration has been completed by the nominee no later than Wednesday April

7, 2021 will be taken into account in the preparation of the shareholders' register.

Advance voting

Shareholders can exercise their voting rights at the AGM only by voting in advance, so-called postal voting in accordance with Section 22 of the Act (2020:198) on temporary exemptions to facilitate the conduct of meetings of companies and associations. For advance voting, a special form must be used. The form is available on the Company's website, www.swedishmatch.com. The submission of the form is valid as a notification to the AGM. The advanced voting form must have been received by Swedish Match no later than on Monday, April 12, 2021. The completed form must be sent to Swedish Match AB (publ), c/o Euroclear Sweden AB, Box 191, 101 23 Stockholm, Sweden. Completed forms may also be submitted electronically. Electronic submission can be made either by signing with BankID according to instructions on <https://anmalan.vpc.se/euroclearproxy> or by sending the completed form by e-mail to GeneralMeetingService@euroclear.com. Further instructions and conditions are stated in the notice and the advance voting form.

Dividend

The Board of Directors proposes to the AGM an increased dividend, amounting to 15.00 SEK per share (12.50). The proposed record date for entitlement to receive a cash dividend is April 15, 2021. If the AGM approves the Board's proposal, the dividend is expected to be paid through Euroclear Sweden AB on April 20, 2021.

www.swedishmatch.com

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



CONTACTS

Investor Relations

Emmett Harrison
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investorrelations@swedishmatch.com

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



External Communications

Djuli Holmgren
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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.



CALENDAR

April 1, 2021:
Record date for Annual General Meeting

April 13, 2021:
Annual General Meeting

April 14, 2021:
Ex-dividend date

April 15, 2021:
Proposed record date for dividend

April 20, 2021:
Proposed date for dividend payment

April 30, 2021:
Interim report January–March

July 20, 2021:
Half year report January–June

October 27, 2021:
Interim report January–September

February 9, 2022:
Full year report 2021

March, 2022:
Annual report for 2021



The share

The Swedish Match share is listed on Nasdaq Stockholm. Total share capital on December 31, 2020 amounted to 390 MSEK, distributed among 162,200,000 shares with a quotient value of 2.4015 SEK each. Each share carries one vote.

Turnover¹⁾

Total turnover in 2020 amounted to 154,708,716 Swedish Match shares on Nasdaq Stockholm, with an average daily volume of 0.6 million shares. The turnover velocity of the share on Nasdaq Stockholm, was 91 percent during the year, compared with the average turnover velocity of 55 percent for Nasdaq Stockholm.

Trading platforms²⁾

During 2020, 38 percent of total trading volume of Swedish Match was handled through the Nasdaq Stockholm trading platform. The approximate distribution of trade between other exchanges in number of shares traded during the year was: 47 percent for Cboe, 6 percent for London Stock Exchange, 2 percent for Turquoise and 7 percent for other exchanges.

Share price development and market capitalization¹⁾

Swedish Match's market capitalization at year-end 2020 amounted to 101.0 billion SEK, an increase of 22.2 billion compared

with December 31, 2019.³⁾ The share price rose by 32 percent during the year, while the OMXS30 Index rose by 6 percent. The lowest price paid during the year was 484.80 SEK on March, 23 and the highest price paid was 749.00 SEK on September, 28.

Ownership structure³⁾⁴⁾

At year-end, ownership outside of Sweden corresponded to 82.7 percent of total share capital, a decrease of 0.5 percentage points compared with 2019. Swedish ownership interests, totaling 17.3 percent, were distributed among institutions with 3.9 percent of the share capital, mutual funds with 1.3 percent, and private individuals with 12.1 percent.

Dividend

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

year. The proposed dividend amounts to 2,376 MSEK based on the 158.4 million shares outstanding at the end of the year.

Proposed split of the Swedish Match share

The Board of Directors proposes to the AGM a 10:1 share split, implying that one Swedish Match share will be divided into 10 shares. Providing approval of the proposal at the AGM, taking place on April 13, 2021, the Board of Directors will be mandated to decide upon a record date for the share split. This date will consequently not be decided upon until after the AGM on April 13. The proposed dividend will be paid out before a potential share split and consequently amount to the proposed 15.00 SEK per share.

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 21 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 2.34 percent of the total number of shares as per December 31, 2020.

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.

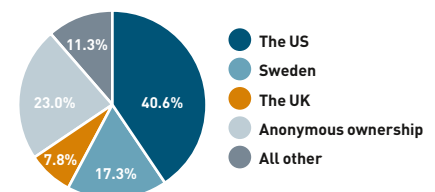
LARGEST SHAREHOLDERS

| Largest shareholders ¹⁾ | Number of shares | Holding in percent | Votes in percent |
|------------------------------------|--------------------|--------------------|------------------|
| Wellington Management | 8,019,924 | 4.9 | 5.1 |
| BlackRock | 7,752,809 | 4.8 | 4.9 |
| Fidelity International (FIL) | 7,028,118 | 4.3 | 4.4 |
| Fidelity Investments (FMR) | 7,010,408 | 4.3 | 4.4 |
| Cedar Rock Capital | 4,671,077 | 2.9 | 2.9 |
| Vanguard | 4,384,291 | 2.7 | 2.8 |
| Invesco | 4,212,553 | 2.6 | 2.7 |
| Gabelli/GAMCO | 3,225,350 | 2.0 | 2.0 |
| Nordea Funds | 2,653,942 | 1.6 | 1.7 |
| Cantillon Capital Management | 2,336,309 | 1.4 | 1.5 |
| Subtotal 10 owners | 51,294,781 | 31.6 | 32.4 |
| Other | 107,112,302 | 66.0 | 67.6 |
| Subtotal | 158,407,083 | 97.7 | 100.0 |
| Shares held by Swedish Match | 3,792,917 | 2.3 | 0.0 |
| Total | 162,200,000 | 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, Morningstar and the Swedish FSA, as of December 31, 2020. Totals may be affected by rounding.

OWNERSHIP STRUCTURE – SHARE CAPITAL BY COUNTRY



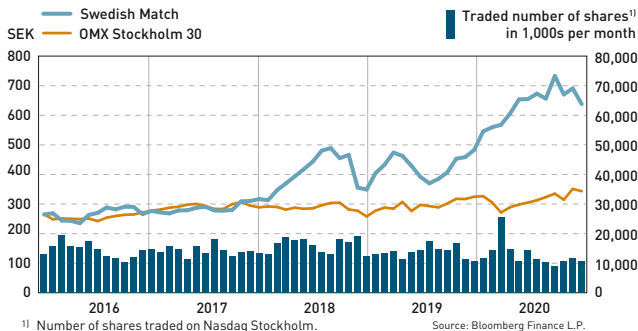
Source: Monitor by Modular Finance AB, data derived from Euroclear Sweden AB, as of December 31, 2020. "All other" also includes shareholders with 500 shares or less in the US, UK, and Sweden. Note that shares held by Swedish Match in treasury are excluded.

www.swedishmatch.com

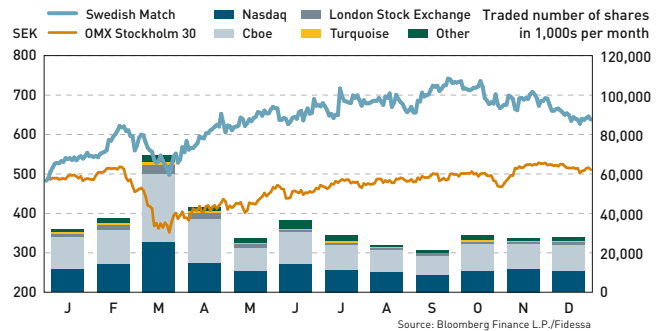
More information is available on the Company website www.swedishmatch.com/investors.



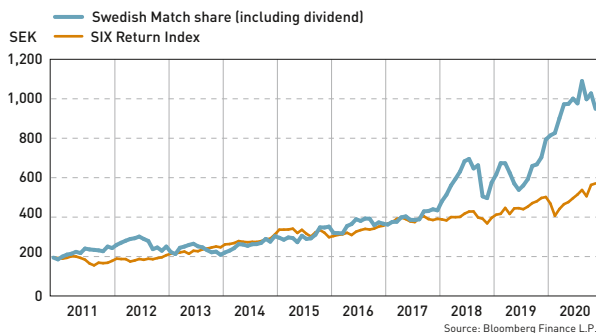
SHARE PRICE AND TURNOVER 2016–2020



SHARE PRICE AND TURNOVER 2020



TOTAL RETURN 2011–2020



TRANSFER OF CAPITAL TO SWEDISH MATCH'S SHAREHOLDERS

| MSEK | 2020 | 2019 | 2018 | 2017 | 2016 | Total |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Dividend paid | 2,020 | 1,777 | 2,911 | 2,908 | 5,522 | 15,138 |
| Repurchase of own shares, net | 3,099 | 2,989 | 2,512 | 2,590 | 1,249 | 12,439 |
| Total | 5,119 | 4,766 | 5,423 | 5,498 | 6,771 | 27,577 |

Dividend proposed for calendar year 2020 to be paid in 2021 is 2,376 MSEK, based on the number of shares outstanding at the end of 2020.

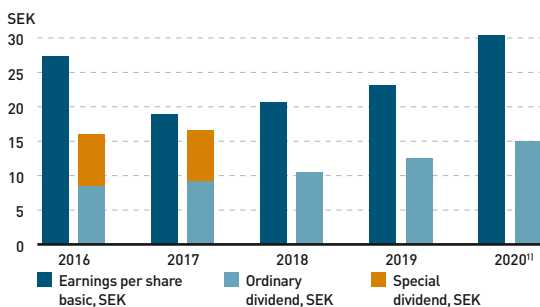
SHARE DISTRIBUTION¹⁾

| Size of holding | No. of owners | No. of owners, % | No. of shares | Holding, % | Votes, % |
|------------------------------|---------------|------------------|--------------------|--------------|--------------|
| 1 – 1,000 | 76,771 | 95.2 | 9,519,625 | 5.9 | 6.0 |
| 1,001 – 5,000 | 3,259 | 4.0 | 6,506,781 | 4.0 | 4.1 |
| 5,001 – 20,000 | 390 | 0.5 | 3,622,481 | 2.2 | 2.3 |
| 20,001 – 50,000 | 99 | 0.1 | 3,228,719 | 2.0 | 2.0 |
| 50,001 – 100,000 | 55 | 0.1 | 4,074,476 | 2.5 | 2.6 |
| 100,001 – 1,000,000 | 88 | 0.1 | 29,812,504 | 18.4 | 18.8 |
| 1,000,001 – | 18 | 0.0 | 65,157,327 | 40.2 | 41.1 |
| Subtotal | 80,680 | 100.0 | 121,921,913 | 75.2 | 77.0 |
| Anonymous ownership | – | – | 36,485,170 | 22.5 | 23.0 |
| Shares held by Swedish Match | 1 | 0.0 | 3,792,917 | 2.3 | 0.0 |
| Total | 80,681 | 100.0 | 162,200,000 | 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, 2020. Totals may be affected by rounding.

EARNINGS AND DIVIDEND PER SHARE 2016–2020



SHARE DATA

| | 2020 | 2019 | 2018 | 2017 ³⁾ | 2016 |
|---|-------------|-------------|-------------|--------------------|-------------|
| Earnings per share, basic and diluted, SEK | | | | | |
| Including larger one-time items ¹⁾ | 30.38 | 23.22 | 20.63 | 18.88 | 27.38 |
| Including larger one-time items and excluding income from STG | 30.38 | 23.22 | 20.63 | 18.38 | 26.44 |
| Excluding larger one-time items and income from STG ²⁾ | 32.16 | 25.41 | 20.63 | 16.40 | 14.39 |
| Dividend per share, SEK ³⁾ | 15.00 | 12.50 | 10.50 | 16.60 | 16.00 |
| Dividend yield at year-end ³⁾ , % | 2.35 | 2.59 | 3.01 | 5.14 | 5.52 |
| Dividend pay-out ratio, excluding larger one-time items ³⁾ , % | 47 | 49 | 51 | 101 | 104 |
| Market price at year-end, SEK | 637.80 | 482.80 | 349.10 | 323.20 | 289.80 |
| Market capitalization at year-end, billion SEK ⁴⁾ | 101.0 | 78.8 | 59.4 | 56.9 | 53.5 |
| P/E ratio ⁴⁾ | 21.0 | 20.8 | 16.9 | 17.1 | 10.6 |
| EBIT multiple ⁴⁾ | 16.4 | 17.1 | 14.6 | 14.2 | 9.6 |
| Return on reinvested dividend, SEK | 1.30 | 0.79 | 1.33 | 1.54 | 1.61 |
| Total return, % | 35.0 | 41.5 | 12.7 | 17.6 | 6.9 |
| Average number of shares, basic | 160,866,537 | 167,779,742 | 173,445,540 | 180,096,690 | 187,116,474 |
| Average number of shares, diluted | 160,866,537 | 167,779,742 | 173,445,540 | 180,096,690 | 187,116,474 |
| Number of shareholders | 80,681 | 64,901 | 57,370 | 54,682 | 54,046 |

¹⁾ 2017 includes dividends received from the investment in STG.

²⁾ 2020 excludes a tax charge including interest of 286 MSEK related to an adverse ruling in a tax case in Sweden. 2016–2019 excludes larger one-time items that have been separately reported from the product segments.

³⁾ Dividend for 2020 is the Board's proposal. 2017 and 2016 includes special dividends of 7.40 SEK per share and 7.50 SEK per share respectively.

⁴⁾ Excluding shares held by Swedish Match.

⁵⁾ Restated in accordance with IFRS 15.

⁶⁾ Earnings include larger one-time items and income from STG up until disposal in 2017.



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FINANCIAL REPORTS





CFO comment

“From a financial performance perspective, Swedish Match reported record sales and operating profit despite currency headwinds.”



The impact of the COVID-19 pandemic on society more generally and on the global economy more specifically was considerable during 2020. For many companies, there was an acute shift in financial priorities from longer term strategies focused on growth and margin expansion to more pressing issues such as liquidity planning and operational resiliency. Financial modeling, which historically may have taken certain manufacturing inflows and sales channel outflows for granted had to be re-envisioned with a heightened focus on liquidity, resiliency, and risk management. To this point, I am pleased to be able to report that our financial liquidity remains very strong and that the steps we took during the year not only resulted in an improved financial performance for 2020 but also an improvement in capital efficiency despite the significant investments we made in support of future growth.

From a financial performance perspective, Swedish Match reported record sales and operating profit despite currency headwinds, and in local currency terms, sales and operating profit from product segments grew by 18 percent and 28 percent, respectively. Our operating margin from product segments improved notably by more than 3 percentage points and while we estimate that COVID-19 related net effects elevated sales and profits, our underlying financial performance was impressive. After tax profits translated into a respectable growth in net cash generated from operating activities, notwithstanding the unfavorable effects of a one-time payment of tax and related interest of 286 MSEK following an adverse ruling in a tax case in Sweden (for which we have applied for leave to appeal).

While the growth in sales and operating profit was driven by the continued impressive performance for our ZYN nicotine pouches in the US, I am pleased to note that all of our product segments, on a constant currency basis, contributed to the strong performance. As noted in our outlook statement for 2021 on page 74, we expect the attractive prospects of the nicotine pouch category to further elevate competitive activity resulting in increased investments in marketing, distribution and

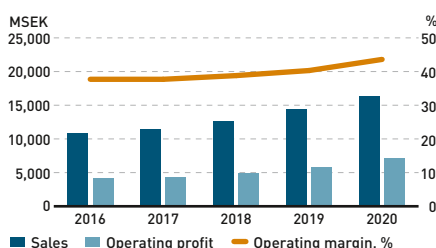
sales efforts in both existing and new markets to actively participate in growth opportunities. Continued capital investments by Swedish Match to further expand nicotine pouch production capacity are expected to result in capital expenditures in 2021 above the 2020 level.

Earnings per share (EPS) for the year amounted to 30.38 SEK, or 32.16 SEK when adjusting for the above-mentioned tax charge. On an adjusted basis, EPS increased by 27 percent compared to the prior year and benefited from higher operating profit and the reduction in the number of shares outstanding, which was partially offset by higher net financial costs as well as higher tax expenses largely reflecting the continued increase in the relative contribution to earnings from our US businesses. Our underlying tax rate for the year was 23.1 percent compared to 21.8 percent for the preceding year. Please refer to our outlook statement for guidance as to our expected effective corporate tax rate for 2021.

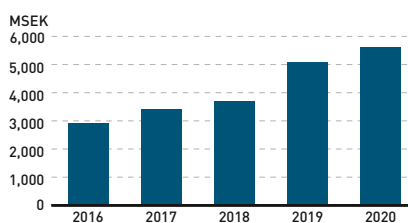
We remain committed to our financial strategy, centered on capital efficiency with a focus on financial flexibility and stability requirements. Cash not required within our operations or for strategic investments is returned to shareholders. During 2020, we distributed 5,119 MSEK to our shareholders, consisting of a dividend of 2,020 MSEK and share repurchases of 3,099 MSEK. To manage financial risks, we seek to spread our bond maturities out over many years. In February 2020, we successfully issued a 7-year public bond of euro 300 million. The placement closed at an interest rate of 1.8 percent in Swedish kronor, which for a 7-year loan is the lowest in Swedish Match's history. Lastly, to make stock ownership more accessible, the Board of Directors has proposed a split of the Swedish Match share. This is subject to approval by the shareholders at the upcoming Annual General Meeting on April 13, 2021. If approved, each Swedish Match share will be divided into 10 shares.

Anders Larsson
CFO

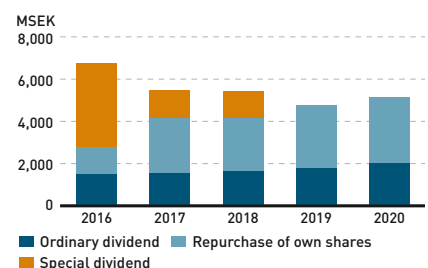
SALES AND OPERATING PROFIT FROM PRODUCT SEGMENTS 2016-2020¹⁾



NET CASH FROM OPERATING ACTIVITIES 2016-2020



CASH TRANSFERRED TO SHAREHOLDERS 2016-2020



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



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Financial overview

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

Swedish Match develops, manufactures, and sells quality products with market leading brands. As from January 1, 2020, Swedish Match changed the composition of its products segments. The Group's product segments for 2020 were *Smokefree*, *Cigars* and *Lights*. For more information see *Note 3 Segment information*.

Swedish Match's performance in 2020 showed strong growth, with record sales and operating profit from product segments. Group sales increased by 13 percent to 16,698 MSEK (14,739) and sales from product segments increased by 14 percent to 16,332 MSEK (14,363). Currency translation affected the sales comparison negatively by 571 MSEK. In local currencies, sales from product segments increased by 18 percent with increases across all three product segments. Driven by the success for ZYN nicotine pouches in the US, the Smokefree product segment was the largest contributor to the revenue growth, both in absolute terms and in percentage terms. It is estimated that COVID-19 related effects resulted in increased consumer demand – predominantly for traditional tobacco products in the US – and also generated a positive price mix effect in the Scandinavian smokefree business as a consequence from travel restrictions that resulted from unusually high shipment volumes to the domestic Norwegian market. For more information on COVID-19 related impacts for Swedish Match see below section *Effects from the coronavirus (COVID-19)*.

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

Group operating profit, including larger one-time items, amounted to 6,991 MSEK (5,307). Currency translation has affected the comparison of the operating profit negatively by 292 MSEK. In 2019, a non-cash impairment charge of 367 for the European chewing tobacco business was recognized as a larger one-time item. For more information on the Group's accounting principles

and methodology for impairment testing, see *Note 1 Accounting principles* and *Note 11 Intangible assets*.

The Group's profit for the period amounted to 4,888 MSEK (3,896), which included a tax charge of 286 MSEK, including interest expense, of a one-time nature. For more information see below section *Significant events during the year*.

Operating margin from product segments for the year, was 43.8 percent (40.5). Operating margin including larger one-time items for the Group was 41.9 percent (36.0).

Sales and operating profit from product segments

Sales for the *Smokefree* product segment increased by 19 percent to 10,651 MSEK (8,914). In local currencies, sales and operating profit increased by 23 percent and 34 percent, respectively. Sales and operating profit grew both as reported and in local currencies for Smokefree in Scandinavia and the US but declined in Other markets due to lower sales of chewing tobacco and increased market investments.

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

In the US, the impressive growth for ZYN nicotine pouches was the key contributor to the increased sales and operating profit growth in local currency of 47 and 88 percent, respectively. Operating profit for the US moist snuff and chewing tobacco businesses also increased in local currency, driven by improved sales with volume growth.

For *Cigars*, total sales for the year amounted to 4,533 MSEK (4,249). The Cigars product segment derives its sales and profit almost exclusively from the US operations. In local currency, sales for the Cigar product segment increased by 10 percent and operating profit increased by 17 percent. Strong volume

Sales and operating profit by product segment

| MSEK | Sales | | Operating profit | |
|---|---------------|---------------|------------------|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| Smokefree | 10,651 | 8,914 | 5,142 | 3,997 |
| Cigars | 4,533 | 4,249 | 1,796 | 1,577 |
| Lights | 1,149 | 1,200 | 222 | 238 |
| Sales and operating profit from product segments | 16,332 | 14,363 | 7,160 | 5,812 |
| Other operations | 366 | 376 | -169 | -153 |
| Impairment charge – European chewing tobacco business | - | - | - | -367 |
| Total | 16,698 | 14,739 | 6,991 | 5,307 |

Summary of consolidated income statement

| MSEK | 2020 | 2019 |
|--|--------------|--------------|
| Sales | 16,698 | 14,739 |
| Operating profit | 6,991 | 5,307 |
| Net finance cost | -347 | -247 |
| Income tax expense | -1,756 | -1,165 |
| Profit for the year | 4,888 | 3,896 |
| <i>Attributable to:</i> | | |
| Equity holders of the Parent | 4,888 | 3,895 |
| Non-controlling interest | 1 | 0 |
| Profit for the year | 4,888 | 3,896 |
| Earnings per share, basic and diluted, (SEK) | 30.38 | 23.22 |



development for Homogenized Tobacco Leaf (HTL) cigars was the key contributing factor to the sales and operating profit growth.

For cigars, our dual factory footprint proved to be a distinct competitive advantage as our US based facility contributed with significant volumes of HTL cigars that compensated for COVID-19 related supply constraints of natural leaf varieties that are manufactured in the Dominican Republic.

For *Lights*, total sales for the year amounted to 1,149 MSEK (1,200). Reported sales declined by 4 percent, but excluding currency translation effects, sales grew by 7 percent. Excluding currency translation, sales increased for matches and lighters as well as for complementary products. The largest contributor to the sales growth in local currency was the Brazilian market with good performance across the portfolio. Operating profit excluding currency translation effects increased by 7 percent. The operating profit in the current year includes income related to the favorable resolution of indirect tax disputes (for more information see *Note 29 Commitments and contingent liabilities and assets*) as well as a capital gain from land sale aggregating 31 MSEK while the prior full year's result also included capital gains from land and forestry sales as well as favorable resolutions of indirect tax disputes and restructuring costs in Brazil amounting to a net total of 17 MSEK. On an underlying basis, the operating profit increased sharply, with the largest contribution coming from matches but with lighters and complementary products also contributing to operating profit growth.

Effects from the coronavirus (COVID-19)

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, acknowledging the global scale of the impact of COVID-19 on people's health, families and communities. While longer-term effects from the pandemic are uncertain, the negative commercial, operational and financial consequences to Swedish Match have thus far been limited. On the contrary, Swedish Match estimates that, thus far and for the full year 2020, COVID-19 related changes to consumer demand and purchase patterns contributed to increased sales for several of its businesses. For cigars, while consumer demand is estimated to have been elevated due to COVID-19, resulting in particularly strong Swedish Match volume development for HTL cigars, COVID-19 related production constraints in our production facility in the Dominican Republic have limited Swedish Match's ability to fully meet the demand

for natural leaf varieties. During the course of 2020, COVID-19 resulted in temporary factory closures, but with the exception of cigars, we have recorded minimal supply disruptions. Swedish Match is closely monitoring the current situation including governmental guidelines and advice from public health authorities in every country where we operate. We are proactively taking the steps that we believe are appropriate to mitigate potential impacts to our employees, our customers and our business, as well as to society. To date, other than the deferral of certain tax payments imposed by the US government in the second quarter, which were paid during the third quarter, no material governmental subsidies or concessions related to COVID-19 have been sought or received by Swedish Match.

Financial position and liquidity

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

Accounting implications

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

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

Financial assets in several countries, particularly debt and equity securities, have been impacted by the uncertainty surrounding COVID-19 leading to valuation volatility. Some of the Group's post-employment benefit plans hold equities, whose growth is expected to outpace liabilities over the long term while providing volatility and risk in the short term. During the first quarter of 2020, the Group's pension assets experienced losses, which were recovered

Summary of consolidated balance sheet

| MSEK | 2020 | 2019 |
|--|---------------|---------------|
| Non-current assets | 7,765 | 7,750 |
| Other current assets ¹¹ | 3,979 | 4,117 |
| Cash and cash equivalents | 3,411 | 2,370 |
| Total assets | 15,155 | 14,237 |
| Equity | -7,798 | -6,308 |
| Non-current financial liabilities and provisions | 3,680 | 3,369 |
| Non-current loans | 13,514 | 12,130 |
| Current liabilities and provisions | 3,909 | 3,745 |
| Current loans | 1,850 | 1,300 |
| Total equity and liabilities | 15,155 | 14,237 |

¹¹ Includes assets held for sale of 28 MSEK (16).

Summary of consolidated cash flow statement

| MSEK | 2020 | 2019 |
|---|--------------|--------------|
| Net cash generated from operating activities | 5,607 | 5,080 |
| Net cash used in investing activities | -1,173 | -815 |
| Net cash transferred to shareholders | -5,119 | -4,766 |
| Net cash from other financing activities | 2,001 | -38 |
| Net decrease in cash and cash equivalents | 1,315 | -539 |
| Cash and cash equivalents at beginning of the year | 2,370 | 2,886 |
| Effects of exchanges rate fluctuations on cash and cash equivalents | -274 | 23 |
| Cash and cash equivalents at end of year | 3,411 | 2,370 |



during the last nine months of the year, and at December 31, 2020 showed a positive return. Updated actuarial assumptions at year end used in the measurement of our defined post-employment benefit obligations have led to declines in discount rates, which have increased the reported value of the Group's defined post-employment benefit obligations. For more information on the Group's post-employment benefits see *Note 23 Post-employment benefits*.

The Group's derivatives and deposits are with banks backed by sound ratings. The credit risk of financial counterparties is monitored daily. Management has further assessed that there is no change in the underlying risk affecting the classification of financial instruments reported in the balance sheet. For more information on the reported balances see *Note 27 Financial instruments and financial risks*.

Significant events during the year

Tax audits in Sweden

During 2017, the Swedish Tax Agency performed tax audits in a number of Swedish Match's Swedish group companies. After completing the audits, the Swedish Tax Agency decided to deny certain cost deductions in two cases. Both cases were appealed by Swedish Match but the cases were ruled in favor of the Tax Agency by the County Administrative Court in Stockholm in May 2019 and January 2020 respectively. Swedish Match subsequently appealed to the Administrative Court of Appeals in both cases. In one of the cases, a Court judgment in August 2020 was in favor of the Tax Agency. Swedish Match has applied for leave to appeal that case to the Supreme Administrative Court but has meanwhile paid the tax charges of in total 270 MSEK and related interest costs of 16 MSEK. For more information see *Note 29 Commitments and contingent liabilities and assets*.

Larger one-time items

During the third quarter of 2020 a tax charge of 270 MSEK and related interest costs of 16 MSEK was recognized relating to the above-mentioned adverse ruling. For more information see *Note 29 Commitments and contingent liabilities and assets*.

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 *Note 1 Accounting principles* and *Note 11 Intangible assets*.

Taxes

Income tax expense for 2020 amounted to 1,756 MSEK (1,165), corresponding to a corporate tax rate of 26.4 percent (23.0). The high tax rate for the Group resulted from the incremental income tax expense of 270 MSEK relating to the Swedish tax case as well as the continued increase in the relative contribution to earnings from our US businesses. When adjusted for the tax case, associated companies and non-recurring tax items the underlying tax rate was 23.1 percent (21.8).

Earnings per share

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

Liquid funds

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

Cash flow and financing

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

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

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

During 2020, new bond loans of 3,702 MSEK were issued and repayments of bond loans amounted to 1,300 MSEK.

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

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

During the year, Swedish Match paid dividends of 2,020 MSEK to its shareholders and repurchased 4.8 million shares for 3,099 MSEK.

Swedish Match AB (publ)

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

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



companies. Net Group contributions of 2,392 MSEK (2,870) were received during 2020. During the year, the Parent Company also received dividends of 4,185 MSEK (97). Following the adverse ruling in an ongoing tax case (see *Note 29 Commitments and contingent liabilities and assets*), a capital contribution of 287 MSEK was made to a subsidiary and an impairment loss on shares in subsidiaries corresponding to the same amount was recognized.

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

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

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

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

Outlook

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

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

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

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

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

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

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

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 are *Smokefree*, *Cigars*, and *Lights*.

In Scandinavia, Swedish Match has the market leading position for snus and is the number two player for nicotine pouches. In

Europe, Swedish Match has introduced nicotine pouches in a number of countries. The Company is also present with its niche chewing tobacco products of chew bags and tobacco bits, as well as with snus in Switzerland. 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 the biggest participant in the nicotine pouch market as well as positioned as the third largest snus and moist snuff company. 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.

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 bases 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 believed to give analysts and other stakeholders valuable information. A listing of APM's, including the APM's definitions, is presented on page 129 and is also available on the Company's website www.swedishmatch.com.

Change in 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 three other members of the Group Management Team are entitled to terminate their employment if a major change for the Company should occur that significantly restricts their position. In such an event, these executives have the right to a notice period of six months and severance pay for 18 months. In addition, some executives in the US operations have change in control clauses which may be triggered by certain events.

Guidelines for executive remuneration

The forward-looking guidelines applicable for the remuneration to the President and other members of the Group Management Team (GMT) are the same as adopted on the Annual General Meeting April 2, 2020. For more information see *Note 5 Personnel*, pages 90–93.



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 | 6,420,960,528 |
| Profit for the year | SEK | 5,032,947,989 |
| Total | SEK | 11,453,908,517 |

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

| | | |
|---|------------|-----------------------|
| To the shareholders, a dividend of 15.00 SEK per share based on 158,407,083 shares outstanding at the end of 2020 | SEK | 2,376,106,245 |
| Retained earnings to be carried forward | SEK | 9 077 802 272 |
| Total | SEK | 11,453,908,517 |

The income statements and balance sheets will be presented to the Annual General Meeting on April 13, 2021 for adoption. The Board of Directors also proposes April 15, 2021 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 15, 2021

Conny Karlsson
Chairman of the Board

Charles A. Blixt
Board member

Andrew Cripps
Deputy Chairman

Patrik Engelbrektsson
Board member

Jacqueline Hoogerbrugge
Board member

Alexander Lacik
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 15, 2021

Deloitte AB

Peter Ekberg
Authorized Public Accountant



Consolidated income statement

| MSEK | Note | 2020 | 2019 |
|---|--------------------|---------------|---------------|
| Sales, including tobacco tax | | 20,451 | 18,222 |
| Less tobacco tax | | -3,753 | -3,483 |
| Sales | 3 | 16,698 | 14,739 |
| Cost of goods sold | | -5,751 | -5,376 |
| Gross profit | | 10,947 | 9,363 |
| Selling expenses | | -2,866 | -2,717 |
| Administrative expenses | | -1,116 | -1,004 |
| Other operating income and expenses | 4 | 14 | 27 |
| Share of profit in associated companies | 15 | 13 | 5 |
| Impairment charge – European chewing tobacco business | 11 | - | -367 |
| Operating profit | 3, 5, 6, 7, 14, 23 | 6,991 | 5,307 |
| Finance income | | 49 | 95 |
| Finance costs | | -396 | -343 |
| Net finance cost | 8 | -347 | -247 |
| Profit before income tax | | 6,644 | 5,060 |
| Income tax expense | 9 | -1,756 | -1,165 |
| Profit for the year | | 4,888 | 3,896 |
| <i>Attributable to:</i> | | | |
| Equity holders of the Parent | | 4,888 | 3,895 |
| Non-controlling interests | | 1 | 0 |
| Profit for the year | | 4,888 | 3,896 |
| Earnings per share, basic and diluted, SEK | 10 | 30.38 | 23.22 |

Consolidated statement of comprehensive income

| MSEK | Note | 2020 | 2019 |
|---|------|---------------|--------------|
| Profit for the year | | 4,888 | 3,896 |
| <i>Other comprehensive income that may be reclassified to the income statement</i> | | | |
| Translation differences related to foreign operations | 21 | -1,120 | 191 |
| Effective portion of changes in fair value of cash flow hedges | 21 | -51 | 122 |
| Income tax relating to reclassifiable components of other comprehensive income | 9 | 11 | -25 |
| Subtotal, net of tax for the period | | -1,160 | 288 |
| <i>Other comprehensive income that will not be reclassified to the income statement</i> | | | |
| Actuarial gains and losses attributable to pensions, incl. payroll tax | 23 | -132 | -168 |
| Income tax relating to non-reclassifiable components of other comprehensive income | 9 | 33 | 38 |
| Subtotal, net of tax for the period | | -99 | -130 |
| Other comprehensive income, net of tax for the period | | -1,260 | 158 |
| Total comprehensive income for the year | | 3,629 | 4,054 |
| <i>Attributable to:</i> | | | |
| Equity holders of the Parent | | 3,628 | 4,053 |
| Non-controlling interests | | 0 | 0 |
| Total comprehensive income for the year | | 3,629 | 4,054 |



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Consolidated balance sheet

| MSEK | Note | Dec. 31, 2020 | Dec. 31, 2019 |
|--|--------|---------------|---------------|
| Assets | | | |
| Intangible assets | 11 | 2,237 | 2,355 |
| Property, plant and equipment | 12 | 3,589 | 3,168 |
| Biological assets | 13 | 44 | 87 |
| Right-of-use assets | 14 | 278 | 255 |
| Investments in associated companies | 15 | 42 | 42 |
| Other non-current receivables | 16 | 935 | 1,251 |
| Deferred income tax assets | 9 | 640 | 593 |
| Total non-current assets | | 7,765 | 7,750 |
| Inventories | 17 | 1,824 | 1,813 |
| Trade receivables | 18 | 1,577 | 1,719 |
| Prepaid expenses and accrued income | | 117 | 110 |
| Income tax receivables | | 119 | 83 |
| Other current receivables | 16 | 315 | 375 |
| Cash and cash equivalents | 19 | 3,411 | 2,370 |
| Total current assets | | 7,362 | 6,471 |
| Assets held for sale | 20 | 28 | 16 |
| TOTAL ASSETS | | 15,155 | 14,237 |
| Equity | | | |
| Share capital | 21 | 390 | 390 |
| Reserves | | -232 | 928 |
| Accumulated deficit including profit for the year | | -7,972 | -7,642 |
| Equity attributable to equity holders of the Parent | | -7,814 | -6,324 |
| Non-controlling interests | | 16 | 16 |
| TOTAL EQUITY | | -7,798 | -6,308 |
| Liabilities | | | |
| Non-current loans and borrowings | 22, 27 | 13,514 | 12,130 |
| Other non-current liabilities | 25 | 258 | 52 |
| Non-current lease liabilities | 14, 22 | 208 | 172 |
| Provision for pensions and similar obligations | 23 | 1,503 | 1,451 |
| Non-current provisions | 24 | 443 | 384 |
| Deferred income tax liabilities | 9 | 1,268 | 1,227 |
| Total non-current liabilities | | 17,194 | 15,417 |
| Current loans and borrowings | 22, 27 | 1,850 | 1,300 |
| Trade payables | | 409 | 365 |
| Income tax liabilities | | 149 | 386 |
| Other current liabilities | 25 | 1,875 | 1,778 |
| Current lease liabilities | 14, 22 | 77 | 81 |
| Accrued expenses and deferred income | 26 | 1,018 | 926 |
| Current provisions | 24 | 381 | 293 |
| Total current liabilities | | 5,759 | 5,127 |
| TOTAL LIABILITIES | | 22,953 | 20,544 |
| TOTAL EQUITY AND LIABILITIES | | 15,155 | 14,237 |

For information on the Group's pledged assets and contingent liabilities, see Note 28 Pledged assets and Note 29 Commitments and contingent liabilities and assets.



Consolidated statement of changes in equity

| MSEK | Note | Equity attributable to equity holders of the Parent | | | | Non-controlling interest | Total equity |
|--|------|---|------------|---------------------|---------------|--------------------------|---------------|
| | | Share capital | Reserves | Accumulated deficit | Total | | |
| Equity at beginning of year | 21 | 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 | - | - | - |
| Bonus issue | | 13 | - | -13 | - | - | - |
| Equity at end of year | | 390 | 928 | -7,642 | -6,324 | 16 | -6,308 |

| MSEK | Note | Equity attributable to equity holders of the Parent | | | | Non-controlling interest | Total equity |
|--|------|---|---------------|---------------------|---------------|--------------------------|---------------|
| | | Share capital | Reserves | Accumulated deficit | Total | | |
| Equity at beginning of year | 21 | 390 | 928 | -7,641 | -6,324 | 16 | -6,308 |
| Profit for the year | | - | - | 4,888 | 4,888 | 1 | 4,888 |
| Other comprehensive income, net of tax ¹⁾ | | - | -1,160 | -99 | -1,259 | 0 | -1,260 |
| Total comprehensive income | | - | -1,160 | 4,788 | 3,628 | 0 | 3,629 |
| Dividend | | - | - | -2,020 | -2,020 | 0 | -2,020 |
| Repurchase of own shares | | - | - | -3,099 | -3,099 | - | -3,099 |
| Cancellation of shares | | -18 | - | 18 | - | - | - |
| Bonus issue | | 18 | - | -18 | - | - | - |
| Equity at end of year | | 390 | -232 | -7,972 | -7,814 | 16 | -7,798 |

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 -99 MSEK (-130).

For further information on objectives, policies and processes for managing capital see *Note 21 Equity*.



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Consolidated cash flow statement

| MSEK | Note | 2020 | 2019 |
|--|--------|---------------|---------------|
| Operating activities | 31 | | |
| Profit before income tax | | 6,644 | 5,060 |
| Share of profit in associated companies | | -13 | -5 |
| Dividend received from associated companies | | 10 | 1 |
| Depreciation, amortization and write-down | | 588 | 915 |
| Adjustments for other non-cash items and other | | 72 | 23 |
| Income tax paid | | -2,006 | -888 |
| Cash flow from operating activities before changes in working capital | | 5,296 | 5,106 |
| Changes in working capital | | | |
| Increase (-)/ Decrease (+) in inventories | | -182 | -173 |
| Increase (-)/ Decrease (+) in operating receivables | | 71 | 112 |
| Increase (+)/ Decrease (-) in operating liabilities | | 422 | 34 |
| Net cash generated from operating activities | | 5,607 | 5,080 |
| Investing activities | | | |
| Purchase of property, plant and equipment | 12, 13 | -1,126 | -720 |
| Proceeds from sale of property, plant and equipment | | 39 | 10 |
| Purchase of intangible assets | 11 | -63 | -33 |
| Acquisition of subsidiaries | | -32 | - |
| Investments in associated companies | 15 | - | -13 |
| Changes in financial receivables in associated companies | 15 | 9 | -58 |
| Changes in financial receivables, etc. | | -0 | -0 |
| Net cash used in investing activities | | -1,173 | -815 |
| Financing activities | | | |
| Proceeds from non-current borrowing | | 3,702 | 999 |
| Repayment of borrowings | | -1,300 | -1,092 |
| Dividend paid to equity holders of the Parent | | -2,020 | -1,777 |
| Repurchase of own shares | | -3,099 | -2,989 |
| Lease payments | | -81 | -94 |
| Realized exchange gain/losses on financial instruments | | -320 | 156 |
| Other | | 0 | -7 |
| Net cash used in financing activities | | -3,118 | -4,804 |
| Net decrease in cash and cash equivalents | | 1,315 | -539 |
| Cash and cash equivalents at the beginning of the year | | 2,370 | 2,886 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | -274 | 23 |
| Cash and cash equivalent at end of year | | 3,411 | 2,370 |



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, 2019.

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 15, 2021.

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 at hedge accounting. Provisions for post-employment benefits, are reported at fair values based on actuarial valuations, with remeasurement effects recognized in other comprehensive income. Provisions for post-employment benefits are recognized on the balance sheet as a net of any attributable plan assets, which are measured at fair value at each period end. Biological assets refer to forest plantations, with fair value adjustments recognized directly in profit and loss. Lease liabilities and the related right of use assets are measured at the present value of future lease payments.

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 further described in *Note 2 Critical estimates and judgements*.

Accounting principles applied

The below described accounting principles have been applied consistently in all periods that are presented in the Group's financial statements. Any exceptions to the accounting principles outlined below are clearly described in the relevant disclosure to the financial statements.

New standards, amendments and interpretations

As of January 1, 2020, Swedish Match adopted Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, and IFRS 7), which allows for hedge accounting to continue for affected hedges during the period of uncertainty before the effects of the amendment of the interest rate benchmark reform become clear. The Group early adopted these amendments of IFRS 9 from

2019. The financial reports for 2020 have not been impacted by the amendment to IFRS 9.

Other new amendments and interpretations applicable as of January 1, 2020 have not had any material effect on the Group's financial result or position. Effective changes in IFRS as of 2020 refer to amendments to IFRS 3 and the definition of a business, amendments to IAS 1 and IAS 8 regarding definition of materiality and amendments to IFRS 16 regarding practical expedients for rent concessions relating to the COVID-19 pandemic.

New IFRSs and interpretations which have not yet been applied

There are no changes in IFRS standards, amendments and interpretations of existing standards applicable as of January 1, 2021, that are deemed as having a significant effect on the Group's financial result or position.

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. 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. Assets and liabilities in companies acquired during the year are included in the consolidated financial statements at fair value from the date of acquisition. 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 in 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.

In cases when the Group does not acquire 100 percent of the shares in the subsidiary, the holdings arise with a non-controlling interest. There are two options for reporting of non-controlling interests. These two alternatives are to report non-controlling interests' share of proportional net assets or alternatively to report non-controlling interests at fair value, which means that non-controlling interests have a share in any acquisition goodwill. The choice between the various alternatives to report holdings with a non-controlling interest can be made differently for each acquisition.

Swedish Match Group has two subsidiaries with non-controlling interests, a Swedish subsidiary in which Swedish Match owns 95 percent and an immaterial non-controlling interest in a foreign subsidiary. Non-controlling interests constitute an immaterial amount in Swedish Match equity.

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 interests include profit or loss and components of other comprehensive income attributable to the non-controlling interests and are measured at fair value.



NOTE 1 Continued

Associated companies

Associates are companies in which the Group exercises a significant influence, but does not control the partly owned company. 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. The acquisition cost amounts to the purchase price and the valuation of acquired assets and liabilities is performed in the same manner as for subsidiaries. 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 to the respective item 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 Group's share of reported losses in an associated company would exceed the carrying value of the shares for the Group, the value of the shares will be reduced to zero. Continued losses will not be reported unless the Group has provided guarantees to cover losses incurred in the associated company. The equity method is applied up until the date when the significant influence ceases.

Disposal of subsidiaries and shares in associated companies

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.

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.

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. Classification as a discontinued operation takes place upon disposal or at an earlier date when operation meets the criteria for being classified as a held for sale. 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.

Assets and liabilities held for sale

Non-current assets or group of assets and liabilities (disposal group) that management intends to sell to a third party are reclassified and reported separately in the consolidated balance sheet as assets and liabilities held for sale. Non-current assets or disposal groups that are reclassified as held for sale refer to non-current assets or disposal groups where the sale is highly probable and is expected to be sold within 12 months and that the asset (or the disposal group) is available for immediate sale in its current condition. In order to be classified as an asset or a disposal group held for sale, management has to have decided that the asset or the disposal group is to be sold and there is an active program to locate buyers and that the sale is expected to be completed within one year from the classification date. Assets that are reclassified as held for sale are reported at the lower of the carrying value and the fair value after deductions for estimated costs for the sale. If the fair value, net of deduction for selling expenses, is expected to be less than the carrying value, an impairment loss for the asset is recognized in the income statement at the time of reclassification.

Classification

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.

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 cumulative 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 | |
|-----------|----------|---|-------|---------------------------------|-------|
| | | 2020 | 2019 | 2020 | 2019 |
| USA | USD | 9.20 | 9.46 | 8.19 | 9.32 |
| Euro zone | EUR | 10.49 | 10.59 | 10.04 | 10.43 |
| Denmark | DKK | 1.41 | 1.42 | 1.35 | 1.40 |
| Brazil | BRL | 1.81 | 2.40 | 1.57 | 2.30 |
| Norway | NOK | 0.98 | 1.07 | 0.95 | 1.06 |

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 2020 were three product segments: Smokefree, Cigars 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 and liabilities 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, are attributable 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 Smokefree. 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.



NOTE 1 Continued

Revenue

Revenue for Swedish Match refers 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 come from the sale of third-party products. Revenue within Other operations are mainly derived from income of 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 Smokefree and Cigars, customer credit terms are on average 10 days. Within Lights, customer credit terms are on average 70 days, with credit terms to customer could be in the range of pre-payment up to 120 days. Credit terms up to 120 days refer to certain markets such as Asia and Africa, which represent an immaterial part 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*.

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*.

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 further information about the Group's Goodwill and impairment testing, see *Note 11 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 defined with indefinite useful life have been assessed having no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. Trademarks with indefinite useful life refer to well-established trademarks within their respective areas, which the Group intends to retain and further develop. 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 when incurred. 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 recognized 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.

Property, plant and equipment

Property, plant and equipment 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 attributable 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. Larger machineries and buildings are depreciated based on the economical useful life of significant components. The depreciation time for larger fixed assets and buildings could therefore differ due to different expected economic life of the asset's different components. The estimated useful life periods are normally:

- buildings, owner-occupied properties 12–50 years (applied on the acquisition cost of the assets allocated to applicable components)
- machinery and other technical equipment 5–12 years
- equipment, tools and fixtures 5–10 years

Assessment of a tangible asset's residual value and useful life is performed annually.

Impairment

The carrying amounts for the Group's intangible and tangible assets, including right of use assets and investments in associated companies 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 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 at least 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 11 Intangible assets*.

An impairment loss in accordance with the application of IAS 36 is reversed if there is an indication that the impairment loss recognized in prior periods no longer exist or may have decreased and there has been a change in the assumptions used when calculating the recoverable amount. An impairment

**NOTE 1 Continued**

loss recognized for goodwill is not reversed in subsequent periods. The amount reversed for an impairment loss cannot exceed the initial carrying value, less any cumulative amortizations for the asset at the time of the reversal.

Biological assets

The Group has forest plantations to secure its raw material needs for match manufacturing. Biological assets in the Group's balance sheet are measured at fair value less estimated selling expenses. The biological assets are regularly measured to fair value based on estimated market values. Estimated selling expenses includes all costs that would be incurred in relation to disposal of the biological assets, with the exception of cost for providing the biological asset to market. Any gain or loss that may arise upon the initial measurement to fair value, less estimated selling expenses, and changes in fair value, net of selling expenses, are included in the Group's earnings for the period during which they arise.

Leases

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, which essentially includes fixed lease payments for the agreed lease period (see below for more information). 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

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.

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. 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 non-cancelable lease payments, including also other expected future payments relating to the lease if such are deemed reasonable certain to be paid (for example any expected payments to be made in optional periods relating to lease term extension options, purchase options etc, if it is reasonable certain that Swedish Match will exercise the options). 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. In most cases, the measurement of the right-of-use assets equal the lease liabilities. Any additional costs directly attributable to get the access to the asset are also included in the measurement of the right of use assets as well as any replacement costs to remove or restore the asset after the lease term as required by the contract will also be included.

Non-lease component payments and variable lease payments, that do not depend on an index or rate attributable to the fixed lease payment, are not included in the measurement of the lease liabilities and are expensed directly when incurred. Examples of such payments are costs for service relating to a car lease, or heating, maintenance and water included in the rent for a premise.

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 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 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 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.

The practical relief for rent concession relating to the outbreak of COVID-19 pandemic has not been applied as Swedish Match has not received any significant COVID-19 related rent reductions during 2020.

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.

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 the 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 in inventory is determined in accordance with the accounting principles for biological assets and are reported at the fair value with deductions for estimated selling expenses at the time of the trees were harvested.

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.

**NOTE 1** *Continued***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 provision 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.

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 for high quality corporate bonds.

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 relating 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 refers 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.

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).

Government grants

Government grants are recognized when there is a reasonable assurance that Swedish Match will receive the grant in accordance with the conditions attached to it. A grant is accounted for in the same manner whether it is received in cash or as a reduction of a liability to the government. Government grants are recognized in the income statement as cost-reducing and are reported systematically during the periods when the costs arise for which the grants are intended to compensate. Government grants received during the year consists of immaterial amounts.

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.

Financial instruments

Financial instruments are valued and reported within the Group in accordance with 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 reported initially at their acquisition value, corresponding to the instruments fair value, except for trade receivables, which are initially measured at their transaction price. Subsequent reporting depends on how they are held and classified in accordance with the criteria below.



NOTE 1 Continued

Financial assets

Financial assets which are debt instruments, are classified depending on the business model for managing the financial assets and the asset's contractual terms of the cash flows.

Financial assets are classified at the initial recognition, and subsequently measured, at either amortized cost or fair value. The classification of financial assets 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.

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.

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. The financial assets in this category consist of the Group's derivatives (cross currency interest rate swaps and interest rate swaps) which are in cash flow hedges.

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

The Group recognizes a loss for expected credit losses for financial assets that are measured at amortized cost. Currently, financial assets measured at amortized cost refer mainly to accounts receivables and cash and cash equivalents. Changes in expected credit losses are recognized in profit and loss as of the initial recognition at each balance sheet date.

Swedish Match applies the simplified approach to measure expected credit losses, which means that expected credit losses are measured on the remaining lifetime of the financial asset. Historical information is used to assess expected credit losses. In addition, current and forward-looking information available is also considered to reflect current and future conditions, including discounting factor for time if relevant. Customers' credit risks are regularly assessed, and accounts receivables are written off when it is deemed that the customer has no ability to pay the outstanding invoice.

Cash and cash equivalents are covered in the general approach for credit risk allowances, which means that if there have been significant changes in the credit risk since initial recognition, the expected credit loss is measured on the assets' lifetime expected credit loss. The general approach is based on the rating of the counterparty, and due to high ratings of the Group's main counterparties, and short duration of the assets, the total amount of credit risk is immaterial. For cash and cash equivalents, low credit risk simplification is applied. In addition, receivables on Group companies and associated companies as well as other receivables and accrued income are covered by the general approach.

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.

Financial liabilities relating to contingent considerations on acquisitions, for which IFRS 3 is applied, are measured at fair value with any changes recognized in profit and 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. The components consist of 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. Any ineffectiveness is measured by the hypothetical derivatives method if the critical terms would be different. The hypothetical derivative method is a model that estimates the effectiveness of a cash flow hedge relation which means that the risks of the hedged item (the loans) are mirrored in a hypothetical instrument which is only used to be compared to the actual derivative. The method is a way to quantify the part of the fair value of the actual instrument that is effective in the hedge. The method results in two amounts disclosed, one

**NOTE 1** *Continued*

to quantify the effectiveness and one that is accounted for as ineffectiveness. The latter is nil in a theoretical perfect hedge.

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. 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, 2020.

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.

Income 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.

Share capital

Repurchases of own shares are reported as a reduction directly in equity. Proceeds from disposal of own shares are reported as an increase directly in equity. Any transaction costs attributable to purchases or disposal of own shares is reported directly in equity.

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, 2020.

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.

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, 2020. 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, 2020.

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

The exemption for IFRS 16 in RFR 2 is applied. 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. Assessments and assumptions are reviewed on a regular basis with changes in assessments recognized in the applicable period. 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 revenue 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*.

Intangible assets

Intangible assets within Swedish Match essentially consists of 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. During 2020 no impairment loss on intangible assets has been recognized.

Change in estimate of economical useful life of Thunder trademark

Following the judgement in relation to the legality of certain chew bag products under the *Thunder* brand by the Bavarian Administrative Court and in view of changed market dynamics in certain markets, Swedish Match has reassessed the estimated economical useful life of the Thunder trademark. The updated

assessment indicated that the Thunder trademark's economical useful life has changed from indefinite to a definite economical useful life of 20 years. The revised assessment has been made to better reflect the estimated periods during which Swedish Match will benefit from the future cashflows from products under the Thunder trademark. The updated economical useful life of 20 years has been applied as of January 1, 2020. The effect from this change on Swedish Match's financial statements for the full year of 2020 was increased amortization expenses of 17 MSEK relating to the Thunder trademark recognized in the Smokefree product segment.

The Group's intangible assets as of December 31, 2020 amounted to 2,237 MSEK, amortizations amounted to -77 MSEK. The amount for goodwill, which has been included in intangible assets, amounted to 1,231 MSEK. For further information on impairment test of intangible assets see *Note 11 Intangible 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, 2020 were estimated to exceed the fair value of plan assets by 1,411 MSEK. Further details of the Group's defined benefit plans are presented in *Note 23 Post-employment benefits*.

Lease contracts

Most of the Group's lease contracts are recognized as right-of-use assets and lease liabilities on the consolidated balance sheet and are affected by management 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 lease liabilities and the corresponding right-of-use assets. 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. 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. During 2020, revaluation of lease contracts has been made to an amount of 64 MSEK, mainly attributable to reassessment for utilization of extension options for rental agreements of office premises.

As per December 31, 2020, the Group's lease liabilities amounted to 285 MSEK and corresponding balance for the right-of-use assets amounted to 278 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 14 Leases*.

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 29 Commitments and contingent liabilities and assets*.



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. As of January 1, 2020, Swedish Match 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, to better reflect the performance of Swedish Match's different product categories, the composition of the Group's reportable product segments have changed and are as follows: *Smokefree*, *Cigars* and *Lights*. The reportable segments represent all Swedish Match products that are produced and sold by the Group's business units. The 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 product segment *Cigars* represents the cigar operations, substantially relating to US mass market cigars. In addition, as of January 1, 2020, a new allocation model has been implemented relating to certain central establishment costs for new businesses to be absorbed by product segments. This change has positively affected the result of *Other operations* and consequently negatively affected the result from relevant product segments. In this financial report, 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 has been restated accordingly. See below for further description of the Group's reportable segments.

Smokefree represent smokeless tobacco products and nicotine pouches as well as pouch products with neither tobacco nor nicotine. *Smokefree* products are primarily sold in US, Sweden, Norway, Denmark as well as in other markets, mostly in Europe. Production takes place in US, Sweden and Denmark. Nicotine pouches is a relatively new but strong growing category and the products are sold in US, Sweden, Norway, Denmark as well as in other markets, mostly in Europe. In the US, the Group has a leading position in nicotine pouches and is the third largest player in moist snuff, and is also present with snus. The US is the world's largest moist snuff market measured in number of cans. In Sweden and Norway, Swedish Match has a leading position for snus and is also present with nicotine pouches. Sweden is the world's largest snus market measured in number of cans. The Norwegian market for smokefree products has experienced strong volume growth in

recent years. In Sweden, some of the best known brands include *General*, *Göteborgs Rapé*, *Kaliber*, *Kronan*, *Ettan* and *ZYN* and in Norway the best known brands are *General*, *The Lab*, *Nick & Johnny*, *G.3* and *G.4*. In the US, *ZYN*, *Longhorn* and *Timber Wolf* as well as *General* are the best known brands. The *ZYN* brand for nicotine pouches is also sold in markets outside of the US and Scandinavia – primarily in Europe. 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 brands for chewing tobacco in US are *Red Man* and *Big Duke*. While 2020 has been an unusual year with volume growth, the US chewing tobacco market has shown a declining trend over many years. Chew bags and tobacco bits are manufactured in Denmark and sold in certain European markets. The Group's brands for chewing tobacco in Europe include *Thunder*, *Göteborgs Rapé* and *Oliver Twist*.

Cigars are manufactured in the US and the Dominican Republic, and are almost exclusively sold in the US. 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*.

Lights include 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 disposable 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 and liabilities 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 *Smokefree*. 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.

| | Smokefree | | Cigars | | Lights | | Total segments | | Other operations | | Swedish Match Group | |
|--|--------------|--------------|--------------|--------------|------------|------------|----------------|--------------|------------------|-------------|---------------------|--------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| External sales | 10,651 | 8,914 | 4,533 | 4,249 | 1,149 | 1,200 | 16,332 | 14,363 | 366 | 376 | 16,698 | 14,739 |
| Depreciation, amortization and write-down ¹⁾ | -397 | -356 | -87 | -85 | -39 | -44 | -523 | -484 | -65 | -64 | -588 | -548 |
| Income from associated companies | 4 | 1 | - | - | 1 | 1 | 5 | 2 | 8 | 3 | 13 | 5 |
| Operating profit | 5,142 | 3,997 | 1,796 | 1,577 | 222 | 238 | 7,160 | 5,812 | -169 | -137 | 6,991 | 5,675 |
| <i>Larger one-time items</i> | | | | | | | | | | | | |
| Impairment charge – European chewing tobacco business | - | -367 | - | - | - | - | - | -367 | - | - | - | -367 |
| Operating profit, including larger one-time items | 5,142 | 3,630 | 1,796 | 1,577 | 222 | 238 | 7,160 | 5,445 | -169 | -137 | 6,991 | 5,307 |
| Finance income | | | | | | | | | | | 49 | 95 |
| Finance costs | | | | | | | | | | | -396 | -343 |
| Profit before income tax | | | | | | | | | | | 6,644 | 5,060 |

¹⁾ Write-down of tangible assets amounted to 0 MSEK (9) for *Smokefree* and 0 MSEK (0) for *Cigars*. There were no write-down of intangible assets 2020. In 2019 the write-down of 367 MSEK was related to European chewing tobacco business and reported as a larger one-time item.



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NOTE 3 Continued

| | Smokefree | | Cigars | | Lights | | Total segments | | Other operations | | Swedish Match Group | |
|--|-----------|------|--------|------|--------|------|----------------|------|------------------|------|---------------------|------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Restructuring costs and results from sale of fixed assets | | | | | | | | | | | | |
| Restructuring costs | - | - | - | - | - | -20 | - | -20 | - | - | - | -20 |
| Gains/losses from sale of fixed assets | -0 | -0 | 0 | 0 | 18 | 18 | 18 | 18 | 1 | -0 | 19 | 18 |
| Investments | | | | | | | | | | | | |
| Property, plant and equipment ¹⁾ | 1,003 | 593 | 74 | 52 | 29 | 43 | 1,107 | 688 | 19 | 32 | 1,126 | 720 |
| Intangible assets | 0 | 2 | - | - | 1 | 0 | 1 | 2 | 62 | 31 | 63 | 33 |

¹⁾ Investments in property, plant and equipment for Lights operations include investments in biological assets.

Geographic information

The table below refers to sales to external customers and fixed assets based on the geographical area where the Group operates. Sales to external customers during 2020 attributable to Sweden, which is the Group's country of domicile, amounted to 3 509 MSEK (3 828). Fixed assets as of December 31, 2020 in Sweden amounted to 2 547 MSEK (2 404). Sweden is included in Scandinavia in the table below.

External sales and fixed assets are distributed per significant geographical areas as follows:

| | Sales to external customers | | | | | | Fixed assets ¹⁾ | | | | | |
|---------------|-----------------------------|------------|---------------|------------|--------------|------------|----------------------------|------------|------|---------|------|--|
| | 2020 | | 2019 | | 2020 | | 2019 | | 2020 | | 2019 | |
| | MSEK | Percent | MSEK | Percent | MSEK | Percent | MSEK | Percent | MSEK | Percent | | |
| Scandinavia | 5,092 | 30 | 5,049 | 34 | 3,537 | 55 | 3,452 | 55 | | | | |
| The US | 10,451 | 63 | 8,399 | 57 | 2,345 | 36 | 2,045 | 33 | | | | |
| Other markets | 1,155 | 7 | 1,290 | 9 | 605 | 9 | 729 | 12 | | | | |
| Total | 16,698 | 100 | 14,739 | 100 | 6,487 | 100 | 6,226 | 100 | | | | |

¹⁾ Non-current assets other than financial instruments, deferred tax assets and pension assets.

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 11 percent of the Group's total sales, and referred to sales from the product segments Smokefree and Cigars.

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 refers to the distribution of third party products. Revenue within Other

operations mainly refers 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

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

4

Other operating income and expenses

Other operating income and expenses are specified below:

| | 2020 | 2019 |
|----------------------------------|-----------|-----------|
| Foreign exchanges gains | 69 | 39 |
| Foreign exchanges losses | -76 | -33 |
| Result from sale of fixed assets | 19 | 18 |
| Other | 3 | 3 |
| Total | 14 | 27 |



5 Personnel

The average number of employees, including temporary employees, in the Parent Company during 2020 was 56, and in the Group 6,733. The corresponding numbers in 2019 were 53 and 6,270, respectively. The increase in the average number of employees primarily relates to the expansion of cigar production in the Dominican Republic and the ZYN production in the US.

Average number of employees by gender and country:

| | 2020 | | 2019 | |
|-----------------------|-----------------------------|------------------|-----------------------------|------------------|
| | Average number of employees | (of whom men, %) | Average number of employees | (of whom men, %) |
| Parent Company | | | | |
| Sweden | 54 | 50 | 53 | 51 |
| Belgium | 2 | 50 | - | - |
| Subsidiaries | | | | |
| Belgium | - | - | 2 | 50 |
| Brazil | 475 | 72 | 485 | 61 |
| Denmark | 110 | 65 | 111 | 67 |
| Dominican Republic | 3,236 | 53 | 2,940 | 51 |
| Netherlands | 95 | 94 | 96 | 93 |
| Norway | 46 | 68 | 45 | 63 |
| Philippines | 190 | 73 | 179 | 70 |
| Sweden | 1,323 | 61 | 1,273 | 60 |
| Switzerland | 8 | 75 | 4 | 75 |
| Turkey | 14 | 76 | 15 | 73 |
| United States | 1,182 | 70 | 1,067 | 70 |
| Total | 6,733 | 60 | 6,270 | 59 |

Board members, Presidents and management by gender¹⁾:

| | 2020 | | 2019 | |
|--|------------------|------------------|------------------|------------------|
| | At end of period | (of whom men, %) | At end of period | (of whom men, %) |
| Parent Company | | | | |
| Board members elected by the AGM | 8 | 63 | 7 | 57 |
| Board members, employee representatives | 3 | 100 | 3 | 100 |
| Board members | 11 | 73 | 10 | 70 |
| President and other management²⁾ | 8 | 88 | 8 | 88 |
| Group | | | | |
| Board members | 118 | 73 | 105 | 80 |
| President and other management ²⁾ | 48 | 77 | 42 | 79 |

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⁾ During 2019 and the first seven months of 2020, one member of the Group Management Team was partly employed by the Parent Company and partly employed by a US subsidiary.

Wages, salaries, other remunerations and social costs are summarized below:

| | 2020 | | | 2019 | | |
|----------------|---|--------------|---------------------------------------|---|--------------|---------------------------------------|
| | 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 | 52 | 17 | 98 | 50 | 16 |
| Subsidiaries | 1,982 | 781 | 278 | 1,756 | 751 | 254 |
| Total | 2,081 | 833 | 295 | 1,854 | 802 | 270 |

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 employed by a US subsidiary, has been reported by the US subsidiary and invoiced to the Parent Company as consultancy services during 2019 and the first seven months of 2020.

The pension costs for the Parent Company included 5 MSEK (5) attributable to the President and other management consisting on average of four persons during 2020 and 2019.

The pension costs for the subsidiaries included 15 MSEK (12) attributable to Presidents and other management consisting on average of 24 persons in 2020 (22 persons in 2019).

The defined benefit obligations related to Presidents and other management as of December 31, 2020 amounted to 181 MSEK (141).

During 2020, government grants for compensation of employee sick leave expenses have been received to an immaterial amount attributable to the COVID-19 pandemic.

Wages, salaries and other remunerations split by Board members, President and other management and other employees, are summarized below:

| | 2020 | | | 2019 | | |
|-------------------------|---|-----------------------------|-----------------|---|-----------------------------|-----------------|
| | 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 | | | | | | |
| Total in Parent Company | 46 | 20 | 52 | 40 | 16 | 58 |
| Subsidiaries | | | | | | |
| Total in subsidiaries | 108 | 48 | 1,874 | 101 | 45 | 1,656 |
| Total | 154 | 67 | 1,927 | 141 | 61 | 1,713 |

¹⁾ The Board, President and other management employed by the Parent Company consisted on average of 15 persons (14). Presidents and other management employed by the subsidiaries consisted on average of 24 persons (22), whereof four 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 2020, 71 MSEK (62) was charged to the income statement, relating to a profit-sharing foundation on behalf of Group personnel in Sweden.



NOTE 5 Continued

Remuneration to Swedish Match AB's Board of Directors

The Annual General Meeting on April 2, 2020 decided, for the period up to and including April 13, 2021 when the next Annual General Meeting is held that the Chairman of the Board shall receive a fee of 2,165,000 SEK, the deputy Chairman shall receive 1,000,000 SEK, that other members of the Board elected by the General Meeting shall each receive a fee of 865,000 SEK. As Remuneration for committee work the Chairman of the Remuneration Committee shall receive 280,000 SEK and the other members of committee shall each receive 140,000 SEK and the Chairman of the Audit Committee shall receive 350,000 SEK and the other members of the committee shall each receive 150,000 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 2020. In 2020 a study fee in the amount of 60,894 SEK was paid to each of the three employee representatives on the Board, and in the amount of 45,579 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 2020 and 2019 are shown in the tables below:

Fees to Board members

| TSEK | 2020 | | | |
|---|--------------|------------------------|-----------------|-----------------------------------|
| | Board fee | Remuneration Committee | Audit Committee | Total remuneration for Board work |
| Conny Karlsson Board chairman | 2,165 | 280 | - | 2,445 |
| Andrew Cripps Deputy chairman | 1,000 | - | 150 | 1,150 |
| Charles Blixt Board member | 865 | 140 | - | 1,005 |
| Jacqueline Hoogerbrugge Board member | 865 | 140 | - | 1,005 |
| Pauline Lindwall Board member | 865 | - | - | 865 |
| Wenche Rolfsen Board member | 865 | - | 150 | 1,015 |
| Joakim Westh Board member | 865 | - | 350 | 1,215 |
| Alexander Lacik Board member | 865 | - | - | 865 |
| Total | 8,355 | 560 | 650 | 9,565 |

| 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 |

Remuneration and other benefits to Group Management Team

The Annual General Meeting on April 2, 2020 adopted the following guidelines for executive remuneration. The guidelines govern the remuneration of the President and other members of the Group Management Team (GMT). The guidelines 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).

a. *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.

b. *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



NOTE 5 Continued

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.

- c. *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.
- d. *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 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.

Remuneration and other benefits to Group Management Team

| TSEK | | Fixed salary | Variable salary | Other benefits | Pension costs | Total | Defined benefit obligations |
|---|-------------|---------------|-----------------|----------------|---------------|---------------|-----------------------------|
| President | 2020 | 7,446 | 8,921 | 140 | 2,667 | 19,174 | - |
| | 2019 | 7,250 | 9,294 | 98 | 2,696 | 19,338 | - |
| Other members of Group Management Team | 2020 | 24,671 | 30,363 | 2,021 | 7,765 | 64,820 | 61,456 |
| | 2019 | 24,010 | 28,585 | 2,537 | 7,391 | 62,522 | 56,899 |
| Total | 2020 | 32,117 | 39,284 | 2,161 | 10,432 | 83,994 | 61,456 |
| | 2019 | 31,260 | 37,879 | 2,635 | 10,087 | 81,860 | 56,899 |

Comments to the table

- At the end of 2020, 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 four members were employed by a subsidiary.
- 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.
- Variable salary refers to accruals charged to the consolidated income statement during the year for short term and long term incentive programs.
- Other benefits refers 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 2020 and 2019 no earnings-related compensation (tantiem) has been paid to the Group Management Team.
- During 2020 and 2019 no severance has been paid to the Group Management Team.



NOTE 5 Continued

Variable salary

In 2020, the Group Management Team ("GMT") participated in short and long term incentive programs (variable salary) described under the presentation of the remuneration and other benefits to Group Management Team.

Performance targets for the short-term incentive are determined in the beginning of each year. For 2020, the CEO and heads of corporate functions of the GMT had the same criteria, Group operating profit (weight 75 percent) and Net sales from product segments (weight 25 percent). The Division Presidents had partly the same Group criteria as the CEO and partly criteria linked to the division.

In the three year long incentive program that started in 2018 and ended in 2020, the performance criteria for the CEO and other members of group management were 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 12,806 MSEK and 14,684 MSEK respectively and for the criterion net sales from product segments the corresponding numbers were 34,399 MSEK and 39,444 MSEK respectively. The Remuneration Committee established the total weighted performance outcome for the long term program to 100 percent.

In the long term program that started in 2020, the performance criteria for the CEO and other members of the Group Management team are the accumulated Group operating profit (weight 70 percent), the accumulated Group net sales from product segments (weight 20 percent) and reduction in greenhouse gas intensity (weight 10 percent) for the years 2020 to 2022. There will be no pay-out in relation to these criteria unless there is an improvement in relation to the comparable performance of the Group in 2019. 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.

In 2020, the eligible participants in the long term incentive program have committed to purchase Swedish Match shares for the total compensation received, net after tax, and to retain these shares for a period not less than two years.

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. Swedish GMT members that are born 1978 or earlier are covered by the Swedish standard retirement plan for white-collar employees (ITP2 plan) on salary up to 30 times the income base amount. In addition, for some of the members, the Company also pays a pension contribution amounting to a maximum of 35 percent of fixed salary above 30 times the income base amount. Swedish GMT members that are born after 1978 are covered by the ITP1 plan, and are not eligible to any additional pension contributions. Members of the GMT who are resident in the US, are covered by a defined benefit pension plan with a normal retirement age of 65.

Other employment conditions*Severance pay etc.*

For the Group Management Team including the President, a mutual notice period of maximum 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.

6 Audit fees

Expenses for auditor's fees are included in the administrative expenses as set out in the table below:

| Audit fees | 2020 | 2019 |
|-----------------|----------|-----------|
| Deloitte | | |
| Audit services | 8 | 8 |
| Tax services | 1 | 1 |
| Other services | 0 | 0 |
| Total | 9 | 10 |

Other services mainly referred to advisory services for income tax relating to employee benefits.

7 Operating expenses classified by nature

| Operating expenses ¹⁾ | 2020 | 2019 |
|--|--------------|--------------|
| Personnel expenses | 2,913 | 2,656 |
| Depreciation, amortization and write-downs | 588 | 548 |
| Direct material | 2,833 | 2,770 |
| Other operating expenses | 3,385 | 3,096 |
| Total | 9,719 | 9,070 |

¹⁾ Excluding larger one-time items.

Expenses for research and development are recognized in the income statement as other operating expenses. During 2020 expenses for research and development amounted to 237 MSEK (247).

8 Net finance cost

| Financial income | 2020 | 2019 |
|--|-----------|-----------|
| Interest income relating to pension receivables | 1 | 2 |
| Interest income relating to financial assets measured at amortized cost | 20 | 18 |
| Interest income relating to financial instruments measured at fair value through profit and loss | 28 | 71 |
| Net foreign exchange gains | - | 5 |
| Total | 49 | 95 |

| Financial expenses | 2020 | 2019 |
|--|-------------|-------------|
| Interest expense relating to pension liabilities | -43 | -49 |
| Interest expense relating to other financial liabilities measured at amortized cost | -222 | -221 |
| Interest expense relating to financial instruments measured at fair value in hedging relationships | -85 | -55 |
| Interest expense relating to financial instruments measured at fair value through profit and loss | 0 | 0 |
| Interest expense relating to lease liabilities | -12 | -12 |
| Interest expense relating to tax charge due to adverse ruling in a tax case | -16 | - |
| Net foreign exchange losses | -8 | - |
| Other financial expenses | -10 | -6 |
| Total | -396 | -343 |
| Net finance cost | -347 | -247 |



9 Income tax

The major components of income tax expense/income for the years ended December 31, 2020 and 2019 are:

| Income tax expense reported in the Income statement | 2020 | 2019 | Income tax reported outside of the Income statement | 2020 | 2019 |
|---|---------------|---------------|---|-----------|-----------|
| <i>Current tax:</i> | | | Deferred tax | 44 | 13 |
| Current tax on earnings for the year | -1,503 | -1,095 | Total | 44 | 13 |
| Adjustments in respect of prior years | -243 | 25 | <i>This comprises:</i> | | |
| Total current tax | -1,746 | -1,070 | Tax reported in other comprehensive income | | |
| <i>Deferred tax:</i> | | | Actuarial net gains/losses attributable to pensions | 33 | 38 |
| Origination and reversal of temporary differences | -2 | -89 | Revaluation of cash flow hedges net gain/loss | 11 | -25 |
| Adjustments in respect of prior years | -6 | -5 | Total tax reported in other comprehensive income | 44 | 13 |
| Impact of change in tax rate | -1 | -1 | Total tax reported outside of the income statement | 44 | 13 |
| Total deferred tax | -10 | -95 | | | |
| Income tax expense | -1,756 | -1,165 | | | |

The deductible and taxable temporary differences in the balance sheet for the years ended December 31, 2020 and 2019 are summarized below:

| Deferred tax assets and deferred tax liabilities | 2020 | | | 2019 | | |
|--|---------------------|--------------------------|-------------|---------------------|--------------------------|-------------|
| | 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 | 371 | -6 | 378 | 336 | -10 | 346 |
| Employment benefits | 107 | - | 107 | 108 | - | 108 |
| Intangible assets | - | 302 | -302 | - | 335 | -335 |
| Fixed assets | 1 | 286 | -285 | 5 | 267 | -262 |
| Right-of-use assets/lease liabilities | 2 | - | 2 | - | - | - |
| Tax allocation reserve | - | 582 | -582 | - | 530 | -530 |
| Inventory | 5 | 23 | -17 | 7 | 29 | -22 |
| Unremitted earnings in foreign subsidiaries | - | 87 | -87 | - | 81 | -81 |
| Financial assets | 23 | - | 23 | 18 | - | 18 |
| Other | 30 | -6 | 36 | 18 | -3 | 21 |
| Net deferred tax balances | 640 | 1,268 | -628 | 593 | 1,227 | -634 |

The net of deferred tax liabilities and assets for the years ended December 31, 2020 and 2019 are summarized below:

| Movement in deferred tax liabilities, net | 2020 | 2019 |
|---|------------|------------|
| Opening balance, net | 634 | 556 |
| Deferred tax expense/income in the income statement | 10 | 95 |
| Deferred tax in other comprehensive income | -44 | -13 |
| Translation differences | 27 | -4 |
| Closing balance, net | 628 | 634 |

As of December 31, 2020 the Group's non-recognized deductible temporary differences, excluding tax losses, are in total 5 MSEK (7). The table below shows amounts and expiration of the Group's tax losses carried forward:

| Year | Amount |
|--|-------------------|
| 2020 | - |
| 2021 | 487 ¹⁾ |
| Subsequent years or no time limitation | - |
| Total tax losses carried forward recognized | 487 |
| 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. The case is on hold by the Court of Appeal pending the judgment of a similar precedent case by the Supreme Administrative Court.

A reconciliation between tax expense and the product of accounting profit multiplied by Sweden's statutory tax rate for the years ended December 31, 2020 and 2019 is as follows:

| Reconciliation of effective tax rate | 2020 | | 2019 | |
|--|-------------|---------------|-------------|---------------|
| | % | MSEK | % | MSEK |
| Profit before income tax | | 6,644 | | 5,060 |
| Swedish statutory tax rate | 21.4 | -1,422 | 21.4 | -1,083 |
| Effect of tax rates in foreign jurisdictions ¹⁾ | 1.7 | -111 | 0.5 | -27 |
| Results from associated companies reported net of tax | 0.0 | 2 | 0.0 | 1 |
| Income tax in respect of prior years ²⁾ | 3.7 | -243 | -0.5 | 25 |
| Income not subject to tax | -0.5 | 32 | -0.5 | 23 |
| Expenses not deductible for tax purposes ³⁾ | 0.3 | -19 | 2.0 | -99 |
| No benefit available for loss | 0.0 | -1 | 0.0 | 0 |
| Effect of enacted change of tax rate | 0.0 | 1 | -0.1 | 4 |
| Other items | -0.1 | 5 | 0.2 | -8 |
| Reported effective tax | 26.4 | -1,756 | 23.0 | -1,165 |

¹⁾ The negative effect in "tax rates in foreign jurisdictions" in 2020 is largely a result of the rapid increase in the contribution to earnings from the US business where the corporate tax rate is higher than the Swedish tax rate.

²⁾ The negative effect of "income tax in respect of prior years" in 2020 is mainly a result of the non-recurring income tax expense of 270 MSEK from a Swedish tax case.

³⁾ The negative effect in "expenses not deductible for tax purposes" in 2019 is primarily caused by the impairment charge of goodwill connected to European chewing tobacco business.

Sweden reduced the corporate tax rate from 21.4 percent to 20.6 percent as of January 1, 2021.



10 Earnings per share

| Basic and diluted | 2020 | 2019 |
|---|--------------------|--------------------|
| Profit for the year attributable to equity holders of the Parent, MSEK | 4,888 | 3,895 |
| Profit for the year attributable to equity holders of the Parent, excl. larger one-time items, MSEK | 5,174 | 4,263 |
| Weighted average number of shares outstanding, basic and diluted | 160,866,537 | 167,779,742 |

| Earnings per share, basic and diluted, SEK | 2020 | 2019 |
|--|-------|-------|
| Earnings per share | 30.38 | 23.22 |
| Adjusted earnings per share | 32.16 | 25.41 |

The Company had no outstanding options and no dilution.

11 Intangible assets

Intangible assets at December 31 comprised the following:

| | Goodwill | | Trademarks | | Other intangible assets ¹⁾ | | Total | |
|---|--------------|--------------|--------------|--------------|---------------------------------------|-------------|---------------|---------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Cost at beginning of year | 1,714 | 1,682 | 1,676 | 1,655 | 462 | 462 | 3,852 | 3,798 |
| Purchases/investments | - | - | - | - | 63 | 33 | 63 | 33 |
| Acquisitions | - | - | - | - | - | - | - | - |
| Sales/Disposals | - | - | - | - | -9 | -34 | -9 | -34 |
| Reclassifications | - | - | - | 0 | 1 | 0 | 1 | 0 |
| Translation differences, etc. | -95 | 33 | -65 | 21 | -0 | 0 | -160 | 54 |
| Cost at end of year | 1,620 | 1,714 | 1,611 | 1,676 | 516 | 462 | 3,747 | 3,852 |
| Accumulated amortization and write-down at beginning of year | -401 | -39 | -856 | -820 | -240 | -231 | -1,496 | -1,090 |
| Amortization for the year ²⁾ | - | - | -42 | -25 | -35 | -43 | -77 | -68 |
| Write-down of the year ³⁾ | - | -367 | - | - | - | - | - | -367 |
| Sales/Disposals | - | - | - | 0 | 9 | 34 | 9 | 34 |
| Translation differences, etc. | 12 | 6 | 43 | -11 | 0 | 0 | 55 | -6 |
| Accumulated amortization and write-down at end of year | -388 | -401 | -855 | -856 | -266 | -240 | -1,510 | -1,496 |
| Net carrying value at end of year | 1,231 | 1,313 | 756 | 820 | 250 | 222 | 2,237 | 2,355 |

¹⁾ Other intangible assets mainly consist of software, licenses and patent rights.

²⁾ Amortization 2020 includes amortization of the trademark Thunder whose economical useful life has changed from indefinite to a definite economical useful lives of 20 years.

³⁾ Refers to an impairment loss on goodwill relating to the acquisition of V2 Tobacco in 2017.

No borrowing costs have been capitalized during 2020 nor 2019 for intangible assets.

The Group's intangible assets are deemed to have definite useful lives, except for goodwill and the trademark Jakobsson's, which according to the IFRS definition has an indefinite useful life. Jakobsson's has been assessed having indefinite useful life based on that the trademark is well established in the market and has a loyal and growing consumer base within a unique niche segment. Trademarks with indefinite useful lives are reviewed annually and included in the impairment testing. In the beginning of 2020, Swedish Match reassessed the estimated economical useful life of the Thunder trademark. The updated assessment indicated that the Thunder trademark's economical useful life has changed from indefinite to a definite economical useful life of 20 years. For more information see *Note 2 Critical estimate and judgements*.

Amortization and write-down have been charged to the income statement as stated below:

| | Amortization and write-down | |
|---|-----------------------------|-------------|
| | 2020 | 2019 |
| Cost of goods sold | -2 | -3 |
| Selling expenses | -19 | -23 |
| Administrative expenses | -56 | -42 |
| Subtotal | -77 | -68 |
| Impairment charge – European chewing tobacco business | - | -367 |
| Total | -77 | -435 |



NOTE 11 Continued

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. Taking into account that an assessment has been made that the cash flow attributable to trademarks cannot be distinguished from other cash flows within each cash generating unit (CGU), impairment testing is performed for both goodwill and trademarks jointly.

During recent years, the Group's business model has changed with significant investments being made in smokefree products, and in particular the development and commercialization of nicotine pouch products. As from January 1, 2020, Swedish Match changed the internal reporting structure to improve alignment of monitoring the performance and financial reporting with the Group's strategy and product portfolio. Recently acquired businesses have been further integrated to support the Group's smokefree strategy for its European operation. Following these changes, the composition of the Group's CGUs to which goodwill are allocated have been reviewed and new CGUs have been defined. The new CGUs of which the Group's goodwill and trademarks with indefinite useful life relate to are the following: Smokefree traditional tobacco products operations in US (which includes chewing tobacco and moist snuff in US), Cigar operations in US and Smokefree operations in Europe (which includes all smokefree products sold in Europe). The CGU Lights operations remains unchanged from previous year. In the impairment testing, 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, specific risk premium (if applicable), 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.

The result from the impairment testing in 2020 of goodwill and trademarks with indefinite useful life showed that the value in use exceeded the carrying values for all CGUs. No reasonable possible change in any of the key assumptions would result in an impairment.

The table below presents the composition of the Group's CGUs, terminal growth rate and pre-tax WACC used in the impairment testing for 2020 and the carrying value as of December 31, 2020.

| Cash generating units | Goodwill and trademarks with indefinite life in cash generating units | | |
|---|---|----------------------|---------------------|
| | Terminal growth rate 2020, % | Pre-tax WACC 2020, % | Carrying value 2020 |
| Smokefree traditional tobacco products operations in US | 0.0 | 8.2 | 167 |
| Cigar operations in US | 0.8 | 7.9 | 321 |
| Smokefree operations in Europe ¹⁾ | 1.5 | 6.2 | 725 |
| Lights operations | 0.9 | 11.4 | 170 |
| Total | | | 1,382 |

¹⁾ Includes trademarks with indefinite useful life of 151 MSEK

The table below presents the composition of the Group's CGUs, terminal growth rate and pre-tax WACC used in the impairment testing for 2019 and the carrying value as of December 31, 2019.

| Cash generating units | Goodwill and trademarks with indefinite life in cash generating units | | |
|---|---|----------------------|---------------------|
| | Terminal growth rate 2019, % | Pre-tax WACC 2019, % | Carrying value 2019 |
| Other tobacco products operations in US | 0.4 | 8.1 | 477 |
| Moist snuff operations in US | 0.8 | 8.0 | 78 |
| Lights operations | 0.8 | 9.8 | 170 |
| Other tobacco products operations in Europe ¹⁾ | 1.3 | 6.1 | 781 |
| Snus operations in Europe ²⁾ | 1.5 | 5.1 | 300 |
| Total | | | 1,806 |

¹⁾ Includes trademarks with indefinite useful life of 341 MSEK

²⁾ Includes trademarks with indefinite useful life of 151 MSEK

The result from the impairment testing 2019 of goodwill and trademarks with indefinite useful life showed that 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 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 than reported carrying values. Consequently, an impairment charge of 259 MDKK, corresponding to 367 MSEK, was recognized for Swedish Match's European chewing tobacco business in 2019. For further information on the impairment charged, see Note 12 Intangible assets in the annual report for 2019.



12 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⁾ | |
|---|----------------------------------|--------------|---------------------|---------------|-------------------------------|-------------|--------------------------|------------|---------------------|---------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Cost at beginning of year | 1,561 | 1,420 | 4,977 | 4,429 | 954 | 884 | 389 | 401 | 7,882 | 7,134 |
| Purchases/investments | 54 | 20 | 76 | 151 | 97 | 86 | 892 | 457 | 1,120 | 714 |
| Acquisitions | - | - | - | - | - | - | - | - | - | - |
| Sales/disposals | -6 | -5 | -95 | -56 | -97 | -19 | - | - | -198 | -80 |
| Reclassifications | 111 | 108 | 302 | 369 | 3 | 1 | -417 | -479 | -1 | 0 |
| Translation differences, etc. | -118 | 18 | -406 | 85 | -24 | 2 | -67 | 10 | -615 | 115 |
| Cost at end of year | 1,603 | 1,561 | 4,854 | 4,977 | 933 | 954 | 797 | 389 | 8,187 | 7,882 |
| Accumulated depreciation and write-down at beginning of year | -674 | -615 | -3,388 | -3,116 | -652 | -587 | -1 | -1 | -4,714 | -4,319 |
| Depreciation for the year | -54 | -48 | -290 | -260 | -76 | -77 | - | - | -419 | -385 |
| Write-down for the year | - | - | -0 | -8 | - | -1 | - | - | -0 | -9 |
| Sales/disposals | 1 | 1 | 90 | 53 | 97 | 18 | - | - | 188 | 72 |
| Translation differences, etc. | 58 | -12 | 269 | -57 | 20 | -5 | 0 | 0 | 348 | -74 |
| Accumulated depreciation and write-down at end of year | -667 | -674 | -3,319 | -3,388 | -611 | -652 | 0 | 0 | -4,598 | -4,714 |
| Net carrying value at end of year | 936 | 888 | 1,534 | 1,589 | 323 | 302 | 796 | 389 | 3,589 | 3,168 |

¹⁾ Buildings and land include land and land improvements at a book value of 92 MSEK (100).

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 2020 or 2019 for property, plant or equipment.

Depreciation and write-downs for the year totaling 420 MSEK (393) was charged to cost of goods sold in the income statement in an amount of 343 MSEK (314), to administrative expenses of 19 MSEK (17), and to selling expenses of 58 MSEK (62).

At December 31, 2020, the Group has contractual commitments of 426 MSEK for firm orders placed for acquisition of plant and machinery.

13 Biological assets

Biological assets at December 31 comprised the following:

| Forest plantations | 2020 | 2019 |
|---|-----------|------------|
| Carrying value at beginning of year | 87 | 126 |
| Purchases and new planting | 7 | 7 |
| Timber harvested and transferred to inventory | -4 | -8 |
| Sales and disposals | -2 | -23 |
| Reclassifications ¹⁾ | -18 | -16 |
| Translation differences, etc. | -25 | 1 |
| Carrying value at end of year | 44 | 87 |

¹⁾ Reclassifications refers to assets that are reclassified to assets held for sale.

The Group's reported biological assets comprise of poplar and pine forests in Brazil with a total area of 3,597 hectares at December 31, 2020. The age of the trees varies from newly planted seedlings up to 49 years. The forests are held to ensure the supply of wood used in the product segment Lights.

Timber felled during 2020 had an estimated fair value of 4 MSEK at the time of harvesting, and made up 97,610 cubic meters of wood.

The forest plantations are regularly measured at fair value of the forest, according to level 2 in the fair value hierarchy, 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 2020 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 2020, 113 hectares (106) 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.



14 Leasing

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.

Leasing contracts of the Group have not been impacted by COVID-19. Swedish Match has not received any significant COVID-19 related rent

concessions during 2020 that have resulted in any changes to the valuation and reporting of lease contracts.

Some leases contain options to extend the lease for one or more terms or to terminate the lease. The likelihood of utilizing or not utilizing extension and termination options are assessed for each lease contract, as applicable. The amount of optional lease payment not included in the lease liabilities at December 31, 2020 amounted to 129 MSEK (86). The average duration of the Group's leases was 1.9 years (2.1), including assessments of the likelihood of utilizing extension and termination options.

Leases at December 31, comprised the following:

| Right-of-use assets | Real estate | | Cars | | Other | | Total | |
|--|-------------|------------|-----------|-----------|----------|----------|------------|------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Carrying value at beginning of year | 168 | 200 | 83 | 76 | 4 | 3 | 255 | 279 |
| Additions | 50 | 5 | 28 | 54 | 2 | 3 | 80 | 62 |
| Terminations | -2 | 0 | -4 | -10 | -1 | - | -6 | -11 |
| Depreciation for the year | -49 | -46 | -40 | -39 | -2 | -2 | -92 | -87 |
| Revaluations ¹⁾ | 64 | 6 | - | - | - | - | 64 | 6 |
| Translation differences, etc. | -15 | 3 | -8 | 2 | -0 | 0 | -23 | 6 |
| Carrying value at end of year | 216 | 168 | 59 | 83 | 3 | 4 | 278 | 255 |

¹⁾ Revaluations in 2020 related to reassessment of extensions options for rental agreements of office premises.

Amounts recognized in the income statement are summarized below:

| | 2020 | 2019 |
|---|-------------|-------------|
| Depreciation right-of-use assets | -92 | -87 |
| Variable lease payments not included in the lease liabilities | -21 | -25 |
| Expenses for short term leases | -15 | -17 |
| Expenses for low value leases | -2 | -2 |
| Interest expense on lease liabilities | -11 | -12 |
| Result from sale or cancellations of right-of-use assets | -0 | -0 |
| Total | -140 | -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:

| | 2020 | 2019 |
|-------------------------------|------|------|
| Current lease liabilities | 77 | 81 |
| Non-current lease liabilities | 208 | 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 | 2020 | 2019 |
|--|------------|------------|
| First year after period | 86 | 89 |
| Second year after period | 77 | 59 |
| Third year after period | 60 | 39 |
| Fourth year after period | 25 | 26 |
| Fifth year after period | 23 | 19 |
| Sixth year after period and beyond | 64 | 66 |
| Total | 334 | 297 |

Total cash flow from leases, including interest component, variable lease payments and payments for short-term and low value leases in 2020, amounted to 133 MSEK (150).

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 2020 was 20 percent (25).

At December 31, 2020 the Group had committed to leases amounting to 15 MSEK (34) which had not commenced. The commitments mainly refer to rental of production facilities under construction in Dominican Republic with expected access and completion between 2021 and 2022.



15 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. No investments in associated companies have been made during 2020. 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 were financed by a loan from Swedish Match amounting to 58 MSEK, which has been partly repaid during 2020.

The numbers in the tables below represent the change in carrying value:

| Associates | 2020 | 2019 |
|--|-----------|-----------|
| Carrying value at beginning of year | 42 | 24 |
| Investment in associated companies | - | 13 |
| Share of profit in associated companies | 13 | 5 |
| Dividends from associated companies | -10 | -1 |
| Translation differences, etc | -3 | 0 |
| Carrying value at end of year | 42 | 42 |

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 for a 12 months period but 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. During 2019 the result for OTP was included as of the acquisition date representing the period as of August to November, 2019.

| | Associated companies | |
|---|----------------------|-----------|
| | 2020 | 2019 |
| Sales | 670 | 552 |
| Operating profit | 46 | 7 |
| Profit (excluding other comprehensive income) | 37 | 15 |
| Total comprehensive income | 37 | 15 |
| Total current assets | 249 | 236 |
| Total fixed assets | 110 | 108 |
| Total current liabilities | 172 | 192 |
| Total non-current liabilities | 81 | 79 |
| Equity | 106 | 73 |
| Equity interest | 34 | 24 |
| Goodwill | 8 | 18 |
| Carrying value at end of year | 42 | 42 |

Transactions with associated companies

In the normal course of business, Swedish Match conducts various transactions with associated companies. Transactions are conducted at an arms-length basis. At December 31, 2020, receivables from these companies totaled 15 MSEK (11). Total sales during the year to associated companies amounted to 82 MSEK (60). Payables to and purchases from associated companies amounted to immaterial amounts. In addition, as per December 31, 2020, Swedish Match had a financial receivable on OTP amounting to 46 MSEK (58).

16 Other non-current receivables and other current receivables

Non-current receivables at December 31 comprised the following items:

| | 2020 | 2019 |
|-----------------------------------|------------|--------------|
| Other non-current receivables | | |
| Non-current financial receivables | 833 | 1,155 |
| Net assets in pension plans | 92 | 91 |
| Other non-current receivables | 10 | 5 |
| Total | 935 | 1,251 |

Non-current financial receivables include foreign exchange derivatives used to hedge the bond loans denominated in foreign currencies amounted to 460 MSEK (755). Most of the remaining value of the non-current financial receivables consist of life insurance policies in a non-Swedish subsidiary.

Other current receivables at December 31 comprised the following items:

| | 2020 | 2019 |
|-------------------------------|------------|------------|
| Other current receivables | | |
| Current financial receivables | 99 | 109 |
| VAT receivables | 22 | 61 |
| Other current receivables | 194 | 205 |
| Total | 315 | 375 |

The assessed impairment on the Group's non-current and current receivables is deemed immaterial.

17 Inventories

Inventories at December 31, net of allowances for obsolescence, comprised the following items:

| Inventories | 2020 | | | 2019 | | |
|---------------------------------------|--------------|-------------|--------------|--------------|-------------|--------------|
| | Current | Non-current | Total | Current | Non-current | Total |
| Finished goods | 527 | - | 527 | 628 | - | 628 |
| Work in progress | 94 | - | 94 | 73 | - | 73 |
| Leaf tobacco | 597 | 216 | 813 | 515 | 215 | 730 |
| Other input materials and consumables | 390 | - | 390 | 382 | - | 382 |
| Total | 1,608 | 216 | 1,824 | 1,598 | 215 | 1,813 |

During 2020, 18 MSEK (33) of inventory write-downs have been expensed net of adjustments of allowances for inventory obsolescence.

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.



18 Trade receivables

Trade receivables at December 31 comprised the following:

| Trade receivables | 2020 | 2019 |
|--|--------------|--------------|
| Trade receivables | 1,588 | 1,733 |
| Less provision for impairment of trade receivables | -11 | -14 |
| Net trade receivables | 1,577 | 1,719 |

Movements, due to the changes in expectations, on the group provision for impairment of trade receivables are as follows:

| Trade receivable provision | 2020 | 2019 |
|--|------------|------------|
| Carrying value at beginning of year | -14 | -24 |
| Provision | -2 | -3 |
| Recovery | 2 | 4 |
| Write-down | 2 | 9 |
| Translation differences, other deductions or additions, etc. | 1 | 0 |
| Carrying value at end of year | -11 | -14 |

As of December 2020, net trade receivables of 74 MSEK (68) were past due. The aging of trade receivables is as follows:

| Aging of trade receivables | 2020 | 2019 |
|----------------------------|--------------|--------------|
| Current | 1,502 | 1,651 |
| Overdue < 31 days | 53 | 59 |
| Overdue 31-60 days | 10 | 4 |
| Overdue > 60 days | 11 | 5 |
| Total | 1,577 | 1,719 |

Swedish Match does not generally hold collateral against trade receivables. The ten largest customers represent 42 percent (38) 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 relates to doubtful customer account receivables that have the potential risk for not being collected. Credit risks are regularly reviewed, and there has been no indications of any significant changes, due to COVID-19, in customers' credit terms or to customers' ability to pay outstanding invoices when they fall due. 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 1 Accounting principles* and *Note 27 Financial instruments and financial risks*.

19 Cash and cash equivalents

| Cash and cash equivalents | 2020 | 2019 |
|---------------------------|--------------|--------------|
| Cash and bank | 1,972 | 935 |
| Other current investments | 1,440 | 1,435 |
| Total | 3,411 | 2,370 |

Other current investments consist of short term deposits with banks and other institutions.

20 Assets held for sale

At December 31, 2020 the Group had assets held for sale amounting to 28 MSEK (16) which referred to land and forestry assets in Brazil and a tangible fixed assets to an immaterial amount.

All assets held for sale are expected to be sold within the coming 12 months period and their fair values, less costs to sell, are expected to be higher than the carrying values. Fair values have been calculated based on expected market prices for similar assets.

Assets held for sale refers to forestry plantations and tangible fixed assets that are not utilized in Swedish Match operations.

There are no corresponding liabilities to these assets.

21 Equity

Objectives, policies and processes for managing capital

The Board of Directors has determined that the financial policy should be, for the Group, to strive to maintaining a net debt that does not exceed 3 times EBITA. The Board of Directors continually reviews the financial position of the Company, and the actual level of net debt is assessed against anticipated future profitability and cash flow, investment and expansion plans, acquisition opportunities as well as the development of interest rates and credit markets.

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

The dividend policy of the Group is a pay-out ratio of 40 to 60 percent of the earnings per share, subject to adjustments for larger one-time items. Excess funds are returned to shareholders through dividends and share repurchases. The basis for determining dividends and repurchasing of own shares is the equity of the Parent Company. Total equity in the Parent Company as per December 31, 2020 amounted to 11,843 MSEK and distributable earnings amounted to 11,454 MSEK. The Board of Directors proposes a total dividend of 15.00 SEK per share. The proposed dividend of 15.00 SEK per share is equivalent to 47 percent of the adjusted earnings per share for the year. The proposed dividend amounts to 2,376 MSEK based on the 158.4 million shares outstanding at the end of the year. Dividend for 2019, paid in 2020, amounted to 2,020 MSEK, which was equivalent to 49 percent of the earnings per share for the year.

The Annual General Meeting on April 2, 2020 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 7.8 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 18 MSEK. The total number of outstanding shares of the Company, including treasury shares, after the cancellations, is 162.2 million shares.

During the year 4.8 million shares were repurchased for 3,099 MSEK at an average price of 642.78 SEK. As at December 31, 2020 Swedish Match held 3.8 million shares in its treasury, corresponding to 2.34 percent of the total number of shares. The number of shares outstanding, net after repurchase as per year end amounted to 158.4 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) | |
|---|---------------------------------|--------------|---------------------------------------|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| Balance at beginning of year | 6,722 | 5,739 | -34,429 | -31,440 |
| Repurchase of own shares during the year | 4,821 | 6,982 | -3,099 | -2,989 |
| Allocated to retained earnings by cancellation of treasury shares | -7,750 | -6,000 | 18 | 13 |
| Bonus issue | - | - | -18 | -13 |
| Balance at end of year | 3,793 | 6,722 | -37,528 | -34,429 |

Since the buyback program started in June 2000 the total number of shares repurchased amounts to 260.2 million and the total number of shares cancelled amounts to 241.8 million shares. The total number of shares sold as a result of option holders exercising options amounts to 14.6 million shares. Total shares bought back since the buyback program started have been repurchased at an average price of 148.08 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.



NOTE 21 Continued

Changes in reserves of cumulative other comprehensive income and non-controlling interest

| 2019 | Hedge reserve | Translation reserve | Non-controlling interest |
|---|---------------|---------------------|--------------------------|
| Balance at beginning of year | -163 | 804 | 1 |
| Profit for the year relating 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 9 Income tax.

| 2020 | Hedge reserve | Translation reserve | Non-controlling interest |
|---|---------------|---------------------|--------------------------|
| Balance at beginning of year | -66 | 995 | 1 |
| Profit for the year relating to non-controlling interest | - | - | -1 |
| Translation differences related to foreign operations for the year | - | -1,120 | 0 |
| Translation differences included in profit and loss | - | - | - |
| Effective portion of changes in fair value cash flow hedges | -51 | - | - |
| Income tax relating to components of other comprehensive income ¹⁾ | 11 | - | - |
| Balance at end of year | -107 | -125 | 1 |

¹⁾ For further details on tax components relating to the various other comprehensive income items, see Note 9 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 measured at FVOCI.

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 reports in Swedish krona (SEK).

22 Interest bearing liabilities

The Group's interest bearing liabilities consist of bond loans and lease liabilities. The maturity structure of the Group's non-current interest-bearing liabilities is as follows:

| Year | 2020 | 2019 |
|----------------|---------------|---------------|
| 2021 | - | 1,898 |
| 2022 | 1,467 | 1,443 |
| 2023 | 2,224 | 2,223 |
| 2024 | 3,026 | 3,140 |
| 2025 | 2,539 | 2,142 |
| 2026 and later | 4,465 | 1,455 |
| Total | 13,722 | 12,302 |

The Group's current interest-bearing liabilities at December 31 comprised the following items:

| | 2020 | 2019 |
|--------------------------------------|--------------|--------------|
| Current interest-bearing liabilities | | |
| Current portion of non-current loans | 1,849 | 1,300 |
| Current lease liabilities | 77 | 81 |
| Bank overdraft facilities utilized | 0 | - |
| Total | 1,927 | 1,380 |

See further information on interest-bearing liabilities in Note 27 Financial instruments and financial risks.

23 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:

| | 2020 | 2019 |
|---|--------------|--------------|
| Post-employment defined benefits | | |
| Defined benefit plans, net liabilities | 461 | 378 |
| Post-employment medical benefits, net liabilities | 1,032 | 1,065 |
| Other long term employee benefits, net liabilities | 10 | 8 |
| Provision for pensions and similar obligations | 1,503 | 1,451 |
| Defined benefit plans, net assets | -92 | -91 |
| Included in other non-current receivables | -92 | -91 |
| Net post-employment liability | 1,411 | 1,360 |

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. In addition, the Group's net pension benefit obligation was affected by positive currency translation effects.

During the first quarter of 2020, the Group's pension assets experienced losses due to the COVID-19 pandemic, which recovered during the last nine months of 2020 and at December 31, 2020 showed a positive return of 364 MSEK.

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 qualifying pension plans, a post retirement medical plan, a supplemental pension plan covering certain executives, and a long term disability plan. The qualifying 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



NOTE 23 Continued

depends on members' length of service and their salary in the final years pre retirement.

The second qualifying 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 qualifying 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.

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.

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.

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 remaining part of 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:

| Post-employment defined benefits | Defined benefit pension plans | | Post-employment medical benefits | |
|---|-------------------------------|------------|----------------------------------|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| Present value of funded obligations | 3,600 | 3,723 | 1,103 | 1,167 |
| Fair value of plan assets | -3,425 | -3,644 | -71 | -102 |
| Deficit(+), net | 175 | 78 | 1,032 | 1,065 |
| Present value of unfunded obligations | 194 | 208 | - | - |
| Net liability(+)/liability(-) in the balance sheet | 369 | 287 | - | - |
| Amounts in the balance sheet | | | | |
| Liabilities | 461 | 378 | 1,032 | 1,065 |
| Assets | -92 | -91 | - | - |
| Net asset-/(liability(+)) in the balance sheet | 369 | 287 | 1,032 | 1,065 |

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 L-T Disability plan where actuarial gains and losses are recognized directly in profit and loss, which constituted an immaterial amount as per December 31, 2020. 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.



NOTE 23 Continued

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.

Actuarial valuations are completed annually for all post-employment benefit plans.

Significant actuarial assumptions at the balance sheet date (expressed as weighted average):

| | Group | | | |
|-----------------------------|-------------------------------|------|----------------------------------|------|
| | Defined benefit pension plans | | Post-employment medical benefits | |
| Actuarial assumptions | 2020 | 2019 | 2020 | 2019 |
| Discount rate, % | 2.2 | 2.9 | 2.4 | 3.1 |
| Price inflation rate, % | 2.4 | 2.4 | 2.5 | 2.5 |
| Future salary increases, % | 3.3 | 3.3 | 3.2 | 3.2 |
| Future pension increases, % | 2.7 | 2.9 | - | - |
| Medical cost trend rate, % | - | - | 5.9 | 6.2 |

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 332 MSEK and a decrease of 0.5 percent in the discount rate would increase the defined benefit obligation with 372 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 is estimated to have an effect on the defined benefit obligation of less than 1 and about 2.5 percent respectively, holding other assumptions constant.

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 | |
|--------------------------------------|-------------------------------|--------------|----------------------------------|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| Balance at beginning of year | 3,931 | 3,298 | 1,167 | 951 |
| Service costs ¹⁾ | 75 | 68 | 25 | 42 |
| Interest expenses on obligation | 100 | 126 | 32 | 39 |
| Administrative expenses | 0 | 0 | - | - |
| Settlement payments from plan assets | -9 | - | - | - |
| Contributions by plan participants | - | - | 4 | 4 |
| Benefits paid | -164 | -173 | -39 | -43 |
| Taxes paid | -1 | -1 | - | - |
| Settlement gain | 0 | - | - | - |
| Changes in financial assumptions | 391 | 518 | 113 | 188 |
| Changes in demographic assumptions | -5 | -49 | -10 | -51 |
| Experience assumptions | -45 | 1 | -38 | 3 |
| Translation differences | -479 | 143 | -151 | 34 |
| Balance at end of year | 3,794 | 3,931 | 1,103 | 1,167 |

¹⁾ A past-service cost of 22 MSEK was recognized in 2019 relating to reassessment for the US post-retirement medical plan after the US Senate approved an excise tax related to the Patient Protection and Affordable Care Act signed into law in 2010.

| Profile of plan members of the defined benefit obligation | Defined benefit pension plans | | Post-employment medical benefits | |
|--|-------------------------------|-----------------|----------------------------------|-----------------|
| | 2020 | 2019 | 2020 | 2019 |
| Active employees | 1,340 | 1,335 | 572 | 607 |
| Deferred members | 449 | 470 | - | - |
| Members in retirement | 2,005 | 2,126 | 530 | 560 |
| Balance at end of year | 3,794 | 3,931 | 1,103 | 1,167 |
| Weighted average duration of defined benefit obligation | 14 years | 14 years | 16 years | 15 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 | |
|--|-------------------------------|--------------|----------------------------------|------------|
| | 2020 | 2019 | 2020 | 2019 |
| Fair value at beginning of year | 3,644 | 3,110 | 102 | 124 |
| Interest income on plan assets | 88 | 114 | 2 | 4 |
| Administrative expenses | -10 | -11 | 0 | 0 |
| Settlement payments from plan assets | -9 | - | - | - |
| Employer contributions | 25 | 35 | 8 | 1 |
| Employee contributions | - | - | 4 | 4 |
| Benefits paid | -164 | -173 | -39 | -43 |
| Taxes paid | -1 | -1 | - | - |
| Return on plan assets, excl. interest income | 269 | 437 | 5 | 7 |
| Translation differences | -417 | 133 | -10 | 5 |
| Fair value at end of year | 3,425 | 3,644 | 71 | 102 |

The actual return on plan assets was positive and amounted to 364 MSEK (562).

Plan assets at December 31 are comprised as follows:

| Plan assets | 2020 | 2019 |
|---------------------------------|--------------|--------------|
| Equity securities ¹⁾ | 1,276 | 1,246 |
| Debt instruments | 1,303 | 1,420 |
| Real estate | 98 | 135 |
| Other ²⁾ | 819 | 945 |
| Total | 3,496 | 3,746 |

¹⁾ Equity securities consist materially of quoted securities. The plans do not hold shares in Swedish Match AB.

²⁾ A large part relates to the UK pension scheme annuity insurance policies.



NOTE 23 Continued

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 | |
|--|-------------------------------|-----------|----------------------------------|-----------|
| | 2020 | 2019 | 2020 | 2019 |
| Service costs | 75 | 68 | 25 | 42 |
| Effect of settlements | 0 | - | - | - |
| Interest expenses on obligation | 100 | 126 | 32 | 39 |
| Interest income on plan assets | -88 | -114 | -2 | -4 |
| Administrative expenses | 10 | 11 | 0 | 0 |
| Net expense reported in the income statement | 97 | 91 | 55 | 77 |

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 | |
|--|-------------------------------|-----------|----------------------------------|-----------|
| | 2020 | 2019 | 2020 | 2019 |
| Cost of goods sold | 27 | 25 | 13 | 11 |
| Administrative expenses | 31 | 31 | 6 | 21 |
| Selling expenses | 27 | 23 | 6 | 11 |
| Other income/expenses | 1 | 0 | - | - |
| Interest income | -88 | -108 | -2 | -4 |
| Interest expenses | 100 | 120 | 32 | 39 |
| Net expense reported in the income statement | 97 | 91 | 55 | 77 |

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 | |
|---|-------------------------------|-----------|----------------------------------|------------|
| | 2020 | 2019 | 2020 | 2019 |
| Actuarial gains and losses on obligations, incl. payroll taxes | 341 | 470 | 65 | 140 |
| Return on plan assets, excluding interest income | -269 | -437 | -5 | -7 |
| Net income (-)/expense(+) reported in other comprehensive income statement | 71 | 32 | 61 | 133 |

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:

| 2020 | Present value of obligation | Fair value of plan assets | Net liability/asset in balance sheet |
|-------------------|-----------------------------|---------------------------|--------------------------------------|
| | | | |
| UK | 738 | 707 | 32 |
| Rest of the world | 231 | 235 | -4 |
| Total | 4,906 | 3,496 | 1,411 |
| 2019 | Present value of obligation | Fair value of plan assets | Net liability/asset in balance sheet |
| | | | |
| UK | 806 | 767 | 39 |
| Rest of the world | 254 | 242 | 11 |
| Total | 5,106 | 3,746 | 1,360 |

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 | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Discount rate, % | 2.4 | 3.1 | 2.4 | 3.1 | 1.4 | 1.9 | 3.5 | 4.1 |
| Price inflation rate, % | 2.2 | 2.2 | 2.5 | 2.5 | 3.2 | 3.3 | 2.2 | 2.3 |
| Future salary increases, % | 3.2 | 3.2 | 3.2 | 3.2 | - | - | 5.2 | 5.5 |
| Future pension increases, % | - | - | - | - | 3.1 | 3.2 | 0.9 | 1.4 |
| Medical cost trend rate, % | - | - | 5.9 | 6.2 | - | - | - | - |

Expected contribution next year

Expected contributions for post-employment benefit plans for the full year 2021 amounts to 54 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 191 MSEK (160).

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 2020 was 62 MSEK (58). This contribution represents 0.11 percent (0.18) 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 2020 of 148 percent (148). 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.



24 Provisions

Non-current and current provisions at December 31 comprised the following:

| Non-current provisions | 2020 | 2019 |
|-------------------------------------|------------|------------|
| Restructurings | 7 | 3 |
| Other operating provisions | 3 | 4 |
| Deferred compensation | 434 | 378 |
| Total non-current provisions | 443 | 384 |

| Current provisions | 2020 | 2019 |
|---|------------|------------|
| Restructurings | - | 0 |
| Other operating provisions | 381 | 292 |
| Total current provisions | 381 | 293 |
| Total non-current and current provisions | 823 | 677 |

Movements in provisions during the year were as follows:

| Provisions | Restructuring provisions | Other operating provisions | Deferred compensation | Total |
|--|--------------------------|----------------------------|-----------------------|------------|
| Carrying value at beginning of year | 3 | 296 | 378 | 677 |
| Provisions made during the year | 7 | 578 | 145 | 730 |
| Provisions used during the year | -4 | -443 | -21 | -468 |
| Provisions reversed during the year and changes in estimates | - | -7 | - | -7 |
| Reclassifications | 0 | 0 | -19 | -19 |
| Translation differences, etc. | - | -41 | -49 | -90 |
| Carrying value at end of year | 7 | 383 | 433 | 823 |

Restructuring provisions

Provisions recognized for restructuring charges are reported as restructuring provisions. The provisions are generally expected to be settled within one year, but could for certain portions be expected to be settled within a period of up to three 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 refer 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 refers 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. The long term incentive plan is the long term portion of the variable salary for certain managers which will be settled within three years. For more information on incentive programs and variable salaries see *Note 5 Personnel*.

For further information about provisions for pensions see *Note 23 Post-employment benefits*.

25 Other liabilities

Other non-current liabilities at December 31 comprised the following:

| Other non-current liabilities | 2020 | 2019 |
|--|------------|-----------|
| Non-current liabilities – derivatives ¹⁾ | 213 | 2 |
| Non-interest bearing non-current liabilities ²⁾ | 43 | 50 |
| Other non-current financial liabilities | 3 | - |
| Total | 258 | 52 |

¹⁾ Non-current liabilities for derivatives consisted of negative currency effects amounting to 163 MSEK (-1) and negative fair value effects amounting to 50 MSEK (2).

²⁾ Non-interest bearing non-current liabilities mainly referred to additional obligations related to acquisition of patent rights.

Other current liabilities at December 31 comprised the following:

| Other current liabilities | 2020 | 2019 |
|--|--------------|--------------|
| Tobacco taxes | 1,161 | 1,179 |
| VAT liabilities | 434 | 452 |
| Current financial liabilities, derivatives | 258 | 91 |
| Vendor loan, acquisition Gotlandssnus | - | 32 |
| Other | 23 | 23 |
| Total | 1,875 | 1,778 |

26 Accrued expenses and deferred income

Accrued expenses and deferred income at December 31 comprised the following:

| Accrued expenses and deferred income | 2020 | 2019 |
|--------------------------------------|--------------|------------|
| Accrued wage/salary-related expenses | 326 | 336 |
| Accrued vacation pay | 95 | 87 |
| Accrued social security charges | 84 | 79 |
| Accrued interest | 168 | 125 |
| Other | 344 | 299 |
| Total | 1,018 | 926 |



27 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, interest rate 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

| | 2020 | | | 2019 | | |
|---|---------------|------------|-------------|--------------|------------|-------------|
| | Nominal | Assets | Liabilities | Nominal | Assets | Liabilities |
| Currency derivatives | 4,044 | 1 | 258 | 3,298 | - | 91 |
| Interest-rate and currency derivatives* | 9,991 | 460 | 259 | 6,304 | 758 | 21 |
| Total | 14,035 | 461 | 517 | 9,602 | 758 | 112 |

* 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 (translation 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 loss of 13 MSEK (gain of 7) in operating profit and loss of 8 MSEK (gain of 5) 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 products in Norway which are produced in Sweden.

The anticipated commercial net currency flow in the same currencies (transaction exposure) is divided as following in MSEK:

| | NOK | USD | EUR | PHP | CHF | Other | Total |
|----------------------|-------|-----|-----|-----|-----|-------|-------|
| Transaction exposure | 1,062 | 322 | 189 | 62 | 54 | 41 | 1,730 |
| Percentage | 61% | 19% | 11% | 4% | 3% | 2% | |

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. On December 31, 2020, no transaction exposure for 2021 has been hedged. A general rise of 10 percent in the value of the SEK against all of the Group's transaction currencies is estimated to affect consolidated earnings before tax by the following in MSEK:

| NOK | USD | EUR | Other | Total |
|-----|-----|-----|-------|-------|
| 106 | 32 | -19 | -8 | 111 |

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 are mainly related 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 as following in MSEK:

| | USD | EUR | DKK | BRL | Other | Total |
|----------------------|-------|-----|-----|-----|-------|-------|
| Translation exposure | 3,705 | 232 | 187 | 124 | 129 | 4,376 |
| Percentage | 85% | 5% | 4% | 3% | 3% | |

The Group 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 shareholders' equity would be affected by the following amounts in MSEK, based on the exposure at December 31, 2020:

| USD | EUR | DKK | BRL | Other | Total |
|-----|-----|-----|-----|-------|-------|
| 370 | 23 | -19 | -12 | -7 | 356 |

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, 2020 was 2.1 percent (2.1). The average interest maturity period for Group loans was 3.7 years (3.7 years), taking into account cross currency interest rate swaps. The interest maturity structure on December 31, 2020 was as follows:

| Year | Loans | | Loans and effects from derivatives | |
|--------------|---------------|------------|------------------------------------|------------|
| | Fixed | Variable | Fixed | Variable |
| 2021 | 1,849 | - | 1,849 | - |
| 2022 | 1,401 | - | 1,401 | - |
| 2023 | 1,722 | 450 | 1,922 | 250 |
| 2024 | 3,008 | - | 3,008 | - |
| 2025 | 2,522 | - | 2,522 | - |
| 2026- | 4,411 | - | 4,411 | - |
| Total | 14,913 | 450 | 15,113 | 250 |

The Group is exposed to interest rate risk in the transition to new benchmark interest rates, due to the Group's borrowing in floating interest rates.

The Group currently has two loans in scope of the IFRS 9 amendments due to the interest rate benchmark reform with floating rate 3 month IBOR. Of the variable rate loans linked to IBOR in the table above, one is not in a hedging relationship, and has a nominal amount of 250 MSEK with interest payments of 3 month STIBOR. The other loan has a nominal amount of 200 MSEK with interest payments of 3 month STIBOR, which is hedged in an interest rate swap receiving 3 month STIBOR and paying fixed terms. The terms of the hedged items match those of the corresponding hedging instruments.



NOTE 27 Continued

None of the Group's current STIBOR linked contracts include adequate and robust fall back provisions for a cessation of the referenced benchmark interest rate. Different working groups in the industry are working on fall back language for different instruments and different IBOR's, which Swedish Match is monitoring closely and will implement when appropriate.

At December 31, 2020, 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 18 MSEK (12) on an annual basis. The net interest-bearing debt (including net pension obligations and lease liabilities) at the same date amounted to 13,523 MSEK (11,925).

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 on the amount by 4 MSEK (7).

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 2022. This was unutilized at year-end and contained no financial covenants. It is defined as a reserve facility. At year-end 2020, available cash funds and committed credit facilities amounted to 4,911 MSEK. Of this amount, confirmed credit lines amounted to 1,500 MSEK and cash and cash equivalents making up the remaining 3,411 MSEK. All cash and cash equivalents are available for use, none of this is pledged or similar.

Cash flow and fair value hedges*Cash flow hedges*

The table below shows the yearly change of the fair value of the hedging instruments, from opening balance, recognized in other comprehensive income and the amounts that are reclassified in profit and loss during the year, previously recognized in other comprehensive income. There was no ineffectiveness in cash flow hedge accounting during 2020.

| | 2020 | | | | | |
|----------------------------------|----------------------------------|---|--|--|--|-----------------------------------|
| | Opening balance fair value Jan 1 | Change in fair value used for calculating hedge ineffectiveness | Balance in cash flow hedge reserve for continuing hedges | Change in the fair value of hedging instrument recognized in OCI | Amounts reported in the income statement during the year | Closing balance fair value Dec 31 |
| Hedging instruments, derivatives | -84 | 84 | -84 | -507 | 456 | -135 |
| Total | -84 | 84 | -84 | -507 | 456 | -135 |

| | 2019 | | | | | |
|----------------------------------|----------------------------------|---|--|--|--|-----------------------------------|
| | Opening balance fair value Jan 1 | Change in fair value used for calculating hedge ineffectiveness | Balance in cash flow hedge reserve for continuing hedges | Change in the fair value of hedging instrument recognized in OCI | Amounts reported in the income statement during the year | Closing balance fair value Dec 31 |
| Hedging instruments, derivatives | -206 | 206 | -206 | 136 | -14 | -84 |
| Total | -206 | 206 | -206 | 136 | -14 | -84 |

Maturity profile over interest payments taking part in a cash-flow hedge:

| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026- |
|---------------------------------|------|------|------|------|------|-------|
| Fixed rate interest on payments | -227 | -228 | -214 | -182 | -123 | -158 |

Fair value hedges

At year end there were no fair value hedges outstanding.

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, 2020, a total of 15,368 MSEK of the global medium-term note program was outstanding. The average maturity of the Group's bond borrowing at December 31, 2020 was 3.8 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 value | Total booked value |
|--------------|--|----------------------|----------------|---------------|--------------------|
| 2021 | 2,270 | 61 | 409 | 2,740 | 2,644 |
| 2022 | 1,671 | 34 | - | 1,705 | 1,516 |
| 2023 | 2,406 | 34 | - | 2,440 | 2,270 |
| 2024 | 3,175 | 32 | - | 3,207 | 3,070 |
| 2025 | 2,642 | 41 | - | 2,683 | 2,582 |
| 2026- | 4,625 | 213 | - | 4,838 | 4,514 |
| Total | 16,789 | 415 | 409 | 17,613 | 16,596 |

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.



NOTE 27 Continued

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. The credit risk of financial counterparties is monitored daily. Management has further assessed that there is no change in the underlying risk affecting the classification of financial instruments reported in the balance sheet. At December 31, 2020, 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 counterparty is in an event of default, as with suspended payments. The following table shows the netted exposures per December 31, 2020. 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

| | Gross amount for financial instruments | Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement | Net |
|---------------------------|--|--|-----|
| 2020 | | | |
| Derivatives – Assets | 461 | -178 | 283 |
| Derivatives – Liabilities | 517 | -178 | 339 |

| | Gross amount for financial instruments | Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement | Net |
|---------------------------|--|--|-----|
| 2019 | | | |
| Derivatives – Assets | 758 | -34 | 723 |
| Derivatives – Liabilities | 112 | -34 | 78 |

At December 31, 2020, credit exposure in derivative instruments amounted to 283 MSEK, and credit exposure in cash and deposits at banks amounted to 2,011 MSEK. Swedish Match reduces the risk of its customers failing to 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 1,577 MSEK (1,719). For more information see *Note 18 Trade receivables*.

Carrying value and fair value

The following table show carrying value and fair value for financial instruments per December 31, 2020.

| 2020 | Financial instruments measured at FVTPL | Financial assets measured at amortized cost | Other financial liabilities | Cash flow hedges measured at FVOCI | Other receivables and liabilities | Total carrying value | Estimated fair value |
|--|---|---|-----------------------------|------------------------------------|-----------------------------------|----------------------|----------------------|
| Trade receivables | - | 1,577 | - | - | - | 1,577 | 1,577 |
| Other non-current financial receivables | - | 3 | - | 459 | 473 | 935 | 935 |
| Other current assets and financial receivables | 1 | 69 | - | - | 246 | 315 | 315 |
| Prepaid expenses and accrued income ¹⁾ | - | - | - | 1 | 115 | 117 | 117 |
| Cash and cash equivalents | - | 3,411 | - | - | - | 3,411 | 3,411 |
| Total assets | 1 | 5,060 | - | 460 | 834 | 6,355 | 6,355 |
| Loans and borrowings | - | - | 15,364 | - | - | 15,364 | 15,713 |
| Other non-current financial liabilities | - | - | 208 | 213 | 45 | 466 | 466 |
| Other current liabilities | 258 | - | 77 | - | 1,617 | 1,952 | 1,952 |
| Accrued expenses and deferred income ¹⁾ | - | - | 122 | 46 | 850 | 1,018 | 1,018 |
| Trade payables | - | - | 409 | - | - | 409 | 409 |
| Total liabilities | 258 | - | 16,180 | 259 | 2,512 | 19,209 | 19,558 |

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 | - | 461 | - | 461 |
| Derivative financial liabilities | - | 517 | - | 517 |

Credit ratings

At December 31, 2020, 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 conversion 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, 2020. 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. Trade receivables are measured at their transaction price. 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 27 Continued

The following table show 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*.

| Fair value measurement by level | Level 1 | Level 2 | Level 3 | Total |
|----------------------------------|---------|---------|---------|-------|
| Derivative financial assets | - | 758 | - | 758 |
| Derivative financial liabilities | - | 112 | - | 112 |

28 Pledged assets

Pledged assets at December 31 comprised the following:

| Pledged assets for debt to credit institutions and other commitments | 2020 | 2019 |
|--|------------|------------|
| Floating charges | 3 | 3 |
| Endowment insurances | 132 | 110 |
| Other | 2 | 2 |
| Total | 137 | 116 |

29 Commitments and contingent liabilities and assets

Contingent liabilities

Guarantees on behalf of subsidiaries referred 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 referred 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 | 2020 | 2019 |
|---|------------|------------|
| Guarantees on behalf of subsidiaries | 291 | 71 |
| Other guarantees and contingent liabilities | 185 | 199 |
| Total | 476 | 270 |

The increase of guarantees on behalf of subsidiaries during 2020 was related to guarantees made to government authorities for fulfillment of undertakings in connection with imports and payment of tobacco taxes.

Legal disputes

The Group 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 in a number of Swedish Match's Swedish group companies. After completing the audits, the Swedish Tax Agency decided to deny certain cost deductions in two cases. Both cases were appealed by Swedish Match but the cases were ruled in favor of

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

Contingent assets

Resolution of indirect tax disputes in Brazil

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



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30 Group companies

Swedish Match subsidiaries are owned to 100 percent by Swedish Match Group, with exception of one Swedish subsidiary of which Swedish Match holds the shares to 95 percent as well as an insignificant non-controlling interest in a foreign subsidiary.

| Subsidiary holdings ¹⁾ | Subsidiary's domicile, country | Ownership share, % | |
|---|--------------------------------|--------------------|------|
| | | 2020 | 2019 |
| Swedish Match Comercio Importacao e Exportacao Ltda | Brazil | 100 | 100 |
| Swedish Match da Amazonia S.A. | Brazil | 100 | 100 |
| Swedish Match do Brazil S.A. | Brazil | 99.7 | 99.7 |
| Swedish Match Denmark A/S | Denmark | 100 | 100 |
| House of Oliver Twist A/S | Denmark | 100 | 100 |
| Swedish Match Dominicana, S.A.S. | Dominican Republic | 100 | 100 |
| Swedish Match France SAS | France | 100 | 100 |
| Swedish Match Deutschland GmbH | Germany | 100 | 100 |
| Swedish Match Lighters BV | Netherlands | 100 | 100 |
| Swedish Match Overseas BV | Netherlands | 100 | 100 |
| Swedish Match Distribution A/S | Norway | 100 | 100 |
| Swedish Match Norge A/S | Norway | 100 | 100 |
| Swedish Match Philippines Inc. | Philippines | 100 | 100 |
| SMINT Holdings Corp. | Philippines | 100 | 100 |
| Swedmat Corp. | Philippines | 100 | 100 |
| Swedish Match 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 |
| Swedish Match Industries AB | Sweden | 100 | 100 |
| Swedish Match Intellectual Property AB | Sweden | 100 | 100 |
| Swedish Match North Europe AB | Sweden | 100 | 100 |
| Gotlands Snus AB | Sweden | 95 | 95 |
| Svenska Tändsticksbolaget Försäljningsaktiebolag | Sweden | 100 | 100 |
| Swedish Match Holding AB | Sweden | 100 | 100 |
| Swedish Match US AB | Sweden | 100 | 100 |
| Swedish Match (PM) International AB ²⁾ | Sweden | - | - |
| Swedish Match Jupiter AB | Sweden | 100 | 100 |
| Swedish Match Estongo AB | Sweden | 100 | 100 |
| Svenskt Snus AB | Sweden | 100 | 100 |
| Nyz AB | Sweden | 100 | 100 |
| V2 Tobacco Distribution Sverige AB | Sweden | 100 | 100 |
| Swedish Match Treasury Switzerland AG | Switzerland | 100 | 100 |
| Swedish Match Switzerland AG | Switzerland | 100 | 100 |
| Swedish Match Kibrit ve Cakmak Endustri A.S. | Turkey | 100 | 100 |
| Swedish Match Cigars Holding Inc. | USA | 100 | 100 |
| Swedish Match Cigars Inc. | USA | 100 | 100 |
| Swedish Match USA Inc. | USA | 100 | 100 |
| Swedish Match Leaf Tobacco Company | USA | 100 | 100 |
| Swedish Match North America LLC | 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

31 Supplementary information to cash flow statement

The definition and composition of cash and cash equivalents is cash and bank and other current investments.

| | 2020 | 2019 |
|-------------------------------------|-------------|-------------|
| Interest paid and interest received | | |
| Interest received | 49 | 88 |
| Interest paid | -281 | -279 |
| Total | -232 | -191 |

Interest payments and interest receipts are reflected in cash flow from operations.

| | 2020 | 2019 |
|--|-----------|-----------|
| Adjustments for non cash items and other | | |
| Result sale of fixed assets | -16 | -15 |
| Net change in defined benefit plans | 121 | 129 |
| Change in accrued interest | 44 | 2 |
| Change in market value revaluations and unrealized exchange rate differences | -318 | 154 |
| Realized exchange rate differences moved to financing | 304 | -156 |
| Other | -62 | -90 |
| Total | 72 | 23 |

Investments in associated companies and other companies

No investments have been made in associated companies during 2020.

Investments in associated companies during 2019 referred to the investment of 13 MSEK in OTP d.o.o. For further information see Note 15 Investments in associated companies.

Investment of subsidiaries

No acquisitions of subsidiaries have been made during 2020 nor 2019. Cash flow from acquisition of subsidiaries during 2020 referred to remaining consideration relating to the acquisition of Gotlandssnus in 2018.

Divestment of subsidiaries

No divestments of subsidiaries have been made during 2020 and 2019.

NOTE 31 *Continued*

Reconciliation of liabilities arising from financing activities

| | Dec 31, 2019 | Cash flows | Non-cash changes | | | | Dec 31, 2020 |
|--|---------------|--------------|------------------------------|---------------------------------------|---------------------------|--------------------|---------------|
| | | | Changes in lease liabilities | Adj. current portion from non-current | Foreign exchange movement | Fair value changes | |
| Long-term borrowings | 12,130 | 3,702 | - | -1,844 | -473 | - | 13,514 |
| Short-term borrowings | 1,300 | -1,300 | - | 1,844 | 6 | - | 1,850 |
| Lease liabilities | 253 | -81 | 138 | - | -24 | - | 285 |
| Net assets held to hedge long-term borrowings | -755 | -16 | - | - | 472 | 51 | -248 |
| Total liabilities from financing activities | 12,927 | 2,304 | 138 | 0 | -19 | 51 | 15,401 |

32 Related parties

The Group's 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 15 Investments in associated companies*. For information about remuneration to the Board of Directors and Group Management Team, see *Note 5 Personnel*. Besides this, and disregarding intergroup transactions that are eliminated in the consolidated financial statements of the Group, no other significant related parties transactions have been conducted during the year.

33 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 2020 include the Parent Company and its subsidiaries, jointly referred to as "the Group". The Group also comprises the Group's interest in associated companies.



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Parent Company income statement

| MSEK | Note | 2020 | 2019 |
|--|----------|--------------|--------------|
| Sales | 1 | 27 | 42 |
| Administrative expenses | 2, 7, 25 | -279 | -300 |
| Other operating income and expenses | 3 | 4 | -3 |
| Operating loss | | -248 | -261 |
| Result from participation in Group companies | 4 | 3,898 | 97 |
| Interest income and similar items | 4 | - | 0 |
| Interest expense and similar items | 4 | -345 | -293 |
| Profit/Loss after financial items | | 3,305 | -458 |
| Appropriations | 5 | 2,042 | 2,330 |
| Profit before income tax | | 5,347 | 1,872 |
| Income tax expense | 6 | -314 | -387 |
| Profit for the year | | 5,033 | 1,485 |

Parent Company statement of comprehensive income

| MSEK | Note | 2020 | 2019 |
|--|------|--------------|--------------|
| Profit for the year | | 5,033 | 1,485 |
| <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 | -51 | 122 |
| Income tax relating to components of other comprehensive income | 6 | 11 | -25 |
| Other comprehensive income, net of tax for the year | | -41 | 97 |
| Total comprehensive income for the year | | 4,992 | 1,582 |



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Parent Company balance sheet

| MSEK | Note | December 31, 2020 | December 31, 2019 |
|---|------|-------------------|-------------------|
| Assets | | | |
| Tangible assets | 7 | 0 | 1 |
| Non-current financial assets | | | |
| Participations in Group companies | 8 | 31,156 | 31,151 |
| Other non-current receivables | 9 | 459 | 755 |
| Deferred income tax assets | 6 | 61 | 45 |
| Total non-current financial assets | | 31,675 | 31,951 |
| Total non-current assets | | 31,676 | 31,952 |
| Current assets | | | |
| Receivables from Group companies | | 2,416 | 2,928 |
| Receivables from Associated companies | | - | 1 |
| Income tax receivables | 6 | 73 | - |
| Other receivables | 10 | 30 | 24 |
| Prepaid expenses and accrued income | 11 | 36 | 26 |
| Total current assets | | 2,555 | 2,980 |
| Cash and other current deposits | 24 | 250 | 400 |
| TOTAL ASSETS | | 34,481 | 35,332 |
| Equity | | | |
| Restricted equity | 12 | | |
| Share capital | | 390 | 390 |
| Unrestricted equity | | | |
| Reserve for fair value | | -107 | -66 |
| Retained earnings | | 6,528 | 10,162 |
| Profit for the year | | 5,033 | 1,485 |
| TOTAL EQUITY | | 11,843 | 11,970 |
| Untaxed reserves | 13 | 2,675 | 2,325 |
| Other provisions | 14 | 93 | 98 |
| Total provisions | | 93 | 98 |
| Non-current liabilities | | | |
| Bond loans | 15 | 13,514 | 12,130 |
| Other liabilities | 16 | 213 | 2 |
| Total non-current liabilities | | 13,726 | 12,132 |
| Current liabilities | | | |
| Bond loans | | 1,849 | 1,300 |
| Trade payables | | 9 | 10 |
| Liabilities to Group companies | | 4,064 | 7,149 |
| Current income tax liabilities | 6 | - | 166 |
| Other liabilities | | 2 | 2 |
| Accrued expenses and deferred income | 17 | 218 | 180 |
| Total current liabilities | | 6,143 | 8,807 |
| TOTAL EQUITY AND LIABILITIES | | 34,481 | 35,332 |



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Statement of changes in Parent Company equity

| 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.

| 2020 | 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 | -66 | 10,162 | 1,485 | 11,970 |
| Profit for the year | | - | - | - | 5,033 | 5,033 |
| Other comprehensive income, net of tax for the year | | - | -41 | - | - | -41 |
| Total comprehensive income for the year | | - | -41 | - | 5,033 | 4,992 |
| Allocation of profit | | - | - | 1,485 | -1,485 | - |
| Dividend | | - | - | -2,020 | - | -2,020 |
| Repurchase of own shares | | - | - | -3,099 | - | -3,099 |
| Cancellation of shares | | -18 | - | 18 | - | - |
| Bonus issue | | 18 | - | -18 | - | - |
| Equity at end of year | | 390 | -107 | 6,528 | 5,033 | 11,843 |

¹⁾ Reserve for fair value consists of a hedge reserve.



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Cash flow statement for the Parent Company

| MSEK | Note | 2020 | 2019 |
|--|------|---------------|-------------|
| Operating activities | 24 | | |
| Profit/Loss after financial items | | 3,305 | -458 |
| Adjustments for non-cash items and other | | 324 | 19 |
| Income tax paid | | -558 | -331 |
| Subtotal | | 3,071 | -770 |
| Increase (-)/Decrease (+) in operating receivables | | -8 | 14 |
| Increase (+)/Decrease (-) in operating liabilities | | 4 | 5 |
| Net cash used in/from operating activities | | 3,067 | -751 |
| Investing activities | | | |
| Purchase of tangible assets | | - | 0 |
| Disposal of tangible assets | | 0 | - |
| Shareholders contribution | | -292 | - |
| Net cash used in/from investing activities | | -292 | 0 |
| Financing activities | | | |
| Proceeds from non-current borrowings | | 3,702 | 999 |
| Repayment of borrowings | | -1,300 | -1,092 |
| Repurchase of own shares | | -3,099 | -2,989 |
| Dividend | | -2,020 | -1,777 |
| Changes in financial receivables/liabilities Group companies | | -192 | 5,010 |
| Other | | -16 | 0 |
| Net cash used in/from financing activities | | -2,925 | 151 |
| Net decrease in cash and cash equivalents | | -150 | -600 |
| Cash and cash equivalents at the beginning of the year | | 400 | 1,000 |
| Cash and cash equivalents at end of year | | 250 | 400 |



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, 2019.

For remuneration and other benefits to Parent Company President and other members of Group management, see *Note 5 Personnel* for the Group on page 90.

1 Sales

Sales refer 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 2020 and 2019 was Deloitte.

| Audit fees | 2020 | 2019 |
|----------------|----------|----------|
| Audit services | 2 | 2 |
| Tax services | 0 | 0 |
| Other services | 0 | 0 |
| Total | 2 | 3 |

3 Other operating income and expenses

Other operating income and expenses 2020 mainly relates to foreign exchange gains and losses.

4 Financial items

| Result from participation in Group companies | 2020 | 2019 |
|---|--------------|-----------|
| Dividends received | 4,185 | 97 |
| Write-downs of participations in subsidiaries | -287 | - |
| Total | 3,898 | 97 |

The impairment loss during 2020 was recognized following shareholder's contribution to subsidiaries.

| Interest income and similar items | 2020 | 2019 |
|-----------------------------------|----------|----------|
| Net foreign exchange gains | - | 0 |
| Total | - | 0 |

| Interest expense and similar items | 2020 | 2019 |
|--|-------------|-------------|
| Interest expense relating to Group companies | -32 | -19 |
| Interest expense relating to other financial liabilities measured at amortized cost | -220 | -216 |
| Interest expense relating to financial instruments measured at fair value in hedging relationships | -85 | -55 |
| Other financial expenses | -7 | -4 |
| Net foreign exchange losses | -2 | - |
| Total | -345 | -293 |

5 Appropriations

| Appropriations | 2020 | 2019 |
|---|--------------|--------------|
| Difference between reported depreciation and according to plan | | |
| Equipment, tools and fixtures | 0 | 0 |
| Tax allocation reserve | | |
| Appropriation for the year | -475 | -600 |
| Reversal of appropriation | 125 | 60 |
| Group contributions | | |
| Group contributions received | 2,406 | 2,913 |
| Group contributions granted | -14 | -43 |
| Total | 2,042 | 2,330 |

6 Income tax

| Income tax reported in income statement | 2020 | 2019 |
|---|-------------|-------------|
| Current tax expense for the period | -319 | -393 |
| Deferred tax due to temporary differences | 5 | 6 |
| Total | -314 | -387 |

| Income tax reported in other comprehensive income | 2020 | 2019 |
|--|-----------|------------|
| Effective portion of changes in fair value of cash flow hedges | 11 | -25 |
| Total | 11 | -25 |

| Reconciliation of effective tax rate | 2020 | | 2019 | |
|--|-------------|---------------|-------------|--------------|
| | (%) | MSEK | (%) | MSEK |
| Income before tax | | 5,347 | | 1,872 |
| Swedish statutory tax rate | 21.4 | -1,144 | 21.4 | -401 |
| Non-taxable dividends | -16.8 | 896 | -1.1 | 21 |
| Non-deductible expenses | 1.2 | -65 | 0.3 | -6 |
| Effect of enacted change of tax rate | 0.0 | 1 | 0.0 | 1 |
| Taxes related to prior years | 0.0 | 0 | 0.0 | 0 |
| Standard interest income, tax allocation reserve | 0.0 | -2 | 0.1 | -2 |
| Reported effective tax | 5.9 | -314 | 20.7 | -387 |

The change to the current tax liability during the period is explained below:

| Current income tax receivables/liabilities | 2020 | 2019 |
|--|------------|------------|
| Carrying value at beginning of year | 166 | 104 |
| Current tax expense | 319 | 393 |
| Paid tax | -558 | -331 |
| Carrying value at end of year | -73 | 166 |

Net tax receivables amounted to 73 MSEK and consists of taxes to be refunded on income for the year.

Sweden will reduce the corporate tax rate from 21.4 percent to 20.6 percent as of January 1, 2021.



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The tax effects of deductible temporary differences that resulted in deferred tax assets at December 31 are summarized below:

| | 2020 | 2019 |
|--------------------------------------|-----------|-----------|
| Deferred income tax assets | | |
| Hedge reserve | 28 | 17 |
| Provision | 33 | 28 |
| Carrying value at end of year | 61 | 46 |

The following reconciles the deferred tax assets at the beginning of the year to the end of the year.

| 2020 | Balance Jan. 1 | Charges to profit for the year | Charges to other comprehensive income | Balance Dec. 31 |
|---------------|----------------|--------------------------------|---------------------------------------|-----------------|
| Hedge reserve | 17 | - | 11 | 28 |
| Provision | 28 | 5 | - | 33 |
| Total | 46 | 5 | 11 | 61 |

| 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 |

7 Tangible assets

| | 2020 | 2019 |
|--|-----------|-----------|
| Equipment, tools and fixtures | | |
| Cost at beginning of year | 4 | 4 |
| Purchases/investments | - | 0 |
| Intercompany sales | -4 | - |
| Disposals | 0 | - |
| Cost at end of year | 0 | 4 |
| Accumulated depreciation at beginning of year | -4 | -3 |
| Depreciation for the year | 0 | -1 |
| Intercompany sales | 4 | - |
| Disposals | 0 | - |
| Accumulated depreciation at end of year | 0 | -4 |
| Net carrying value at end of year | 0 | 1 |

Depreciation charges on tangible assets are included in administrative expenses in the income statement and amounted to 0 MSEK (-1). No borrowing costs have been capitalized during 2020 nor during 2019.

8 Group companies

| 2020 | Balance Jan. 1 | Shareholder's contribution | Liquidation | Impairments | Balance Dec. 31 |
|-----------------------|----------------|----------------------------|-------------|-------------|-----------------|
| Costs of acquisitions | 57,516 | 292 | -2,544 | - | 55,264 |
| Impairments | -26,365 | - | 2,544 | -287 | -24,108 |
| Carrying value | 31,151 | 292 | - | -287 | 31,156 |

| 2019 | Balance Jan. 1 | 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 |

Shares in subsidiaries, directly owned

| Subsidiary | Corp. Reg.no. | Domicile | Number of shares | Ownership, % | 2020 | Ownership, % | 2019 |
|--|----------------|--------------------|------------------|--------------|---------------|--------------|---------------|
| 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 | 16,689 | 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 | | | | | 31,156 | | 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 459 MSEK (755).

10 Other receivables

| Other receivables | 2020 | 2019 |
|--------------------------------------|-----------|-----------|
| Tax account | 26 | 23 |
| VAT receivables | 3 | 1 |
| Other current receivables | 0 | 0 |
| Carrying value at end of year | 30 | 24 |

11 Prepaid expenses and accrued income

| Prepaid expenses and accrued income | 2020 | 2019 |
|--------------------------------------|-----------|-----------|
| Accrued interest income | 1 | 2 |
| Prepaid bank charge | 2 | 2 |
| Prepaid rent | 4 | 4 |
| Other prepaid expenses | 28 | 18 |
| Carrying value at end of year | 36 | 26 |

Other prepaid expenses mainly referred to receivables for pension contributions.

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 | 2020 | 2019 |
|---|--------------------|--------------------|
| Issued at beginning of year | 169,950,000 | 175,950,000 |
| Cancellation | -7,750,000 | -6,000,000 |
| Total shares outstanding at end of year | 162,200,000 | 169,950,000 |
| Of which held by Swedish Match AB | -3,792,917 | -6,721,687 |
| Total shares outstanding, net of shares held by Swedish Match AB | 158,407,083 | 163,228,313 |
| Total outstanding shares quota value | 2.4015 | 2.2919 |

Repurchase of own shares

Repurchase of own shares encompass the acquisition cost for treasury shares owned by the Parent Company. At December 31, 2020, the Parent Company's holding of treasury shares amounted to 3,792,917 shares (6,721,687).

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) | |
|--|------------------------------|--------------|------------------------------------|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| Balance at beginning of year | 6,722 | 5,739 | -34,429 | -31,440 |
| Repurchase of own shares during the year | 4,821 | 6,982 | -3,099 | -2,989 |
| Allocated to retained earnings by cancellation of shares | -7,750 | -6,000 | 18 | 13 |
| Bonus issue | - | - | -18 | -13 |
| Balance at end of year | 3,793 | 6,722 | -37,528 | -34,429 |

The Annual General Meeting on April 2, 2020 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 7.8 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 18 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 4,821 million shares were repurchased for 3,099 MSEK at an average price of 642.78 SEK. Total shares bought back since the buyback program started have been repurchased at an average price of 148.08 SEK.

As per December 31, 2020 Swedish Match held 3.8 million shares in its treasury, corresponding to 2.34 percent of the total number of shares.

The number of shares outstanding, net, as per December 31, 2020, amounted to 158.4 million.

Dividend

After the balance sheet date, the Board proposed a dividend for 2020 of 15.00 SEK per share (12.50). The proposed dividend amounts to 2,376 MSEK based on the 158.4 million shares outstanding at the end of 2020. The ordinary dividend for 2019, paid in 2020, amounted to 2,020 MSEK corresponding to 12.50 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 | 2020 | 2019 |
|--|-------------|-------------|
| Carrying value at beginning of year | -66 | -163 |
| Effective portion of changes in fair value of cash flow hedges | -51 | 122 |
| Income tax | 11 | -25 |
| Carrying value at end of year | -107 | -66 |

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 | 2020 | 2019 |
|--------------------------------------|--------------|--------------|
| <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 | 2,325 | 1,785 |
| Reversal of appropriation | -125 | -60 |
| Appropriation current year | 475 | 600 |
| Total | 2,675 | 2,325 |
| Carrying value at end of year | 2,675 | 2,325 |



14 Other provisions

Non-current and current provisions at December 31 comprised the following:

| Other provisions | 2020 | 2019 |
|--------------------------------------|-----------|-----------|
| Pension obligations | 64 | 69 |
| Deferred compensation | 29 | 28 |
| Other operating provisions | 0 | 1 |
| Carrying value at end of year | 93 | 98 |
| Whereof total non-current | 88 | 93 |
| Whereof total current | 5 | 5 |

Movements in provisions during the year were as follows:

| 2020 | Pension obligations | Deferred compensation | Other operating provisions | Total |
|--|---------------------|-----------------------|----------------------------|-----------|
| Carrying value at beginning of year | 69 | 28 | 1 | 98 |
| Provisions made during the year | 3 | 17 | - | 20 |
| Provisions used during the year | 0 | - | - | 0 |
| Provisions reversed during the year and changes in estimates | -9 | 0 | -1 | -10 |
| Provisions reclassified to accrued expenses | - | -15 | - | -15 |
| Carrying value at end of year | 64 | 29 | 0 | 93 |

| 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 |

Pension obligations

Pension obligations refer 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 refers to a pension trust for former employees in the divested Swedish Match UK Ltd. Due to changes in assumptions, the updated valuation at year-end reflected a decreased pension obligation for the UK plan. Payments relating to the pension obligations later than five years after balance sheet date are calculated to an amount of 31 MSEK.

Deferred compensation

Deferred compensation referred to long term incentive plans for certain managers which will be settled within three years.

Other operating provisions

Other operating provisions referred to special payroll tax on pension obligations.

15 Bond loans

Bond loans issued under the GMTN program that are due for payment later than five years after the balance sheet date amounted to 4,411 MSEK (3,541). Bond loans issued in foreign currency and floating interest rate are hedged by cross currency interest rate swaps to convert borrowing into SEK and fixed interest rates.

| Year | MSEK |
|--------------|--------------|
| 2026 | 999 |
| 2027 | 3,010 |
| 2028 | 402 |
| Total | 4,411 |

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 210 MSEK (0).

17 Accrued expenses and deferred income

| Accrued expenses and deferred income | 2020 | 2019 |
|--|------------|------------|
| Accrued interest expenses | 168 | 125 |
| Accrued incentives including social security charges | 39 | 41 |
| Accrued social security charges | 5 | 6 |
| Accrued vacation pay | 3 | 2 |
| Personnel expenses | 0 | 0 |
| Other accrued expenses | 2 | 4 |
| Deferred income | 0 | 1 |
| Carrying value at end of year | 218 | 180 |



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, 2020.

Carrying value and fair value

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

| 2020 | 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 | - | - | 459 | - | 459 | 459 |
| Receivables on Group companies | 2,416 | - | - | - | 2,416 | 2,416 |
| Other current receivables | - | - | - | 103 | 103 | 103 |
| Prepaid expenses and accrued income ¹⁾ | - | - | 1 | 35 | 36 | 36 |
| Cash and cash equivalents | 250 | - | - | - | 250 | 250 |
| Total assets | 2,666 | - | 460 | 138 | 3,264 | 3,264 |
| Loans and borrowings | - | 15,363 | - | - | 15,363 | 15,713 |
| Other liabilities | - | - | 213 | 2 | 215 | 215 |
| Liabilities to Group companies (current) | - | 4,064 | - | - | 4,064 | 4,064 |
| Accrued expenses and deferred income ¹⁾ | - | 122 | 46 | 50 | 218 | 218 |
| Trade payables | - | 9 | - | - | 9 | 9 |
| Total liabilities | - | 19,558 | 259 | 52 | 19,869 | 20,219 |

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 | - | 460 | - | 460 |
| Derivative financial liabilities | - | 259 | - | 259 |

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 |



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

| | Gross amount for financial instruments | Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement | Net |
|---------------------------|--|--|-----|
| 2020 | | | |
| Derivatives – Assets | 460 | -134 | 326 |
| Derivatives – Liabilities | 259 | -134 | 124 |

| | Gross amount for financial instruments | Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement | Net |
|---------------------------|--|--|-----|
| 2019 | | | |
| Derivatives – Assets | 758 | -16 | 741 |
| Derivatives – Liabilities | 21 | -16 | 5 |

20 Operating lease agreements

Total expense for operating lease agreements for 2020 amounted to 14 MSEK (17). 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 | 2020 | 2019 |
|------------------------|-----------|-----------|
| Within one year | 19 | 15 |
| Between 1–5 years | 48 | 1 |
| Later than 5 years | – | – |
| Total | 67 | 16 |

Certain parts of the leased premises are sub-leased to a subsidiary of Swedish Match AB. 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 referred to endowment insurance policies pledged as security for pension obligations amounting to 128 MSEK (106).

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 | 2020 | 2019 |
|--------------------------------------|------------|-----------|
| Guarantees on behalf of subsidiaries | 291 | 71 |
| Total | 291 | 71 |

22 Distribution of earnings

Proposed distribution of earnings

| | | |
|--|------------|-----------------------|
| Dividend (15.00 SEK based on 158,407,083 shares) | SEK | 2,376,106,245 |
| Retained earnings to be carried forward | SEK | 9 077 802 272 |
| Total amount | SEK | 11,453,908,517 |

23 Related parties

| | Subsidiaries | |
|--|--------------|--------------|
| Summary of transactions with related parties | 2020 | 2019 |
| Revenues | | |
| Dividends | 4,185 | 97 |
| Group contribution | 2,406 | 2,913 |
| Sale of services | 27 | 42 |
| Rental income | 12 | 12 |
| Expenses | | |
| Group contribution | -14 | -43 |
| Interest expenses | -32 | -19 |
| Purchase of goods/services | -44 | -33 |
| Receivables | 2,416 | 2,928 |
| Liabilities | 4,064 | 7,149 |
| Contingent liabilities | 291 | 71 |

Transactions with related parties are determined at an arms-length basis. For remunerations to key management personnel, see *Note 5 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 services, with the Group's associated companies amounted to – MSEK (1). Receivables, at the end of the year, amounted to – MSEK (1).



24 Supplementary information to cash flow statement

| | 2020 | 2019 |
|--|--------------|-------------|
| Interest paid and received and dividend received | | |
| Dividend received | 4,185 | 97 |
| Interest paid, non-Group companies | -261 | -277 |
| Interest paid, Group companies | -32 | -19 |
| Total | 3,892 | -199 |

Interest payments and interest receipts are reflected in cash flow from operations.

| | 2020 | 2019 |
|--|------------|-----------|
| Adjustments for non cash items and other | | |
| Depreciation | 0 | 1 |
| Write-down of subsidiaries | 287 | - |
| Change in accrued interest | 48 | 1 |
| Change in pension provision | -11 | 17 |
| Exchange rate differences | - | 1 |
| Total | 324 | 19 |

| | 2020 | 2019 |
|--------------------------------------|------------|------------|
| Cash and cash equivalents | | |
| Cash and bank | 0 | 0 |
| Other current deposits ¹⁾ | 250 | 400 |
| Total | 250 | 400 |

¹⁾ Other current deposits have been classified as cash and cash equivalents based on that they are readily convertible to known amounts of cash.

Reconciliation of liabilities arising from financing activities

| | 2019 | Cash flows | Non-cash changes | | | 2020 |
|--|---------------|--------------|---------------------------------------|---------------------------|--------------------|---------------|
| | | | Adj. current portion from non-current | Foreign exchange movement | Fair value changes | |
| Long-term borrowings | 12,130 | 3,702 | -1,844 | -473 | - | 13,514 |
| Short-term borrowings | 1,300 | -1,300 | 1,844 | 6 | - | 1,849 |
| Net assets held to hedge long-term borrowings | -755 | -16 | - | 472 | 51 | -248 |
| Total liabilities from financing activities | 12,674 | 2,385 | - | 5 | 51 | 15,115 |

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, 2020 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:

| | 2020 | 2019 |
|--|------------|------------|
| Defined benefit pension plans | | |
| Present value of funded obligations | 827 | 906 |
| Fair value of separately held assets | -887 | -954 |
| Surplus, net | -60 | -48 |
| Net surplus in pension trust not recognized in balance sheet | 92 | 91 |
| Net pension liability recognized in the balance sheet | 32 | 43 |

Specification of movements in the net liability recognized in the balance sheet attributable to pension:

| | 2020 | 2019 |
|--|-----------|-----------|
| Net pension liability | | |
| Balance at beginning of year | 43 | 26 |
| Benefits paid | 20 | 9 |
| Contribution received from pension trust | -20 | -9 |
| Change in pension provision | -11 | 17 |
| Balance at end of year | 32 | 43 |

92 MSEK (87) of the total net pension asset is covered by "Tryggandelagen".

Specification of expenses and income attributable to pension:

| | 2020 | 2019 |
|---|-----------|------------|
| Defined benefit pension plans | | |
| Difference between contribution received from pension trust and benefits paid | 0 | 0 |
| Interest cost on obligation | -16 | -22 |
| Actual return on separately held assets | 47 | 96 |
| Change in pension provision | 11 | -17 |
| Net income for pension | 42 | 57 |
| Pensions covered by insurance premiums: | | |
| Costs for pension insurance premiums recognized in income statement | -17 | -16 |
| Change in surplus in pension trust | -31 | -74 |
| Net pension costs recognized in income statement attributable to pension | -6 | -33 |

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 4.9 percent (11.3 percent).

Separately held assets of the pension trusts are comprised as follows:

| | 2020 | 2019 |
|------------------------|------------|------------|
| Separately held assets | | |
| Debt instruments | 72 | 115 |
| Equity securities | 130 | 134 |
| Other ¹⁾ | 684 | 705 |
| Total | 887 | 954 |

¹⁾ Large part refers 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 1.3 percent (1.8).

A contribution to the UK pension plan will be paid during the first quarter of 2021 in an amount of approximately 5 MSEK.



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 2020-01-01 – 2020-12-31. The annual accounts and consolidated accounts of the Company are included on pages 9, 26–28, 66–67 and 71–122 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 2020 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 2020 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 audit committee 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 2,237 as of 31 December 2020. 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 by CGU, as required under accounting standards, which was based on a value in use calculation. Such calculations are based on management's judgements 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 11 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 identifying indicators of impairment;
- evaluated and challenged key assumptions in management's valuation model 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 valuation model used by management, 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–8, 10–25, 29–65, 68–70, 126–130 and 144–146. 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 2020-01-01 – 2020-12-31 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/revisornansvar. 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 2020-04-02 and has been the company's auditor since 2017-05-04.

Stockholm, March 15, 2021

Deloitte AB

Peter Ekberg
Authorized public accountant



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| Condensed consolidated income statement, MSEK | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---------------|---------------|---------------|----------------------------|----------------------------|
| Sales | 16,698 | 14,739 | 12,966 | 11,751¹⁾ | 11,222¹⁾ |
| Gross profit | 10,947 | 9,363 | 8,133 | 7,396 | 7,226 |
| Larger one-time items | – | –367 | – | 373 | 2,254 |
| Operating profit | 6,991 | 5,307 | 4,812 | 4,592 | 6,420 |
| Net finance cost | –347 | –247 | –281 | –240 | –431 |
| Profit before income tax | 6,644 | 5,060 | 4,531 | 4,353 | 5,988 |
| Profit for the year | 4,888 | 3,896 | 3,578 | 3,400 | 5,123 |
| EBITDA ²⁾ | 7,580 | 6,222 | 5,227 | 4,600 | 4,504 |

¹⁾ Financial statements for 2017 have been restated in accordance with IFRS 15. For the period 2016, sales have for reasons of comparability been restated to reflect revenue recognition in accordance with agent accounting under IFRS 15. For further information about the impact from the adoption of IFRS 15, see Note 1 in the 2018 annual report.

²⁾ Excluding larger one-time items.

| Condensed consolidated balance sheets, MSEK | 2020 | 2019 | 2018 | 2017 ¹⁾ | 2016 |
|--|---------------|---------------|---------------|--------------------|---------------|
| Intangible assets | 2,237 | 2,355 | 2,708 | 2,088 | 1,250 |
| Property, plant and equipment ²⁾ | 3,633 | 3,255 | 2,941 | 2,558 | 2,543 |
| Right-of-use assets | 278 | 255 | – | – | – |
| Investments in associated companies | 42 | 42 | 24 | 22 | 122 |
| Other non-current assets and operating receivables | 20 | 18 | 19 | 22 | 23 |
| Other non-current financial assets and receivables ³⁾ | 1,556 | 1,826 | 1,420 | 1,254 | 4,450 |
| Total non-current assets | 7,765 | 7,750 | 7,113 | 5,944 | 8,387 |
| Other current financial receivables | 219 | 195 | 226 | 263 | 251 |
| Current operating assets and receivables | 3,732 | 3,905 | 3,762 | 3,171 | 3,333 |
| Cash and cash equivalents | 3,411 | 2,370 | 2,886 | 3,998 | 3,364 |
| Total current assets | 7,362 | 6,471 | 6,874 | 7,432 | 6,948 |
| Assets held for sale ⁴⁾ | 28 | 16 | – | – | – |
| Total assets | 15,155 | 14,237 | 13,987 | 13,376 | 15,335 |
| Equity attributable to equity holders of the Parent | –7,814 | –6,324 | –5,611 | –4,202 | –1,366 |
| Non-controlling interests | 16 | 16 | 16 | 1 | 1 |
| Total equity | –7,798 | –6,308 | –5,595 | –4,201 | –1,365 |
| Non-current financial provisions | 1,268 | 1,228 | 1,186 | 1,200 | 1,168 |
| Non-current loans | 13,514 | 12,130 | 12,282 | 10,277 | 8,169 |
| Other non-current financial liabilities ⁵⁾ | 1,926 | 1,626 | 1,140 | 1,218 | 1,613 |
| Other non-current operating liabilities | 485 | 434 | 415 | 368 | 369 |
| Total non-current liabilities | 17,194 | 15,417 | 15,024 | 13,063 | 11,318 |
| Current loans | 1,850 | 1,300 | 1,229 | 1,253 | 2,047 |
| Other current financial liabilities ⁶⁾ | 653 | 715 | 245 | 534 | 321 |
| Other current operating liabilities | 3,257 | 3,112 | 3,085 | 2,727 | 3,013 |
| Total current liabilities | 5,759 | 5,127 | 4,559 | 4,514 | 5,382 |
| Total liabilities | 22,953 | 20,544 | 19,582 | 17,577 | 16,700 |
| Total equity and liabilities | 15,155 | 14,237 | 13,987 | 13,376 | 15,335 |

¹⁾ Restated in accordance with IFRS 15.

²⁾ Includes forest plantations.

³⁾ Includes pension assets and derivatives financial instruments and shares in STG recognized as financial assets in 2016.

⁴⁾ Assets held for sale refers to land. 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.

⁶⁾ Includes short term derivatives financial instruments.

| Condensed consolidated cash flow, MSEK | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|--------------|--------------|---------------|--------------|--------------|
| Net cash from operating activities | 5,607 | 5,080 | 3,705 | 3,402 | 2,929 |
| Net cash used in/from investing activities | –1,173 | –815 | –1,204 | 1,594 | 3,408 |
| Net cash transferred to shareholders | –5,119 | –4,766 | –5,423 | –5,498 | –6,771 |
| Net cash used in/from other financing activities | 2,000 | –38 | 1,727 | 1,215 | 2,007 |
| Net decrease/increase in cash and cash equivalents | 1,315 | –539 | –1,195 | 713 | 1,573 |
| Cash and cash equivalents at beginning of the year | 2,370 | 2,886 | 3,998 | 3,364 | 1,732 |
| Effects of exchanges rate fluctuations on cash and cash equivalents | –274 | 23 | 83 | –79 | 59 |
| Cash and cash equivalents at end of year | 3,411 | 2,370 | 2,886 | 3,998 | 3,364 |



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| Key data ¹⁾ | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---------------------|--------|--------|-------|-------|
| Net debt, MSEK | 13,523 | 11,925 | 10,843 | 8,183 | 7,941 |
| Investments in property, plant and equipment, MSEK | 1,126 | 720 | 649 | 369 | 537 |
| Operating margin from product segments, % ²⁾ | 43.8 | 40.5 | 39.0 | 37.9 | 37.9 |
| Operating margin, % ²⁾³⁾ | 41.9 | 36.0 | 37.1 | 39.1 | 57.2 |
| EBITA interest cover | 21.4 | 23.4 | 17.5 | 12.6 | 10.1 |
| Net debt/EBITA | 1.9 | 2.1 | 2.2 | 1.9 | 1.9 |
| <i>Share data</i> | | | | | |
| Share capital, MSEK | 390 | 390 | 390 | 390 | 390 |
| Ordinary dividend per share, SEK | 15.00 ⁴⁾ | 12.50 | 10.50 | 9.20 | 8.50 |
| Special dividend per share, SEK | - | - | - | 7.40 | 7.50 |
| Earnings per share basic and diluted, SEK | | | | | |
| Including larger one-time items | 30.38 | 23.22 | 20.63 | 18.88 | 27.38 |
| Including larger one-time items and excluding income from STG | 30.38 | 23.22 | 20.63 | 18.38 | 26.44 |
| Excluding larger one-time items and income from STG | 32.16 | 25.41 | 20.63 | 16.40 | 14.39 |

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 2016, the year has 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 | 2020 | 2019 | 2018 | 2017 ¹⁾ | 2016 ¹⁾ |
|---------------------------------|---------------|---------------|---------------|--------------------|--------------------|
| Smokefree | 10,651 | 8,914 | 7,477 | 6,661 | 6,449 |
| Cigars | 4,533 | 4,249 | 3,890 | 3,457 | 3,111 |
| Lights | 1,149 | 1,200 | 1,246 | 1,291 | 1,314 |
| Sales from segments | 16,332 | 14,363 | 12,612 | 11,410 | 10,875 |
| Other operations | 366 | 376 | 353 | 342 | 348 |
| Sales | 16,698 | 14,739 | 12,966 | 11,751 | 11,223 |

¹⁾ 2017 has been restated in accordance with IFRS 15. For the period 2016, the year has 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 | 2020 | 2019 | 2018 | 2017 ¹⁾ | 2016 ¹⁾ |
|---|--------------|--------------|--------------|--------------------|--------------------|
| Smokefree | 5,142 | 3,997 | 3,317 | 2,798 | 2,641 |
| Cigars | 1,796 | 1,577 | 1,412 | 1,314 | 1,262 |
| Lights | 222 | 238 | 189 | 211 | 219 |
| Operating profit from product segments | 7,160 | 5,812 | 4,918 | 4,323 | 4,122 |
| Other operations | -169 | -137 | -106 | -104 | -132 |
| Share of net profit/loss in STG | - | - | - | - | 176 |
| 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 | - |
| Capital gain from sale of land | - | - | - | 107 | - |
| Impairment charge – European chewing tobacco business | - | -367 | - | - | - |
| Operating profit | 6,991 | 5,307 | 4,812 | 4,592 | 6,420 |

¹⁾ 2017 has been restated in accordance with IFRS 15. For the period 2016, the year has for reasons of comparability been restated to reflect revenue recognition in accordance with agent accounting under IFRS 15.

| Operating margin by product segments, % | 2020 | 2019 | 2018 | 2017 ¹⁾ | 2016 |
|---|-------------|-------------|-------------|--------------------|-------------|
| Smokefree | 48.3 | 44.8 | 44.4 | 42.0 | 40.9 |
| Cigars | 39.6 | 37.1 | 36.3 | 38.0 | 40.6 |
| Lights | 19.3 | 19.8 | 15.2 | 16.4 | 16.7 |
| Operating margin from product segments | 43.8 | 40.5 | 39.0 | 37.9 | 37.9 |

¹⁾ Restated in accordance with IFRS 15.



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Restatement of quarterly prior periods financial information

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

| Condensed consolidated income statements, MSEK | 2020 | | | | 2019 | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Sales | 4,136 | 4,400 | 4,133 | 4,029 | 3,933 | 3,829 | 3,719 | 3,258 |
| Gross profit | 2,677 | 2,990 | 2,672 | 2,607 | 2,482 | 2,489 | 2,369 | 2,023 |
| Operating profit | 1,650 | 2,048 | 1,693 | 1,601 | 1,098 | 1,586 | 1,434 | 1,190 |
| Net financial cost | -80 | -105 | -84 | -78 | -59 | -60 | -60 | -69 |
| Profit before income tax | 1,570 | 1,943 | 1,609 | 1,523 | 1,039 | 1,526 | 1,374 | 1,121 |
| Profit for the period | 1,244 | 1,222 | 1,254 | 1,168 | 756 | 1,180 | 1,080 | 880 |
| EBITDA¹⁾ | 1,796 | 2,193 | 1,841 | 1,749 | 1,615 | 1,725 | 1,566 | 1,316 |
| ¹⁾ Excluding larger one-time items. | | | | | | | | |
| Key data | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Operating margin, % | 39.9 | 46.5 | 41.0 | 39.7 | 37.3 | 41.4 | 38.5 | 36.5 |
| Investments in property, plant and equipment, MSEK | 379 | 231 | 324 | 192 | 173 | 191 | 177 | 180 |
| Earnings per share, basic SEK | 7.82 | 7.61 | 7.77 | 7.18 | 4.62 | 7.04 | 6.39 | 5.17 |
| Sales by product segments, MSEK | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Smokefree | 2,606 | 2,842 | 2,695 | 2,508 | 2,475 | 2,315 | 2,261 | 1,863 |
| Cigars | 1,152 | 1,184 | 1,069 | 1,128 | 1,040 | 1,117 | 1,095 | 996 |
| Lights | 288 | 277 | 275 | 309 | 323 | 298 | 266 | 314 |
| Sales from product segments | 4,045 | 4,303 | 4,039 | 3,945 | 3,838 | 3,729 | 3,622 | 3,174 |
| Other operations | 91 | 97 | 94 | 84 | 95 | 100 | 98 | 84 |
| Sales | 4,136 | 4,400 | 4,133 | 4,029 | 3,933 | 3,829 | 3,719 | 3,258 |
| Operating profit by product segments, MSEK | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Smokefree | 1,168 | 1,519 | 1,301 | 1,154 | 1,060 | 1,093 | 1,039 | 805 |
| Cigars | 481 | 499 | 378 | 438 | 359 | 423 | 411 | 384 |
| Lights | 46 | 57 | 52 | 67 | 100 | 88 | 6 | 43 |
| Operating profit from product segments | 1,695 | 2,075 | 1,731 | 1,659 | 1,520 | 1,603 | 1,456 | 1,233 |
| Other operations | -45 | -28 | -38 | -58 | -54 | -18 | -22 | -43 |
| Operating profit | 1,650 | 2,048 | 1,693 | 1,601 | 1,465 | 1,586 | 1,434 | 1,190 |
| Operating margin by product segments, % | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Smokefree | 44.8 | 53.5 | 48.3 | 46.0 | 42.8 | 47.2 | 46.0 | 43.2 |
| Cigars | 41.7 | 42.2 | 35.4 | 38.8 | 34.5 | 37.9 | 37.5 | 38.6 |
| Lights | 16.0 | 20.5 | 18.9 | 21.7 | 31.1 | 29.4 | 2.3 | 13.8 |
| Operating margin from product segments | 41.9 | 48.2 | 42.9 | 42.1 | 39.6 | 43.0 | 40.2 | 38.8 |
| EBITDA by product segments, MSEK | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Smokefree | 1,269 | 1,617 | 1,401 | 1,252 | 1,159 | 1,185 | 1,124 | 885 |
| Cigars | 503 | 520 | 400 | 460 | 381 | 444 | 432 | 405 |
| Lights | 54 | 67 | 62 | 78 | 111 | 99 | 17 | 55 |
| EBITDA from product segments | 1,826 | 2,204 | 1,863 | 1,790 | 1,651 | 1,728 | 1,574 | 1,344 |
| EBITDA margin by product segments, % | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Smokefree | 48.7 | 56.9 | 52.0 | 49.9 | 46.8 | 51.2 | 49.7 | 47.5 |
| Cigars | 43.6 | 43.9 | 37.4 | 40.8 | 36.6 | 39.8 | 39.5 | 40.6 |
| Lights | 18.8 | 24.1 | 22.7 | 25.2 | 34.3 | 33.3 | 6.5 | 17.4 |
| EBITDA margin from product segments | 45.1 | 51.2 | 46.1 | 45.4 | 43.0 | 46.3 | 43.5 | 42.4 |
| Depreciation, amortization and impairments, MSEK | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Property, plant and equipment | 105 | 103 | 106 | 105 | 108 | 101 | 95 | 89 |
| Right-of-use assets | 23 | 23 | 23 | 22 | 23 | 22 | 21 | 21 |
| Intangible assets | 18 | 19 | 20 | 21 | 19 | 16 | 16 | 16 |
| Total | 146 | 145 | 149 | 148 | 150 | 140 | 133 | 126 |
| Net finance cost, MSEK | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Interest income | 5 | 7 | 8 | 30 | 17 | 21 | 28 | 24 |
| Interest expense | -91 | -109 | -93 | -87 | -82 | -82 | -82 | -90 |
| Net interest expense | -86 | -102 | -85 | -57 | -64 | -60 | -55 | -66 |
| Other finance costs, net | 6 | -3 | 1 | -21 | 6 | 0 | -5 | -3 |
| Total net finance cost | -80 | -105 | -84 | -78 | -59 | -60 | -60 | -69 |



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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 (%) | $100 \times \text{Dividend (proposed after year-end)} \div \text{Adjusted earnings per share from continuing operations, basic}$ | Used as a measure of the percentage of net profits distributed as a dividend to shareholders. |
| Dividend yield (%) | $100 \times \text{Dividend (proposed after year-end)} \div \text{Share price at year-end}$ | 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 shareholders, 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 | $(\text{Market capitalization} + \text{Net debt} + \text{Non-controlling interest}) \div \text{Operating profit}$ | 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, intangible and right-of-use assets | Used as an alternative measure of operating performance that is not impacted by historical investments and the related accounting treatment of such investments as well as items which impact comparability between periods. |
| EBITDA from product segments | Operating profit from product segments excluding depreciation, amortization and impairments of tangible, intangible and right of use assets | Used as an alternative measure of operating performance for the core commercial businesses of Swedish Match, that is not impacted by historical investments and the related accounting treatment of such investments as well as items which impact comparability between periods. |
| 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 12 months rolling | The aggregated profit excluding larger one-time items, net finance cost, tax, amortization and impairments of intangible assets for the 12-month period preceding the closing date | Used as a measure of operating performance relative to the financial obligations of the Group. |
| EBITA interest cover | $\text{EBITA} \div (\text{Interest expense} - \text{Interest income})$ | Used as a measure of the ability to fund interest expenses. |
| Net debt | Current and non-current loans, adjusted for components of derivatives (assets and liabilities) relating to these loans + net provisions for pensions and similar obligations + current and non-current lease liabilities - cash and cash equivalents and other short-term investments | Used as a measure of net financial obligations. |
| Net debt/EBITA | $\text{Net debt} \div \text{EBITA}$ | Used as an indication of the duration (in years) required to fund existing net financial obligations with free cash flows from the ongoing business. |
| Adjusted earnings per share | $\text{Profit for the period excluding larger one-time items net of tax} \div \text{Average number of shares outstanding}$ | Used as an alternative measure of earnings per share which is not affected by items which impact comparability between periods. |
| 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. |



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DEFINITIONS *Continued*

Dividend pay-out ratio (%)

| SEK | 2020 | 2019 |
|---|-----------|-----------|
| Dividend per share (proposed after year-end) | 15.00 | 12.50 |
| Adjusted earnings per share from continuing operations, basic | 32.16 | 25.41 |
| Dividend pay-out ratio (%) | 47 | 49 |

Dividend yield (%)

| SEK | 2020 | 2019 |
|--|-------------|-------------|
| Dividend per share (proposed after year-end) | 15.00 | 12.50 |
| Share price at year-end | 637.8 | 482.8 |
| Dividend yield (%) | 2.35 | 2.59 |

Total return (%)

| SEK | 2020 | 2019 |
|-----------------------------------|-------------|-------------|
| Share price at year-end | 637.8 | 482.8 |
| Dividend paid | 12.0 | 10.50 |
| Return on reinvested dividend | 1.3 | 0.8 |
| Share price at preceding year-end | 482.8 | 349.1 |
| Total return (%) | 35.0 | 41.5 |

P/E ratio

| SEK | 2020 | 2019 |
|--|-------------|-------------|
| Share price at year-end | 637.8 | 482.8 |
| Earnings per share from continuing operations, basic | 30.38 | 23.22 |
| P/E ratio | 21.0 | 20.8 |

EBIT multiple

| MSEK | 2020 | 2019 |
|--------------------------|-------------|-------------|
| Market capitalization | 101,032 | 78,807 |
| Net debt | 13,523 | 11,925 |
| Non-controlling interest | 16 | 16 |
| Operating profit | 6,991 | 5,307 |
| EBIT Multiple | 16.4 | 17.1 |

EBITA and EBITDA

| MSEK | 2020 | 2019 |
|---|--------------|--------------|
| Profit for the period | 4,888 | 3,895 |
| Income tax expense | 1,756 | 1,165 |
| Net finance cost | 347 | 247 |
| Operating profit for the period | 6,991 | 5,307 |
| Amortization and impairment of intangible assets ¹⁾ | 77 | 435 |
| EBITA | 7,068 | 5,742 |
| Depreciation and impairment of tangible and right-of-use assets | 511 | 480 |
| EBITDA | 7,580 | 6,222 |

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

EBITDA and EBITDA margin from product segments

| MSEK | 2020 | 2019 |
|---|--------------|--------------|
| Operating profit for the period | 6,991 | 5,307 |
| Less operating loss from Other operations | 169 | 137 |
| Less larger one-time items | - | 367 |
| Operating profit from product segments | 7,160 | 5,812 |
| Amortization, depreciation and impairment of intangible, tangible and right-of-use assets ¹⁾ | 588 | 548 |
| Less amortization, depreciation and impairment of intangible, tangible and right-of-use assets for Other operations | -65 | -64 |
| EBITDA from product segments | 7,684 | 6,296 |
| Sales from product segments | 16,332 | 14,363 |
| EBITDA margin from product segments, % | 47.0 | 43.8 |

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

Larger one-time items

| MSEK | 2020 | 2019 |
|--|-------------|-------------|
| Impairment charge – European chewing tobacco business | - | -367 |
| Total larger one-time items in operating profit | - | -367 |
| Tax charge including interest related to an adverse ruling in a tax case in Sweden | -286 | - |
| Total larger one-time items in net profit | -286 | -367 |

Adjusted earnings per share

| Basic and diluted | 2020 | 2019 |
|--|--------------|--------------|
| Profit for the period attributable to equity holders of the Parent, MSEK | 4,888 | 3,895 |
| Impairment charge – European chewing tobacco business, MSEK | - | 367 |
| Tax charge including interest, MSEK | 286 | - |
| Profit for the period attributable to equity holders of the Parent, excl. larger one-time items, MSEK | 5,174 | 4,263 |
| Weighted average number of shares outstanding | 160,866,537 | 167,779,742 |
| Adjusted earnings per share, SEK | 32.16 | 25.41 |

EBITA interest cover

| MSEK | 2020 | 2019 |
|-----------------------------|-------------|-------------|
| EBITA | 7,068 | 5,742 |
| Interest income | 49 | 91 |
| Interest expense | -379 | -336 |
| EBITA interest cover | 21.4 | 23.4 |

Net debt/EBITA

| MSEK | 2020 | 2019 |
|-------------------------|------------|------------|
| Net debt | 13,523 | 11,925 |
| EBITA 12 months rolling | 7,068 | 5,742 |
| Net debt/EBITA | 1.9 | 2.1 |

Net debt

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

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

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

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

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

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

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

Market capitalization

| MSEK | 2020 | 2019 |
|--|--------------|-------------|
| Share price at year-end, SEK | 637.8 | 482.8 |
| Number of shares outstanding at year-end | 158,407,083 | 168,228,313 |
| Market capitalization, billions SEK | 101.0 | 78.8 |



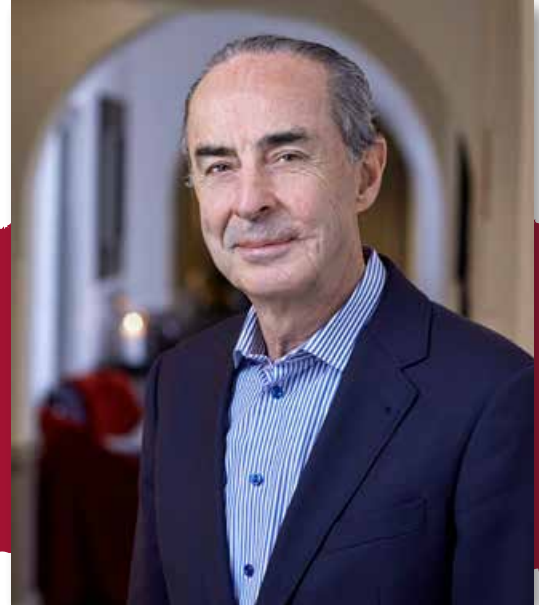
CORPORATE GOVERNANCE





Chairman's comment

“ Swedish Match continued to generate strong cash returns, while also investing what is needed to support its business.”



While every year brings new challenges and opportunities, 2020 will be remembered as a year of determination and fortitude in the face of a worldwide pandemic. Every family, every employee, and every customer has had to cope with profound change in their daily life, and most sadly, many have suffered the loss of a family member, loved one, friend, or colleague. Still, the world moves on, and I am filled with admiration and respect for all of the teams at Swedish Match. Their perseverance, passion, and commitment, and their continued work toward the Swedish Match vision of a world without cigarettes has helped to enable the Company to be stronger than ever, providing customers and consumers with a broad range of outstanding products and building on its strengths and strong relationships.

This annual report highlights many of the activities of the past year, in addition to providing some insight to key drivers of the financial results. Swedish Match demonstrated that through its focus on the consumer, product development, quality, strong customer relationships, and listening to consumers, along with flexibility in the face of extraordinarily dynamic market conditions, the Company has a strong platform for success. On the sustainability front, the commitment to improving public health is evident, with the continued portfolio shift toward its smokefree businesses, and the establishment of ZYN nicotine pouches as the largest single brand of nicotine pouches on the US market and in the world. More than that, the Company continues to work toward the goals of its other sustainability focus areas, maintaining high standards of corporate governance, business ethics, a commitment to reducing greenhouse gas emissions, and so much more, while reinforcing its strong core values.

While the COVID pandemic necessarily required changes to many of the programs and plans during the year, progress continued on ZYN expansion projects, not only in the US. Plans and projects to increase production for nicotine pouches met, and in some cases

progressed ahead of schedule. Even with some temporary factory closures and border closures, the vast majority of the portfolio was delivered to customers in full and on time. Nicotine pouches were offered in more shops and in new countries. Swedish Match is now working to build on its success by expanding its smokefree portfolio into new markets.

Swedish Match continued to generate strong cash returns, while also investing what is needed to develop its business. 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 15.00 SEK per share, as well as a share split 10:1. We in the Board actively engage with Swedish Match's management, not only in keeping abreast of the work of the Company, but also, through our various board committees, helping to provide input and guidance with the support of a broad and balanced background of both businesses and functional areas among our Board members. I would like to thank you, our shareholders, for your trust and support of the Company, and your participation in helping to ensure a strong, well governed, and sustainable business.

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 2020, 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 162,200,000 shares at the end of 2020. Each share carries one vote. On December 31, 2020, 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 66–67 of the 2020 Annual Report.

Annual General Meeting 2021

Swedish Match's 2021 Annual General Meeting will be held on April 13. In light of the continued COVID-19 pandemic, the Annual General Meeting will be conducted pursuant to so called mail-in procedures,

meaning that no shareholders will attend the General Meeting in person or through proxy. Instead, all shareholders who have been entered in the share register can participate in the Annual General Meeting by voting according to the number of shares held and submitting questions in advance. 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 2021

The Nominating Committee for the Annual General Meeting in 2021 was announced on the Company's website on September 25, 2020. 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), Roseanna Ivory (Aberdeen Standard Investments), Dan Juran (Framtiden Management Company, LLC), and David Pawelkowski (Zadig Asset Management 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.

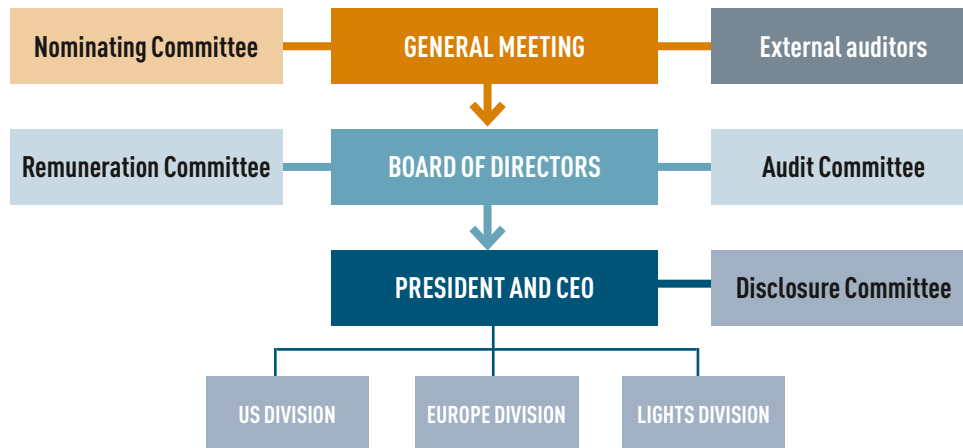
²⁾ Available on Swedish Corporate Governance Board's website www.corporategovernanceboard.se.

³⁾ Source: Euroclear Sweden AB.

⁴⁾ More information is available on Swedish Match's website www.swedishmatch.com/agma.



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 responsible for establishing Swedish Match's strategic and financial Long Range Plan, monitoring the performance of the operations 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 2020

ANNUAL GENERAL MEETING 2020

In 2020, the Annual General Meeting was held on April 2. The minutes of the meeting are available on the Company's website www.swedishmatch.com/agm.

The Annual General Meeting 2020 passed the following resolutions, amongst others:

- A dividend of 12.50 SEK per share for the 2019 fiscal year.
- Re-election of Charles A. Blixt, Andrew Cripps, Jacqueline Hoogerbrugge, Conny Karlsson, Pauline Lindwall, Wenche Rolfsen, and Joakim Westh as Board members. Alexander Lacik was elected as new member of the Board. Re-election of Conny Karlsson as Chairman of the Board and Andrew Cripps as deputy Chairman of the Board.
- The Chairman shall receive 2,165,000 SEK, the deputy Chairman shall receive 1,000,000 SEK and the other Board members elected by the Meeting shall each receive 865,000 SEK. Furthermore, as compensation for committee work carried out, it was decided to allocate 280,000 SEK to the Chairman of the Remuneration Committee, 350,000 SEK to the Chairman of the Audit Committee and to allocate 150,000 SEK to each of the other members of these committees.
- Withdrawal of 7,750,000 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.
- Guidelines for remuneration to members of the executive management.
- Adoption of income statements and balance sheets for 2019 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 66–67 of the 2020 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 2020

The Nominating Committee for the Annual General Meeting in 2020 comprised the following five 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.) as well as Conny Karlsson (the Chairman of the Board). Filippa Gerstädt 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 2020 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 2019 and 2020 Annual General Meetings combined.

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 2020, the Swedish Match Board of Directors comprised eight 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 2020 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 2020.

Since the Annual General Meeting 2020, the Board of Directors consisted of the following directors elected by the General Meeting: Conny Karlsson, Charles A. Blixt, Andrew Cripps, Jacqueline Hoogerbrugge, Alexander Lacik, Pauline Lindwall, Wenche Rolfsen, and Joakim Westh. Conny Karlsson served as Chairman of the Board. Employee representatives on the Board were, Patrik Engelbrektsson, 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 140–141 of the 2020 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 2020, 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 2020 Annual General Meeting up to and including the 2021 Annual General Meeting was paid in accordance with the resolution adopted by the 2020 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 2020, see *Note 5 Personnel*, page 90 of the 2020 Annual Report.

Activities of the Board of Directors during 2020

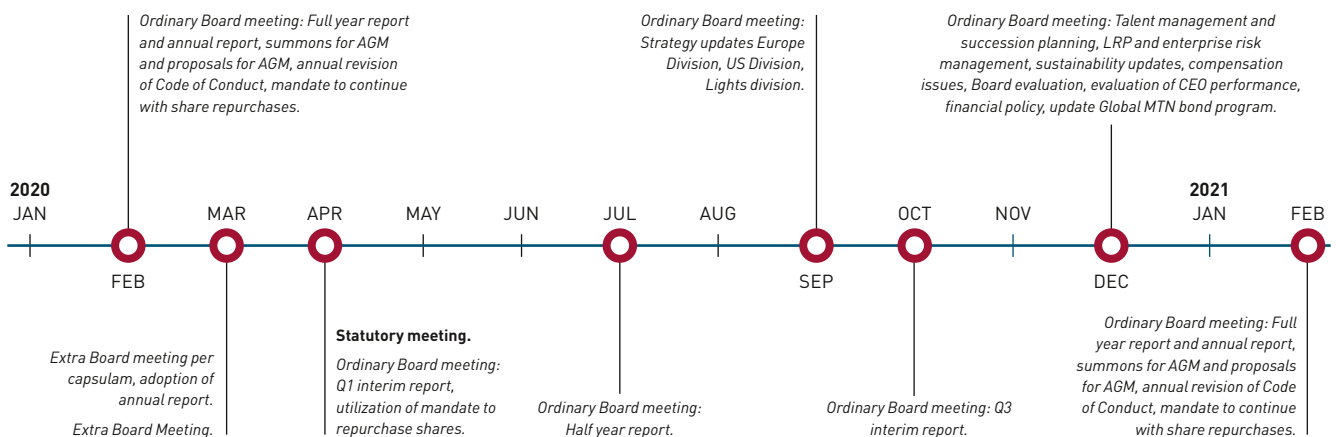
During the period from January 1, until December 31, 2020, the Board held eight scheduled meetings and one statutory meeting. During 2021 (until and including February) one Board meeting has been held.

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 meeting, a proposed agenda and, where applicable, documents relevant to the items on the agenda were sent to the Board. The

| Composition of the Board and attendance 2020 | Board of Directors | Audit Committee | Remuneration Committee | Independent ¹⁾ | Member since | Compensation, TSEK |
|---|--------------------|-----------------|------------------------|---------------------------|--------------|--------------------|
| Total number of meetings | 9 | 5 | 2 | | | |
| Members elected by the General Meeting | | | | | | |
| Conny Karlsson (Chairman) | 9 | | 2 | Yes | 2006 | 2,445 |
| Andrew Cripps (Deputy Chairman) | 9 | 5 | | Yes | 2006 | 1,150 |
| Charles A. Blixt | 8 | | 2 | Yes | 2015 | 1,005 |
| Jacqueline Hoogerbrugge | 9 | | 2 | Yes | 2015 | 1,005 |
| Alexander Lacik | 6 | | | Yes | 2020 | 865 |
| Pauline Lindwall | 9 | | | Yes | 2017 | 865 |
| Wenche Rolfsen | 9 | 5 | | Yes | 2013 | 1,015 |
| Joakim Westh | 9 | 5 | | Yes | 2011 | 1,215 |
| Employee representatives | | | | | | |
| Patrik Engelbrektsson | 8 | | | | | |
| Pär-Ola Olausson | 8 | | | | | |
| Dragan Popovic | 8 | | | | | |
| Employee representatives (deputies) | | | | | | |
| Niclas Bengtsson | 8 | | | | | |
| Niclas Ed | 8 | | | | | |
| Matthias Eklund | 8 | | | | | |

¹⁾ As defined in the Swedish Code of Corporate Governance.





Company's auditors attended the Board meeting in February 2020 to present the audit report and observations from the audit. Due to the ongoing COVID-19 pandemic the Board did not conduct any site visits or market visits during the year. One of the focus area was instead to closely monitor and follow up on the pandemic's impact on the Group's employees and the business.

Audit Committee

In 2020, 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 five meetings were held in 2020. The Company's auditor, as well as the head of the Internal Audit, participated in all meetings of the Audit Committee in 2020 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 2020 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 2020.

During 2020, the committee devoted special attention to determination of variable compensation for 2019 to be paid in 2020, and on targets relevant to variable compensation, proposals to the Board concerning adjustments of the President's salary and variable compensation for 2021, and determination of salaries and variable compensation for other members of the Group Management Team for 2021. 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 2020, the Swedish Match Group Management Team consisted of Lars Dahlgren, President and Chief Executive Officer; Richard Flaherty, President US Division (until October 1, 2020); Thomas Hayes, Chief Financial Officer and Senior Vice President, Group Finance (until July 31, 2020) and President US Division (from August 1, 2020); Anders Larsson, Chief Financial Officer and Senior Vice President, Group Finance (from August 1, 2020), 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 142 of the 2020 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 2020 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 5 Personnel*, page 90 of the 2020 Annual Report. For information concerning compensation and other benefits to the Group Management Team, see *Note 5 Personnel*, page 90 of the 2020 Annual Report.

Audit and auditors

The accounting firm Deloitte AB was elected by the General Meeting 2020 as the Company's external auditors for the period from 2020 up to and including the Annual General Meeting in 2021. During 2020, 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 2020, see *Note 6 Audit fees*, page 93 of the 2020 Annual Report.

Disclosure Committee

Members of the Disclosure Committee during 2020 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 implementation of recommended actions to improve financial controls over 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 9, 2021

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

The Board of Directors is responsible for the corporate governance statement for the financial year 2020-01-01 – 2020-12-31 on pages 131–143 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 15, 2021

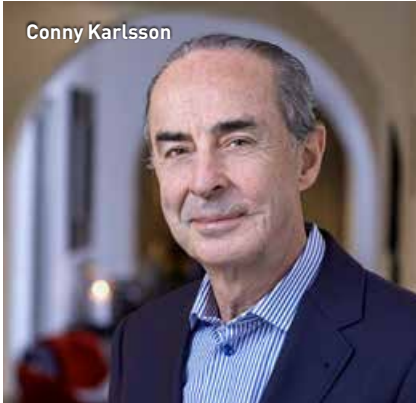
Deloitte AB

Peter Ekberg
Authorized Public Accountant



Board of Directors 2020

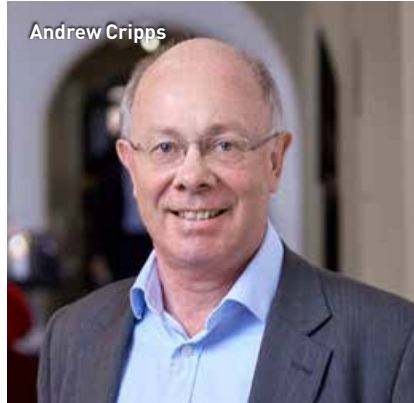
Conny Karlsson



CONNIE 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, 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, Atrum 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:* 3,750

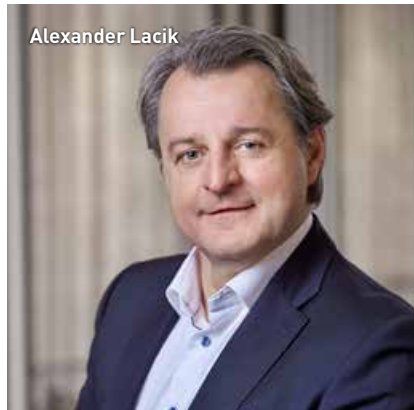
Jacqueline Hoogerbrugge



JACQUELINE HOOGERBRUGGE

Member of the Remuneration Committee. Board member since 2015. Born 1963. M.Sc. Chemical Engineering, University of Groningen. *Other board assignments:* Non-Executive Board member of Dometic AB, Broadview B.V., BA Glass I-Serviços de Gestão e Investimentos S.A. and Jumbo Groep Holding B.V. *Previous positions:* Non-Executive Director, Ikea Industry AB; 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

Alexander Lacik



ALEXANDER LACIK

Board member since 2020. Born 1965. BSc in Business Administration, Växjö högskola. Chief Executive Officer of Pandora A/S. *Other board assignments:* Board member, Coxa Carry International AB. *Previous positions:* Chief Executive Officer, Britax Ltd.; President of North America Region, Reckitt Benckiser; various international management positions, Reckitt Benckiser; positions in sales and marketing, Procter & Gamble. *Own and related parties' shares:* 1,100

Pauline Lindwall



PAULINE LINDWALL

Board member since 2017. Born 1961. BSc., Växjö högskola. *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:* 2,365

Holdings of own and related parties shares as of December 31, 2020. For a detailed report of remuneration and benefits for the Board of Directors, refer to Note 5 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, Uppsala University. *Other board assignments:* Chairman of InDex Pharmaceuticals and BioArctic AB; Board member of Cinclus Pharma AB. *Previous positions:* Vice President, Quintiles Phase I, Europe; Chief Executive Officer, 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., KTH 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. Peter Ekberg's other auditing assignments include Loomis, Fabege and SJ.

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

Alexander Lacik was elected as a new member.

Holdings of own and related parties shares as of December 31, 2020. For a detailed report of remuneration and benefits for the Board of Directors, refer to Note 5 Personnel.

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 factory in Gothenburg, Sweden. Born 1965. Logistic Technician at Swedish Match's factory in Gothenburg. *Previous positions:* Mill worker, Machine Operator, Forklift driver at Swedish Match's 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. Chairman of IF Metall's Trade Union Association at Swedish Match's factory in Tidaholm, Sweden. Born 1972. Technical support at Swedish Match's factory in Tidaholm. *Own and related parties' shares:* 0

DRAGAN POPOVIC

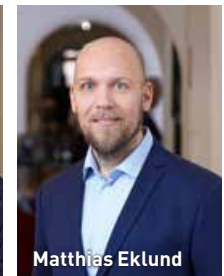
Board member since 2017. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Board member of the Swedish Association of Management and Professional Staff (Ledarna) at the factories in Gothenburg and Kungälv, Sweden. Born 1973. Area Manager Production at Swedish Match's factory in Gothenburg. *Previous positions:* Area Manager Pilot Plant and Machine Operator, at Swedish Match's 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 2020



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, Stockholm School of Economics, Sweden.

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: 44,050



Thomas Hayes

THOMAS HAYES

President, US Division, Swedish Match as of August 1, 2020. Joined Swedish Match in 2006. Member of the Group Management Team since 2017.

Born 1966. B.S. in Accounting, Wake Forest University, USA.

Previous positions: Chief Financial Officer and Senior Vice President, Group Finance, Swedish Match AB; Vice President and Chief Financial Officer, Swedish Match US Division; Chief Financial Officer, Swedish Match International Division; Contoller and Chief Accounting Officer, Chesapeake Corporation; Managing Director, PricewaterhouseCoopers.

Own and related parties' shares: 6,730



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

Holdings of own and related parties shares as of December 31, 2020. For a detailed report of remuneration and benefits for the Board of Directors, refer to Note 5 Personnel.



Anders Larsson

ANDERS LARSSON

Chief Financial Officer and Senior Vice President, Group Finance, Swedish Match as of August 1, 2020. Joined Swedish Match in 2008. Member of the Group Management Team since 2020.

Born 1982. M.Sc. in Business and Economics, Stockholm School of Economics, Sweden.

Previous positions: Vice President, Group Finance, Swedish Match AB; Vice President, Business Control, Swedish Match Scandinavian Division; Director, Group Business Control, Swedish Match AB; Business Controller, Swedish Match AB.

Own and related parties' shares: 863



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, Chalmers University of Technology and Controller, DIHM Business School, 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. Master of Laws (LLM), 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, Stockholm University, 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: 3,098



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, 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 2020

Richard Flaherty retired from his position as President US Division, on October 2, 2020.

Thomas Hayes transitioned from his position as Chief Financial Officer and Senior Vice President, Group Finance and assumed the role of President US Division, on August 1, 2020.

Anders Larsson was appointed Chief Financial Officer and Senior Vice President, Group Finance as of August 1, 2020.



Remuneration report

Introduction

This report describes how the guidelines for executive remuneration of Swedish Match AB, adopted by the annual general meeting 2020, were implemented in 2020. The report also provides information on remuneration to the CEO. The report has been prepared in accordance with the Swedish Companies Act and the Rules on Remuneration of the Board and Executive management and on Incentive Programmes issued by the Swedish Corporate Governance Board. Further information on executive remuneration is available in *Note 5 Personnel* on pages 90–93 in the annual report 2020. Information on the work of the Remuneration Committee in 2020 is set out in the corporate governance report available on pages 131–143 in the annual report 2020. Remuneration of the Board of Directors is not covered by this report, such remuneration is resolved annually by the annual general meeting and disclosed in *Note 5* on page 90 in the annual report 2020.

Key developments 2020

2020 was another year of strong top-line growth and overall impressive financial performance for Swedish Match. COVID-19 related effects on consumer demand and channel shifts are estimated to have had a net positive effect of the financial development, but the key driver for the double-digit growth in both revenues and earnings in local currencies was the successful expansion with nicotine pouches on the US market. Further details on operational and financial performance of the Group are provided in the audited 2020 annual report. There have been no deviations from the Guidelines for executive remuneration, or other adjustments such as cancellations or significant amendments to any of the incentive plans.

The Company's remuneration guidelines: scope, purpose and deviations

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.

Under the remuneration guidelines, executive remuneration shall be on market terms and may consist of the following components: fixed cash salary, variable cash remuneration, pension benefits and other benefits. The criteria for variable remuneration shall be designed to contribute to the Company's business strategy and long-term interests, including its sustainability objectives. 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 guidelines are found on pages 90–93 in the annual report 2020. The remuneration guidelines, adopted by the annual general meeting 2020, have been fully implemented. No deviations from the guidelines have been decided and no derogations from the procedure for implementation of the guidelines have been made. The auditor's report regarding the Company's compliance with the guidelines is available on www.swedishmatch.com/Corporate-Governance/. No remuneration has been reclaimed. In addition to remuneration covered by the remuneration guidelines, the annual general meeting of the Company may resolve to implement long-term share-related incentive plans. Swedish Match has no outstanding share-plans.

Table 1 – Total CEO remuneration in 2020 (TSEK)

| Name of director (position) | Fixed remuneration ¹⁾ | | Variable remuneration | | Extraordinary items ¹⁾ | Pension expense ¹⁾ | Total remuneration | Proportion of fixed and variable remuneration ⁴⁾ |
|-----------------------------|----------------------------------|----------------|---------------------------|--------------------------|-----------------------------------|-------------------------------|--------------------|---|
| | Base salary | Other benefits | One-year ^{1) 2)} | Multi-year ³⁾ | | | | |
| Lars Dahlgren (CEO) | 7,446 | 140 | 5,255 | 3,166 | Not applicable | 2,667 | 18,674 | 54.9% (fixed) 45.1% (variable) |

¹⁾ Remuneration earned in 2020. Disbursement may or may not have been made the same year.

²⁾ Includes profit sharing (45 TSEK) and short-term incentives (STI) 2020 presented in table 2a.

³⁾ Refers to LTI 2018–2020 (i.e. LTI that vested end of 2020), presented in table 2b.

⁴⁾ Pension expense is entirely calculated as fixed remuneration.

Share-based remuneration

Swedish Match has no outstanding share-based incentive plans. However, the CEO has undertaken to purchase Company shares for the award received net of income tax and retain for a period in all outstanding variable plans. For further details please refer to the section *Application of performance criteria*.

Application of performance criteria

The performance criteria for the CEO's variable remuneration have been selected to reflect successful implementation of the Company's strategy and to encourage behavior which is in the long-term interest of the company. In the selection of performance criteria, the strategic objectives as well as the short- and long-term business and sustainability related priorities have been taken into account.



Table 2(a) – Performance of the CEO in the reported financial year: One-year variable remuneration (STI 2020)

| Name of director (position) | Performance criteria | Relative weighting of performance criteria | Measured performance and Remuneration outcome (MSEK) |
|-----------------------------|---|--|--|
| Lars Dahlgren (CEO) | Group operating profit ¹⁾ | 75% | 2019 baseline: 5,673 Threshold for payout: 5,773 Threshold for maximum payout: 6,184 Performance outcome: 100% |
| | Net sales from product segments ¹⁾ | 25% | 2019 baseline: 14,382 Threshold for payout: 14,732 Threshold for maximum payout: 15,820 Performance outcome: 100% |

¹⁾ Excluding larger one-time items. Adjusting for currency effects and other factors not considered in the target setting.

In the STI 2020 plan the CEO has undertaken to purchase Company shares for 50 percent of the award received net of income tax and retain these shares for a period of at least 3 years.

Table 2(b) – Performance of the CEO in the reported financial year: Multi-year variable remuneration (LTI 2018–2020)

| Name of director (position) | Performance criteria | Relative weighting of performance criteria | Measured performance and Remuneration outcome (MSEK) |
|-----------------------------|---|--|---|
| Lars Dahlgren (CEO) | Group operating profit ¹⁾ | 75% | Threshold for payout: 12,806 Threshold for maximum payout: 14,684 Performance outcome: 100% |
| | Net sales from product segments ¹⁾ | 25% | Threshold for payout: 34,399 Threshold for maximum payout: 39,444 Performance outcome: 100% |

¹⁾ Excluding larger one-time items. Adjusting for currency effects and other factors not considered in the target setting.

In the LTI 2018–2020 plan the CEO has undertaken to purchase Company shares for 100 percent of the award received net of income tax and retain these shares for a period of at least 2 years.

Table 2(c) – Performance of the CEO in the reported financial year: Multi-year variable remuneration (LTI 2019–2021)

| Name of director (position) | Performance criteria | Relative weighting of performance criteria | Measured performance and Remuneration outcome (MSEK) |
|-----------------------------|---------------------------------|--|--|
| Lars Dahlgren (CEO) | Group operating profit | 75% | All targets are measured and disclosed end of performance period |
| | Net sales from product segments | 25% | |

In the LTI 2019–2021 plan the CEO has undertaken to purchase Company shares for 100 percent of the award received net of income tax and retain these shares for a period of at least 2 years.

Table 2(d) – Performance of the CEO in the reported financial year: share-based incentives (LTI 2020–2022)

| Name of director (position) | Performance criteria | Relative weighting of performance criteria | Measured performance and Remuneration outcome (MSEK) |
|-----------------------------|---------------------------------|--|--|
| Lars Dahlgren (CEO) | Group operating profit | 70% | All targets are measured and disclosed end of performance period |
| | Net sales from product segments | 20% | |
| | Greenhouse gas reduction | 10% | |

In the LTI 2020–2022 plan the CEO has undertaken to purchase Company shares for 100 percent of the award received net of income tax and retain these shares for a period of at least 2 years.

Comparative information on the change of remuneration and Company performance

Table 3 – Change of remuneration and company performance over the last reported financial years (RFY)¹⁾

| | RFY 2019 | RFY 2020 |
|---|----------|----------------|
| CEO remuneration ²⁾ , TSEK | 18,090 | 18,674 (+3.2%) |
| Group operating profit, MSEK | 5,307 | 6,991 (+31.7%) |
| Average remuneration ²⁾ on full time equivalent basis of employees ³⁾ in Sweden, TSEK | 618 | 625 (+1.2%) |

¹⁾ The table will be extended over time to include 5 years historical comparison.

²⁾ All compensation elements, pension and benefits are included for both CEO and employees in Sweden.

³⁾ Excluding members of the Group Management Team.



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Swedish Match's vision is *A world without cigarettes.*

*We create shareholder value
by offering adult 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.*

**Swedish Match**[®]

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