

Half Year Report January – June 2020

Q2 sales and profit growth driven by ZYN in the US

- In local currencies, sales increased by 11 percent for the second quarter. Reported sales increased by 11 percent to 4,133 MSEK (3,719).
- In local currencies, operating profit from product segments¹⁾ increased by 19 percent for the second quarter. Reported operating profit from product segments increased by 17 percent to 1,704 MSEK (1,456).
- Operating profit amounted to 1,666 MSEK (1,434) for the second quarter.
- Profit after tax amounted to 1,227 MSEK (1,080) for the second quarter.
- Earnings per share increased by 19 percent to 7.60 SEK (6.39) for the second quarter.
- The second quarter financial performance was negatively affected by COVID-19 impacts.
- ZYN continued to deliver strong volume growth contributing to higher sales and operating profit.

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



CEO Lars Dahlgren comments:

Another solid quarter, led by ZYN in the US

I am pleased to note that Swedish Match once again delivered a strong financial result in the second quarter, led by another impressive performance by ZYN nicotine pouches in the US. As we entered the second quarter, we anticipated a number of challenges resulting directly from or influenced by the COVID-19 pandemic. Firstly, our first quarter financial result benefited from distributor and retail hoarding – principally in the US – which we expected to unwind largely over the course of the second quarter. The border trade and travel retail channels in Scandinavia had effectively closed due to travel restrictions and it was uncertain how much of the volume from these channels would be recaptured in domestic or other channels. Certain of our manufacturing facilities were operating at reduced staffing levels and changes to production processes and shift patterns were just recently being implemented. And finally, we implemented additional safeguards and changes to daily working practices throughout our organization as well as changed dynamics in how we interact with our suppliers, our customers and other stakeholders. Despite these challenges, we reported double digit increases in both sales and operating profit from product segments in local currencies during the quarter compared to the prior year.

The strength of the second quarter performance was largely attributable to the continued success of ZYN in the US, with shipments in the first half of the year already exceeding total shipments for 2019. Shipment volumes for our Scandinavian smokefree business declined in the quarter versus the prior year as deliveries to travel retail and border trade outlets were severely impacted by COVID-19 travel restrictions. However, despite a significantly weaker NOK, sales for our Scandinavian smokefree business increased on positive price and mix effects, favorably impacted by exceptionally high volumes sold to the domestic market in Norway as Norwegians could not travel freely. In July, we are beginning to see shipment volumes recover somewhat within parts of the border trade and travel retail channels, but we expect that it will take time before we can note a complete recovery. For our cigar business, while the quarter reflects adverse portfolio mix effects, our ability to produce homogenized tobacco leaf varieties at our US facility was a distinct advantage for Swedish Match as we were able to increase our overall cigar shipments year on year despite reduced natural leaf cigar volumes attributable to production constraints at our Dominican Republic facility. Capacity expansion measures in the COVID-19 environment have been implemented within our cigar facilities and a fuller recovery to pre-COVID-19 production levels for our natural leaf varieties is expected by the end of the third quarter of this year. Finally, our Lights segment delivered a solid financial performance benefiting from strong match volumes, favorable mix, and cost controls within lighters.

While uncertainties persist in our markets, I am encouraged by the determination and focus of our employees in pursuit of future growth opportunities during these challenging times. Despite COVID-19 restrictions, we continued our efforts toward the introduction of ZYN in new markets, and successfully launched our redesigned ONE brand on the Swedish market. Our ZYN capacity expansion projects in both the US and Sweden are moving ahead according to plan.

Sustainability remains a key focus for Swedish Match at all times and in May of this year, MSCI, a leading ESG rating index, once again rated Swedish Match as a leader among our sector with sector-leading credentials in the area of corporate governance, product safety and quality and supply chain labor standards. I am also proud to announce that our snus manufacturing facilities in both Gothenburg and Kungälv are now fossil fuel free production sites.

Our markets remain strong but assessing the true and sustainable consumer demand is challenging given trade channel shifts and volatile distributor and wholesaler ordering patterns. Our approach during these uncertain times is to not only be diligent and agile to the changing market realities that may come with each day, but to remain focused on the long-term growth opportunities presented by our vision of a world without cigarettes.

Summary of consolidated income statement

MSEK	April-June		Chg %	January-June		Chg %	Full year 2019
	2020	2019		2020	2019		
Sales	4,133	3,719	11	8,162	6,977	17	14,739
Sales from product segments ¹⁾	4,039	3,622	12	7,984	6,795	17	14,363
Operating profit from product segments ¹⁾	1,704	1,456	17	3,356	2,689	25	5,812
Operating profit, excl. larger one-time items ²⁾	1,666	1,434	16	3,260	2,624	24	5,675
Operating profit	1,666	1,434	16	3,260	2,624	24	5,307
Profit before income tax	1,582	1,374	15	3,098	2,495	24	5,060
Profit for the period	1,227	1,080	14	2,388	1,960	22	3,896
Operating margin from product segments, % ¹⁾	42.2	40.2		42.0	39.6		40.5
Earnings per share, basic and diluted, SEK	7.60	6.39		14.74	11.56		23.22
Adjusted earnings per share, basic and diluted, SEK ²⁾	7.60	6.39		14.74	11.56		25.41

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

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

The second quarter

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

Sales

Group sales increased by 11 percent to 4,133 MSEK (3,719) and sales from product segments increased by 12 percent to 4,039 MSEK (3,622). Currency translation negatively affected the comparability of sales from product segments by 12 MSEK. The Smokefree product segment was the key source of sales growth during the quarter, due to the continued success of ZYN in the US. In the US, the destocking effects following trade hoarding during the first quarter were lower than anticipated. In Scandinavia, sales increased slightly compared to the prior year despite reduced shipment volumes to the travel retail and border trade channels and adverse currency effects from the weakening Norwegian krona (NOK). While cigar shipment volumes improved compared to the prior year, sales declined for the Cigars product segment in local currency due to adverse mix effects as the quarter was negatively impacted by COVID-19 related supply constraints for natural leaf cigars. The Lights product segment also contributed to sales growth despite a sharp depreciation of the Brazilian real.

Earnings

Operating profit from product segments increased by 17 percent to 1,704 MSEK (1,456). In local currencies, operating profit from product segments was up by 19 percent with increases for both Smokefree and Lights, while for Cigars, operating profit declined.

Group operating profit amounted to 1,666 MSEK (1,434). Currency translation has affected the comparison of the operating profit negatively by 23 MSEK.

The Group's net finance cost increased to 84 MSEK (60) due to higher average debt and reduced financial returns on surplus cash. The income tax expense amounted to 355 MSEK (294) corresponding to a corporate tax rate of 22.4 percent (21.4). The higher tax rate for the Group resulted primarily from the sharp increase in the relative contribution to earnings from our US businesses, which is taxed at a higher effective tax rate compared to the average Group tax rate.

The Group's profit for the period amounted to 1,227 MSEK (1,080).

Earnings per share (EPS) for the second quarter amounted to 7.60 SEK (6.39).

The first six months

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

Sales

Sales increased by 17 percent to 8,162 MSEK (6,977). Currency translation affected the sales comparison positively by 101 MSEK. In local currencies, sales increased by 16 percent with increases across all three product segments. While difficult to calculate with precision, we estimate that year-to-date volume and sales performance benefited from the net effects of Q1 COVID-19 related hoarding most notably within US chewing tobacco and to a lesser extent US ZYN.

Earnings

Operating profit from product segments amounted to 3,356 MSEK (2,689). In local currencies the operating profit from product segments increased by 24 percent and increased for the Smokefree and Lights product segments but declined for the Cigars product segment. While COVID-19 related effects favorably impacted the earnings for the first quarter, the net effects were negative in the second quarter. For the year-to-date period we estimate that the net effects on operating profit were relatively neutral.

Group operating profit amounted to 3,260 MSEK (2,624). Currency translation has affected the comparison of the operating profit positively by 23 MSEK.

The Group's net finance cost amounted to 162 MSEK (129) reflecting increased average debt and lower financial returns on surplus cash. Income tax expense amounted to 710 MSEK (536), corresponding to a tax rate of 22.9 percent (21.5). The higher tax rate for the Group resulted primarily from the sharp increase in the relative contribution to earnings from our US businesses, which is taxed at a higher effective tax rate compared to the average Group tax rate.

The Group's profit for the period amounted to 2,388 MSEK (1,960).

Earnings per share for the first six months amounted to 14.74 SEK (11.56).

ONE

In 2015 Swedish Match launched a range of modern snus products in Sweden, *XRANGE* – with premium brands at popular prices. In 2017, following on the success of these products, the Company launched *General ONE* and *Göteborgs Rapé ONE*. Now in 2020, Swedish Match is offering a new expanded range of *ONE* products, with a powerful taste experience, featuring large well filled pouches with a thinner paper for an improved mouth feel.



Smokefree

Second quarter highlights:

- Higher sales and operating profit in both US and Scandinavia in local currencies driven by nicotine pouches
- Sequential growth in shipment volumes for ZYN in the US despite destocking of first quarter hoarding
- In Scandinavia, border controls and travel restrictions resulted in volume declines but sales and operating profit benefited from positive product and country mix



Key data

MSEK	April-June		Chg %	January-June		Chg %	Full year 2019
	2020	2019		2020	2019		
Sales	2,695	2,261	19	5,203	4,124	26	8,914
Operating profit	1,301	1,039	25	2,455	1,844	33	3,997
Operating margin, %	48.3	46.0		47.2	44.7		44.8
EBITDA	1,401	1,124	25	2,653	2,009	32	4,353
EBITDA margin, %	52.0	49.7		51.0	48.7		48.8
Depreciation, amortization and impairment	-100	-85		-198	-165		-356
Capital expenditures	303	141	115	458	287	60	593

The second quarter

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

In local currencies, sales for the Smokefree product segment increased by 20 percent, with growth coming from both the US and Scandinavia. Increased shipment volumes for ZYN in the US was the main contributor to sales growth. In the US, sales in local currency also grew for chewing tobacco, but declined for moist snuff, with both product categories impacted by portfolio shifts in volume toward value priced varieties. In Scandinavia, sales grew strongly for nicotine pouches and sales for snus also grew in local currencies. Due to COVID-19 related travel restrictions, volumes were exceptionally strong in Norway, but lower in Sweden, particularly in Swedish border areas, and to travel retail outlets. Sales were positively impacted by price/mix shifts, offset by a weakened NOK. In other markets outside of Scandinavia and the US, sales declined. Operating profit in local currencies improved in both the US and Scandinavia, while there were notable declines in certain other markets outside of the US and Scandinavia, relating to chewing tobacco and expansion costs for nicotine pouches.

Scandinavia

Scandinavia refers to Sweden, Norway, and Denmark.

Key data

	April-June		Chg %	January-June		Chg %	Full year 2019
	2020	2019		2020	2019		
Financials							
Sales, MSEK	1,184	1,177	1	2,217	2,208	0	4,624
Operating profit, MSEK	619	630	-2	1,115	1,157	-4	2,432
Operating margin, %	52.3	53.6		50.3	52.4		52.6
Shipment volumes							
Snus, million cans	60.5	66.3	-9	117.0	125.2	-7	260.2
Nicotine pouches, million cans	3.2	2.1	53	6.0	3.7	60	8.6

Market shares¹⁾

Percent	April-June		Chg ppts	January-June		Chg ppts	Full year 2019
	2020	2019		2020	2019		
Snus, Sweden	60.3	61.5	-1.2	60.7	61.7	-0.9	61.5
Snus, Norway	58.8	55.0	3.8	58.1	55.0	3.1	55.5
Nicotine pouches, Sweden	25.7	25.3	0.4	25.8	25.4	0.4	25.8
Nicotine pouches, Norway ²⁾	14.1	15.9	-1.8	14.1	16.4	-2.3	15.4

1) Based on Nielsen data (excluding tobacconists and e-commerce): 13 weeks to June 28, 2020 and June 30, 2019, respectively. All figures for the Swedish market have been restated to reflect changes in Nielsen store measurements.

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

In Scandinavia, category growth rates were severely impacted by border closures, with the result being that market growth in Norway was unusually strong, while growth in Sweden declined. Getting an accurate read on market dynamics within Scandinavia (Sweden, Norway, and Denmark) for the combined snus and nicotine pouch categories is challenging due to COVID-19 effects. However, Swedish Match estimates that the combined snus and nicotine pouch categories in Scandinavia continued to grow at a healthy pace. Swedish Match's reported smokefree shipment volumes declined in the quarter compared to the prior year and Swedish Match estimates that the decline in shipment volumes is exclusively attributable to travel restrictions and disrupted deliveries to the border trade and travel retail channels. Operating profit declined slightly despite favorable price/mix effects on higher shipments to Norway, due to the depreciation of the NOK vs. the SEK, which effects realized pricing on product shipments to the domestic Norwegian market, as well as higher operating expenses.

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

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

The US

Key data

	April-June		Chg %	January-June		Chg %	Full year 2019
	2020	2019		2020	2019		
Financials							
Sales, MSEK	1,464	1,028	42	2,891	1,812	60	4,082
Operating profit, MSEK	700	386	81	1,371	647	112	1,534
Operating margin, %	47.8	37.5		47.4	35.7		37.6
Shipment volumes							
Moist snuff, million cans	32.2	32.0	1	67.5	62.4	8	124.0
Nicotine pouches, million cans	26.0	11.5	127	50.9	17.5	191	50.4
Chewing tobacco, thousands of pounds (excluding contract manufacturing volumes)	1,530	1,499	2	2,970	2,945	1	5,681

Market shares¹⁾

Percent	April-June		Chg ppts	January-June		Chg ppts	Full year 2019
	2020	2019		2020	2019		
Moist snuff	8.3	8.1	0.2	8.5	8.2	0.3	8.2
Nicotine pouches	77.4	97.0	-19.6	75.8	96.7	-20.9	83.5
Chewing tobacco (excluding contract manufacturing volumes)	40.4	39.9	0.5	40.3	40.0	0.3	40.4

1) Based on MSA distributor shipments: 13 weeks to June 28, 2020 and June 30, 2019 respectively.

In local currency, US sales for smokefree products grew by 39 percent, while operating profit grew by 76 percent, despite being negatively impacted by higher factory costs related to COVID-19. Year-on-year sales growth continued to be robust for nicotine pouches, while sales declined for moist snuff and snus. For chewing tobacco, sales grew modestly. Operating profit in local currency increased for ZYN, while declines were noted for moist snuff, snus, and chewing tobacco, partly as a result of higher factory costs.

ZYN sales continued to show rapid year-on-year volume growth, with shipment volumes reaching 26 million cans during the quarter. The sequential growth in ZYN shipment volumes was adversely affected by the unwinding of part of the trade hoarding which took place toward the latter part of the first quarter. Based on data that measures distributor shipments to retail, volumes of ZYN grew by 10 percent on a sequential basis between the second and the first quarter, driven by increased velocities. As ZYN participates in a rapidly expanding market and is no longer the only participant in many states, attractive volume growth may be achieved concurrent with market share declines. Based on the measure of distributor shipments to retail, ZYN remains the largest player in the market, with more than a 70 percent share within the nicotine pouch category.

For our US moist snuff business, shipment volumes were up slightly despite the unwinding of trade hoarding experienced during the first quarter, with volume gains across loose, tub and pouch formats for the *Longhorn* brand offsetting volume declines for other brands. Sales declined due to adverse portfolio mix and operating profit declined as a result of the mix effects and increased manufacturing costs. Swedish Match continued to gain market share in the attractive moist snuff pouch segment in the quarter, leading to share gains within the total moist snuff category.

Chewing tobacco shipments in the US (excluding contract manufacturing volumes) during the quarter were higher compared to the prior year and did not appear to experience any unwinding effects following trade hoarding during the first quarter. Shipment volumes for traditional premium varieties declined, while they grew for value brands. Sales grew while operating profit declined in local currency, negatively impacted by both price/mix effects and higher factory costs.

Other markets

Key data

	April-June		Chg %	January-June		Chg %	Full year 2019
	2020	2019		2020	2019		
Sales, MSEK	47	56	-17	94	105	-10	208
Operating profit, MSEK	-18	23	-179	-31	40	-177	32
Operating margin, %	-38.9	40.7		-33.0	38.1		15.2
Shipment volumes, million cans ¹⁾	2.4	3.0	-20	4.7	5.7	-18	10.9

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

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

The first six months

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

In local currencies, sales for the Smokefree product segment increased by 25 percent. Increased shipment volumes for ZYN in the US were the key contributor to sales growth for the segment. The sales development was also influenced by COVID-19 related consumer and trade flow effects as well as trade inventory decreases during the start of the year following a strong finish to 2019 in Scandinavia. In the US, sales in local currency also grew for moist snuff and chewing tobacco. In Scandinavia, sales were flat, as favorable pricing and product mix effects were offset by COVID-19 related declines in shipment volume and the weakening of the NOK compared to the SEK. In other markets outside of Scandinavia and the US, sales declined. Operating profit was substantially higher in the US, while down in Scandinavia and in other markets compared to the second quarter of the prior year.

Cigars

Second quarter highlights:

- Swedish Match cigar shipments increased by 2 percent with strong HTL volumes offsetting declines of natural leaf varieties
- COVID-19 production constraints in the Dominican Republic caused the decline in natural leaf cigars which resulted in an adverse product mix
- Lower operating profit/operating margin resulted from the adverse mix effects as well as higher factory and other operating costs



Key data

MSEK	April-June		Chg %	January-June		Chg %	Full year 2019
	2020	2019		2020	2019		
Sales	1,069	1,095	-2	2,197	2,092	5	4,249
Operating profit	351	411	-15	782	795	-2	1,577
Operating margin, %	32.9	37.5		35.6	38.0		37.1
EBITDA	374	432	-14	826	837	-1	1,662
EBITDA margin, %	35.0	39.5		37.6	40.0		39.1
Depreciation, amortization and impairment	-22	-21		-44	-41		-85
Capital expenditures	10	11	-8	34	26	28	52

The second quarter

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

The Cigars product segment derives its sales and profit almost exclusively from the US operations. In local currency, sales were down by 5 percent, while operating profit declines were more pronounced due principally to portfolio price/mix effects as well as increased manufacturing costs.

Swedish Match's cigar shipment volumes were 2 percent higher versus prior year as volume growth for homogenized tobacco leaf (HTL) varieties offset declines for natural leaf varieties caused by production constraints in Swedish Match's Dominican facility. Based on MSA measures of distributor shipments to retail, total US mass market cigar category volumes (excluding little cigars) increased by 18 percent in the second quarter, likely a beneficiary of COVID-19 related impacts on retail and consumer purchase patterns. Swedish Match gained market share within the HTL segment, but lost share within the natural leaf segment, due in large part to an inability to fully supply the market. Swedish Match grew its market share of the total cigar category in the quarter versus the second quarter of the prior year, however.

Given the COVID-19 pandemic and actions taken in the Dominican Republic, Swedish Match made the decision to temporarily suspend the cigar operations of its subsidiary Swedish Match Dominicana from March 23 until April 7. Following a further two-week period of one-shift operations due to national curfew requirements, Swedish Match resumed more normal staffing levels on April 20. While it was anticipated that we would be able to ship according to trade demand for natural leaf varieties, this was not the case, due both to higher orders than anticipated and reduced factory efficiencies caused by increased COVID-19 related hygiene and social distancing measures. While heavily susceptible to future governmentally mandated work stoppages due to the virus, capacity expansion measures in the COVID-19 environment have been implemented within our cigar facilities and a fuller recovery to pre-COVID-19 production levels is expected by the end of the third quarter of this year.

US shipment volumes

	April-June		Chg %	January-June		Chg %	Full year 2019
	2020	2019		2020	2019		
Homogenized tobacco leaf (HTL) cigars, million sticks	213	159	34	379	335	13	625
Natural leaf cigars, million sticks	230	274	-16	516	519	-1	1,067
Cigars total	443	433	2	895	855	5	1,692

Market shares¹⁾

Percent	April-June		Chg ppts	January-June		Chg ppts	Full year 2019
	2020	2019		2020	2019		
Homogenized tobacco leaf (HTL) cigars	14.4	11.7	2.7	13.7	12.5	1.2	12.3
Natural leaf cigars	37.1	45.0	-7.9	41.7	44.3	-2.6	45.1
Cigars total	21.8	21.6	0.2	22.9	22.2	0.7	22.5

1) Based on MSA distributor shipments: Mass market cigars (excluding little cigars) 13 weeks to June 28, 2020 and June 30, 2019 respectively.

The first six months

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

In local currency, sales for the Cigar product segment increased by 1 percent. The sales development was influenced by COVID-19 related consumer and trade flow effects, as well as the mix shift toward HTL cigars due to COVID-19 related supply constraints for natural leaf varieties from our Dominican Republic manufacturing facility. Operating profit in local currency declined by 5 percent, due to shifts in portfolio mix as well as higher factory and other operating costs.

Lights

Second quarter highlights:

- Sales growth driven by matches, while lighter sales declined
- Operating profit up compared to the prior year for both matches and lighters on a reported basis as well as when adjusted for restructuring charges and land sale
- Match performance was strong on higher volumes in many markets, particularly in Brazil ahead of announced price increase



Key data

MSEK	April-June		Chg %	January-June		Chg %	Full year 2019
	2020	2019		2020	2019		
Sales	275	266	3	584	580	1	1,200
Operating profit	52	6	746	119	50	140	238
Operating margin, %	18.9	2.3		20.4	8.5		19.8
EBITDA	62	17	259	140	72	95	282
EBITDA margin, %	22.7	6.5		24.0	12.4		23.5
Depreciation, amortization and impairment	-11	-11		-21	-22		-44
Capital expenditures	6	10	-43	14	21	-35	43

The second quarter

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

Sales for the Lights product segment grew by 3 percent, with increases for matches more than offsetting declines for lighters. Sales faced significant headwinds due to a sharp decline in the value of the Brazilian real versus the SEK. Reported sales for both matches and lighters performed broadly in line with the volume performance. During the second quarter, match volumes in Brazil benefitted from trade hoarding prior to an announced price increase whereas in the second quarter prior year match volumes in Brazil were unusually low due to downward adjustments in trade inventory levels.

For lighters, operating profit grew despite sales and volume declines due to product mix, cost controls and reduced raw materials pricing (primarily nylon). Operating profit grew for matches on a reported basis, and also when adjusting for the benefit from a land sale in in Brazil, which amounted to 6 MSEK. Operating profit

declined for complementary products. In the second quarter of the prior year, operating profit was burdened by restructuring costs which were approximately 12 MSEK.

Shipment volumes, worldwide

	April-June		Chg %	January-June		Chg %	Full year 2019
	2020	2019		2020	2019		
Matches, billion sticks	14.9	11.0	35	30.0	27.1	11	54.3
Lighters, million units	62.2	70.6	-12	135.0	149.4	-10	304.5

The first six months

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

Sales grew by 1 percent, with growth in matches offsetting declines for lighters and complementary products. Operating profit grew for both matches and lighters. Operating profit for lighters has benefitted from cost controls, reduced raw materials pricing (primarily nylon) and portfolio mix. Operating profit for matches has benefitted from higher volumes and price/mix effects. The operating profit in the current year included gains related to the favorable resolution of indirect tax disputes (see Note 7) as well as a land sale aggregating 25 MSEK while the prior year included restructuring costs amounting to approximately 14 MSEK during the first six months.

Cash flow and financing

Cash flow from operating activities for the first six months of 2020 amounted to 3,162 MSEK (2,295). The increase was driven by the stronger EBITDA development from product segments and improved cash flow from working capital but was negatively impacted by the timing of income tax payments. The cash flow from operating activities for the first six months benefitted from governmentally imposed deferrals to required payment dates for income and indirect taxes aggregating 475 MSEK. Cash flow from operating activities for the third quarter will be negatively impacted by the payment of essentially all of these deferred amounts.

Investments in property, plant and equipment increased to 516 MSEK (356). During the first quarter of 2020, Swedish Match also paid the remaining consideration related to the acquisition of Gotlandssnus in 2018 of 32 MSEK.

Net finance cost for the first six months increased to 162 MSEK (129) due to higher average debt as well as reduced financial return on surplus cash due to lower interest rates.

During the first six months, new bond loans of 3,175 MSEK were issued and repayments of bond loans amounted to 500 MSEK. As of June 30, 2020, Swedish Match had 15,478 MSEK of interest-bearing debt excluding retirement benefit obligations but including the recognition of lease liabilities of 238 MSEK. The Group's interest-bearing debt at December 31, 2019 amounted to 12,935. During the remainder of 2020, 800 MSEK of this debt falls due for payment. For further detail on the maturity profile of the debt portfolio, please see the Company's website. Net retirement benefit obligations increased to 1,813 MSEK as of June 30, 2020, from 1,360 MSEK at December 31, 2019 mainly due to decreases in discount rates.

As of June 30, 2020, Swedish Match had 1,500 MSEK in unutilized committed credit lines. Cash and cash equivalents amounted to 3,907 MSEK at the end of the period, compared to 2,370 MSEK at December 31, 2019.

The net debt as of June 30, 2020 amounted to 13,384 MSEK compared to 11,925 MSEK at December 31, 2019 and 11,971 MSEK at June 30, 2019.

Shareholder distributions and the share

In the first half of the year, Swedish Match paid dividends of 2,020 MSEK to its shareholders. During the same period, Swedish Match repurchased 2.4 million shares for 1,435 MSEK at an average price of 595.60 SEK, following authorization from the Annual General Meetings held in 2019 and 2020. Total shares bought back by Swedish Match since the buyback program started have been repurchased at an average price of 143.01 SEK. As per June 30, 2020 Swedish Match held 1.4 million shares, corresponding to 0.85 percent of the total number of shares. The number of shares outstanding, net, as per June 30, 2020, amounted to 160.8 million.

Effects from the novel coronavirus (COVID-19)

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, acknowledging the global scale of the impact of COVID-19 on people's health, families and communities. Additionally, businesses across the globe are facing severe challenges. While longer-term effects from the pandemic are uncertain, the commercial, operational and financial consequences to Swedish Match have thus far been limited. The effects from the COVID-19 pandemic during the second quarter were mainly related to higher factory costs and employee related costs due to hygiene and social distancing protocols, production constraints within our Dominican Republic manufacturing facility, and reduced shipments of products to certain markets and within certain classes of trade. Swedish Match is closely monitoring the current situation including governmental guidelines and advice from public health authorities in every country where we operate. We are proactively taking the steps that we believe are necessary to mitigate potential impacts to our employees, our customers and our business, as well as society. To date, other than the deferral of tax payments in the US, 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. After repayment of 500 MSEK of our June 2020 bond maturity, we have 800 MSEK in remaining maturities this year. At the end of the second quarter of 2020, we held 3,907 MSEK in cash and cash equivalents, and a net debt position of 13,384 MSEK corresponding to a leverage of 2.1 in relation to EBITA. During the second quarter, 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 second quarter, discount rates used to measure our defined benefit plans declined and pension assets recovered much of the losses that were experienced in the first quarter of 2020. As per June 30, 2020 the Group's net defined post-employment benefit obligations increased by 453 MSEK compared to December 2019, mainly as a result of negative remeasurement effects from lower discount rates and lower period end valuation of plan assets.

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

Other events during the quarter

FDA guidance on flavors

In January 2020, the US FDA stated that it still intends to issue a regulation that would ban the use of characterizing flavors in cigars, but indicated that it intended to defer regulatory actions against cigars until May 12, 2020 at which time substantial equivalence or new product application filings were due for products that were not in the market on February 15, 2007. On March 30, the FDA filed a motion with the United States District Court for the District of Maryland requesting a 120-day extension of the May 12 deadline which would move it to September 9, 2020. On April 22, the court granted the requested extension.

Chewing tobacco in Germany

With regard to chew bags in Germany, a determination was made by a Bavarian Administrative Court that certain chew bags sold under the *Thunder* brand should not be classified as chewing tobacco and would therefore not be permitted to be sold on the German market. Swedish Match appealed this decision to the

Federal Administrative Court, which in June 2020 decided not to grant leave to appeal which means that the decision by the lower court is final. While this is a product specific ruling, Swedish Match is of the opinion that there may be a cessation of sales of most chew bags in their current form in Germany. Sales of chew bags on the German market during the six month period ended June 30, 2020 amounted to 46 MSEK and are included within Other markets in the Smokefree product segment specification.

Full Year 2020 Outlook (unchanged)

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

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

During 2020, Swedish Match expects to increase its investments in marketing, distribution and sales efforts in both existing and new markets to actively participate in growth opportunities. Continued capital investments by Swedish Match to further expand ZYN production capacity are expected to result in capital expenditures in 2020 considerably above the 2019 level.

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

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

Risk factors

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

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

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

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

Swedish Match AB (publ)

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

Revenue from the Parent Company for the first six months 2020 amounted to 11 MSEK (21). Profit before income tax amounted to 695 MSEK (-299) and net profit for the first six months amounted to 759 MSEK (-243). The higher profit before income tax compared to previous year mainly pertains to result from

participation in Group companies. The decrease in revenue compared to previous year is primarily related to reduced sales of services to Group companies.

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 500 MSEK during the first six months and new bond loans of 3,175 MSEK were issued.

During the first six months, the Parent Company made share repurchases of 2.4 million (1.9) shares for 1,435 MSEK (849).

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

Forward-looking information

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

Additional information

This report has not been reviewed by the Company's auditors. The January-September 2020 report will be released on October 27, 2020.

The Board of Directors and the CEO declare that the half year report gives a true and fair view of the operations, position and result of the Company and the Group and describes the major risks and uncertainties of the Company and the companies in the Group.

Stockholm, July 17, 2020

Conny Karlsson
Chairman of the Board

Andrew Cripps
Deputy Chairman

Charles A. Blixt
Board member

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

Product segments summary and key ratios

Sales

MSEK	April-June			January-June			Full year 2019
	2020	2019	Chg %	2020	2019	Chg %	
Smokefree	2,695	2,261	19	5,203	4,124	26	8,914
Cigars	1,069	1,095	-2	2,197	2,092	5	4,249
Lights	275	266	3	584	580	1	1,200
Sales from product segments	4,039	3,622	12	7,984	6,795	17	14,363
Other operations	94	98	-4	178	182	-2	376
Sales	4,133	3,719	11	8,162	6,977	17	14,739

Operating profit

MSEK	Note	April-June			January-June			Full year 2019
		2020	2019	Chg %	2020	2019	Chg %	
Smokefree		1,301	1,039	25	2,455	1,844	33	3,997
Cigars		351	411	-15	782	795	-2	1,577
Lights		52	6	746	119	50	140	238
Operating profit from product segments		1,704	1,456	17	3,356	2,689	25	5,812
Other operations		-38	-22		-97	-65		-137
Impairment charge - European chewing tobacco business	5	-	-		-	-		-367
Operating profit		1,666	1,434	16	3,260	2,624	24	5,307

Operating margin by product segment

Percent	April-June		January-June		Full year 2019
	2020	2019	2020	2019	
Smokefree	48.3	46.0	47.2	44.7	44.8
Cigars	32.9	37.5	35.6	38.0	37.1
Lights	18.9	2.3	20.4	8.5	19.8
Operating margin from product segments	42.2	40.2	42.0	39.6	40.5

EBITDA by product segment

MSEK	April-June			January-June			Full year 2019
	2020	2019	Chg %	2020	2019	Chg %	
Smokefree	1,401	1,124	25	2,653	2,009	32	4,353
Cigars	374	432	-14	826	837	-1	1,662
Lights	62	17	259	140	72	95	282
EBITDA from product segments	1,837	1,574	17	3,620	2,918	24	6,296

EBITDA margin by product segment

Percent	April-June		January-June		Full year 2019
	2020	2019	2020	2019	
Smokefree	52.0	49.7	51.0	48.7	48.8
Cigars	35.0	39.5	37.6	40.0	39.1
Lights	22.7	6.5	24.0	12.4	23.5
EBITDA margin from product segments	45.5	43.5	45.3	42.9	43.8

Key ratios

	2020	January-June 2019	12 months ended June 30, 2020	Full year 2019
Operating margin from product segments, %	42.0	39.6	41.7	40.5
Operating margin, % ¹⁾	39.9	37.6	37.3	36.0
Net debt, MSEK	13,384	11,971	13,384	11,925
Investments in property, plant and equipment, MSEK	516	356	880	720
Depreciation, amortization and impairments, MSEK ¹⁾	297	259	953	915
EBITA, MSEK	3,300	2,656	6,387	5,742
EBITA interest cover	23.2	22.0	23.9	23.4
Net debt/EBITA	-	-	2.1	2.1
<i>Share data</i>				
Number of shares outstanding at end of period	160,819,315	168,308,705	160,819,315	163,228,313
Average number of shares outstanding	161,970,840	169,557,263	163,986,530	167,779,742

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

Financial statements

Condensed consolidated income statement

MSEK	Note	2020	April-June 2019	Chg %	2020	January-June 2019	Chg %	Full year 2019
Sales, including tobacco tax		5,118	4,591		9,964	8,660		18,222
Less tobacco tax		-986	-872		-1,802	-1,683		-3,483
Sales	2	4,133	3,719	11	8,162	6,977	17	14,739
Cost of goods sold		-1,487	-1,350		-2,916	-2,584		-5,376
Gross profit		2,646	2,369	12	5,246	4,393	19	9,363
Selling and admin. expenses		-982	-936		-1,990	-1,770		-3,694
Share of profit/loss in associated companies		2	0		5	1		5
Impairment charge – European chewing tobacco business	5	-	-		-	-		-367
Operating profit		1,666	1,434	16	3,260	2,624	24	5,307
Finance income		10	28		37	52		95
Finance costs		-94	-87		-200	-180		-343
Net finance cost		-84	-60		-162	-129		-247
Profit before income tax		1,582	1,374	15	3,098	2,495	24	5,060
Income tax expense		-355	-294		-710	-536		-1,165
Profit for the period		1,227	1,080	14	2,388	1,960	22	3,896
<i>Attributable to:</i>								
Equity holders of the Parent		1,227	1,080		2,388	1,960		3,895
Non-controlling interests		0	0		0	0		0
Profit for the period		1,227	1,080	14	2,388	1,960	22	3,896
Earnings per share, basic and diluted, SEK	4	7.60	6.39		14.74	11.56		23.22

Condensed consolidated statement of comprehensive income

MSEK	April-June		January-June		Full year
	2020	2019	2020	2019	
Profit for the period	1,227	1,080	2,388	1,960	3,896
<i>Other comprehensive income that may be reclassified to the income statement</i>					
Translation differences related to foreign operations	-624	48	-132	238	191
Effective portion of changes in fair value of cash flow hedges	-82	16	-38	65	122
Income tax relating to reclassifiable components of other comprehensive income	17	-3	8	-13	-25
Sub-total, net of tax for the period	-689	60	-162	290	288
<i>Other comprehensive income that will not be reclassified to the income statement</i>					
Actuarial gains/losses attributable to pensions, incl. payroll tax	-80	-104	-418	-155	-168
Income tax relating to non-reclassifiable components of other comprehensive income	13	21	101	32	38
Sub-total, net of tax for the period	-67	-83	-317	-123	-130
Total comprehensive income for the period	471	1,057	1,908	2,126	4,054
<i>Attributable to:</i>					
Equity holders of the Parent	471	1,057	1,908	2,126	4,053
Non-controlling interests	0	0	0	0	0
Total comprehensive income for the period	471	1,057	1,908	2,126	4,054

Condensed consolidated balance sheet

MSEK	Note	June 30, 2020	December 31, 2019
Intangible assets		2,351	2,355
Property, plant and equipment		3,519	3,255
Right-of-use assets		237	255
Investments in associated companies		35	42
Other non-current assets and operating receivables		16	18
Other non-current financial assets and receivables	3,8	2,016	1,826
Total non-current assets		8,174	7,750
Other current financial receivables	3,8	176	195
Current operating assets and receivables	3	3,925	3,905
Cash and cash equivalents	3	3,907	2,370
Total current assets		8,008	6,471
Assets held for sale ¹⁾		10	16
Total assets		16,192	14,237
Equity attributable to equity holders of the Parent		-7,870	-6,324
Non-controlling interests		16	16
Total equity		-7,854	-6,308
Non-current financial provisions		1,241	1,310
Non-current loans	3	14,576	12,130
Other non-current financial liabilities	3,8	2,143	1,626
Other non-current operating liabilities	3	466	434
Total non-current liabilities		18,426	15,499
Current loans	3	1,550	1,300
Other current financial liabilities	3,8	689	633
Other current operating liabilities	3	3,380	3,112
Total current liabilities		5,620	5,045
Total liabilities		24,046	20,544
Total equity and liabilities		16,192	14,237

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

Condensed consolidated cash flow statement

MSEK	January-June	
	2020	2019
<i>Operating activities</i>		
Profit before income taxes	3,098	2,495
Share of profit/loss in associated companies	-5	-1
Dividend received from associated companies	10	1
Other non-cash items etc ¹⁾	367	275
Income tax paid	-579	-380
Cash flow from operating activities before changes in working capital	2,891	2,390
Changes in working capital	271	-94
Net cash generated from operating activities	3,162	2,295
<i>Investing activities</i>		
Purchase of property, plant and equipment	-516	-356
Proceeds from sale of property, plant and equipment	11	1
Purchase of intangible assets	-28	-22
Acquisition of subsidiaries ²⁾	-32	-
Changes in financial receivables etc.	0	0
Net cash used in investing activities	-565	-378
<i>Financing activities</i>		
Proceeds from borrowings	3,175	999
Repayment of borrowings	-500	-1,092
Dividend paid to equity holders of the Parent	-2,020	-1,777
Lease payments	-42	-46
Repurchase of own shares	-1,435	-849
Realized exchange gain/losses on financial instruments	-175	92
Other	1	2
Net cash used in financing activities	-995	-2,671
Net increase (decrease) in cash and cash equivalents	1,602	-754
Cash and cash equivalents at the beginning of the period	2,370	2,886
Effect of exchange rate fluctuations on cash and cash equivalents	-65	29
Cash and cash equivalents at the end of the period	3,907	2,161

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

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

Condensed consolidated statement of changes in equity

MSEK	Equity attributable to holders of the Parent	Non-controlling interests	Total equity
Equity at January 1, 2019	-5,611	16	-5,595
Profit for the period	1,960	0	1,960
Other comprehensive income, net of tax for the period	167	0	167
Total comprehensive income for the period	2,126	0	2,126
Dividend	-1,777	0	-1,777
Repurchase of own shares	-849	-	-849
Cancellation of shares	-13	-	-13
Bonus issues	13	-	13
Acquisition of non-controlling interests	-	0	0
Equity at June 30, 2019	-6,111	16	-6,095
Equity at January 1, 2020	-6,324	16	-6,308
Profit for the period	2,388	0	2,388
Other comprehensive income, net of tax for the period	-479	0	-480
Total comprehensive income for the period	1,908	0	1,908
Dividend	-2,020	-	-2,020
Repurchase of own shares	-1,435	-	-1,435
Cancellation of shares	-18	-	-18
Bonus issues	18	-	18
Equity at June 30, 2020	-7,870	16	-7,854

Condensed Parent Company income statement

MSEK	January-June	
	2020	2019
Sales	11	21
Administrative expenses	-170	-170
Operating loss	-159	-150
Result from participation in Group companies	1,027	-
Finance income	0	0
Finance costs	-173	-149
Net finance cost	-173	-149
Profit/Loss before income tax	695	-299
Income tax	64	56
Profit/Loss for the period	759	-243

Condensed Parent Company statement of comprehensive income

MSEK	January-June	
	2020	2019
Profit/Loss for the period	759	-243
<i>Other comprehensive income that may be reclassified to the income statement</i>		
Effective portion of changes in fair value of cash flow hedges	-38	65
Income tax relating to components of other comprehensive income	8	-13
Other comprehensive income/loss, net of tax for the period	-30	51
Total comprehensive income/loss for the period	729	-192

Condensed Parent Company balance sheet

MSEK	June 30, 2020	June 30, 2019	December 31, 2019
Intangible and tangible assets	0	1	1
Non-current financial assets	32,033	31,962	31,952
Current assets	350	253	2,980
Cash and other current deposits	1	150	400
Total assets	32,384	32,365	35,332
Equity	9,244	12,336	11,970
Untaxed reserves	2,325	1,785	2,325
Provisions	110	94	98
Non-current liabilities	14,664	12,990	12,132
Current liabilities	6,040	5,161	8,807
Total liabilities	20,814	18,244	21,037
Total equity and liabilities	32,384	32,365	35,332

Note 1 – Accounting principles

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

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

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

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

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

Note 2 – Disaggregation of revenue

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

Sales – April to June

MSEK	Segments								Other operations		Group	
	Smokefree		Cigars		Lights		Total segments					
	Primary geographical markets		Apr-Jun		Apr-Jun		Apr-Jun		Apr-Jun		Apr-Jun	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Scandinavia	1,184	1,177	-	-	9	9	1,193	1,186	94	98	1,287	1,283
The US	1,464	1,028	1,069	1,095	19	19	2,552	2,143	-	-	2,552	2,143
Other markets	47	56	-	0	247	237	294	294	-	-	294	294
Total sales	2,695	2,261	1,069	1,095	275	266	4,039	3,622	94	98	4,133	3,719

Sales – January to June

MSEK	Segments								Other operations		Group	
	Smokefree		Cigars		Lights		Total segments					
	Primary geographical markets		Jan-Jun		Jan-Jun		Jan-Jun		Jan-Jun		Jan-Jun	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Scandinavia	2,217	2,208	-	-	21	19	2,239	2,227	178	182	2,417	2,408
The US	2,891	1,812	2,197	2,091	47	41	5,135	3,943	-	-	5,135	3,943
Other markets	94	105	-	1	516	520	610	626	-	-	610	626
Total sales	5,203	4,124	2,197	2,092	584	580	7,984	6,795	178	182	8,162	6,977

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

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

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

Level 1 - Quoted prices (unadjusted) in active markets

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

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

The following table shows carrying value and fair value for financial instruments as of June 30, 2020.

Carrying value and fair value

MSEK	Financial instruments measured at FVTPL	Financial assets measured at amortized cost	Other financial liabilities	Cash flow hedges measured at FVOCI	Other receivables and liabilities	Total carrying value	Estimated fair value
Trade receivables	-	1,710	-	-	-	1,710	1,710
Other non-current financial receivables	-	13	-	825	465	1,303	1,303
Other current assets and financial receivables	27	76	-	-	339	442	442
Prepaid expenses and accrued income ¹⁾	-	-	-	0	154	155	155
Cash and cash equivalents	-	3,907	-	-	-	3,907	3,907
Total assets	27	5,706	-	825	958	7,517	7,517
Loans and borrowings	-	-	16,126	-	-	16,126	16,227
Other non-current financial liabilities	-	-	163	88	46	297	297
Other current liabilities	0	-	75	-	1,794	1,870	1,870
Accrued expenses and deferred income ¹⁾	-	-	88	48	693	829	829
Trade payables	-	-	501	-	-	501	501
Total liabilities	0	-	16,953	136	2,533	19,623	19,724

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

Fair value measurement by level

MSEK	Level 1	Level 2	Level 3	Total
Derivative financial assets	-	852	-	852
Derivative financial liabilities	-	136	-	136

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

Carrying value and fair value

MSEK	Financial instruments measured at FVTPL	Financial assets measured at amortized cost	Other financial liabilities	Cash flow hedges measured at FVOCI	Other receivables and liabilities	Total carrying value	Estimated fair value
Trade receivables	-	1,719	-	-	-	1,719	1,719
Other non-current financial receivables	-	20	-	756	475	1,251	1,251
Other current assets and financial receivables	-	91	-	-	284	375	375
Prepaid expenses and accrued income 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 and deferred income*.

Fair value measurement by level

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

No transfer in or out of level 2 has been made during the second quarter 2020. The recognized amounts are regarded as reasonable estimates for all items measured at carrying value in the balance sheet, except for loans and borrowings, as these amounts have a long time to maturity. The fair value of loans and borrowings differ from their carrying value as a consequence of changes in the market interest rates. Items not valued at fair value in the balance sheet are measured at amortized cost. The total nominal amount of outstanding derivatives was 12,207 MSEK (9,602) of which 9,478 MSEK (6,304) was in cash flow hedges consisting of cross currency and interest rate swaps related to bond loans. The remaining 2,729 MSEK (3,298) consisted of currency swaps related to the conversion of surplus cash in US dollars to Swedish kronor. Methodologies utilized in the valuation of financial instruments can be found in Note 1 in the annual report for 2019.

Note 4 – Earnings per share

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

Earnings per share

Basic and diluted	April-June		January-June		Full year
	2020	2019	2020	2019	2019
Profit for the period attributable to equity holders of the Parent, MSEK	1,227	1,080	2,388	1,960	3,895
Profit for the period attributable to equity holders of the Parent, excl. larger one-time items, MSEK	1,227	1,080	2,388	1,960	4,263
Weighted average number of shares outstanding	161,343,798	169,022,511	161,970,840	169,557,263	167,779,742
Earnings per share, SEK	7.60	6.39	14.74	11.56	23.22
Adjusted earnings per share, SEK	7.60	6.39	14.74	11.56	25.41

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

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

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

Note 6 – Change in expected useful life for trademark Thunder

Following the judgement in relation to the legality of certain V2 Tobacco's *Thunder* chew bag products by the Bavarian Administrative Court and in view of changed market dynamics in certain markets, Swedish Match has reassessed the estimated economic useful life of the *Thunder* trademark. The updated assessment indicated that the *Thunder* trademark's economical useful life has changed from indefinite to a definite economical useful life of 20 years. The revised assessment has been made to better reflect the estimated periods during which Swedish Match will benefit from the future cashflows from products under the *Thunder* trademark. The updated economic useful life of 20 years has been applied as of January 1, 2020. The effect from this change on Swedish Match's financial statements for the first half of 2020 was increased amortization expenses of 9 MSEK recognized in the Smokefree product segment.

Note 7 – Tax related contingencies

Tax audits in Sweden

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

Resolution of indirect tax disputes in Brazil

Following the favorable decision on the court-cases for the exclusion of duplicative indirect taxes (principally valued added taxes) in Brazil in 2019, further assessment of duplicative indirect taxes within the Brazilian operations have been made. During the first six months 2020, an operating gain of 19 MSEK (13 MSEK, net of taxes on income) pertaining to additional indirect tax recoveries has been recognized within the Lights product segment. The tax credits relate to purchases of certain manufacturing equipment, goods and services for a period over the past 5 years. Under the existing disputes, Swedish Match may be entitled to incremental recoveries aggregating 58 MSEK (38 MSEK, net of taxes on income) that is dependent on the final ruling by the Brazilian Supreme court, which is expected sometime during 2020.

Note 8 – Alternative performance measures

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

KEY RATIO	DEFINITION/CALCULATION	PURPOSE
SALES FROM PRODUCT SEGMENTS	Sales from reportable segments, which excludes Other operations	Used as a measure of sales performance of the core commercial businesses of Swedish Match, excluding the impact of Other operations (incl. Swedish distribution function).
OPERATING PROFIT/LOSS (EBIT) FROM PRODUCT SEGMENTS	Operating profit from reportable segments, excluding Other operations and larger one-time items	Used as a measure of operating performance of the core commercial businesses of Swedish Match, excluding the impact of Other operations (incl. Swedish distribution function) and items which impact comparability between periods
OPERATING MARGIN FROM PRODUCT SEGMENTS (%)	$100 \times \text{Operating profit from product segments} \div \text{Sales from product segments}$	Used as a measure of operational profitability of the core commercial businesses of Swedish Match excluding the impact of Other operations (incl. Swedish distribution function).
LARGER ONE-TIME ITEMS	Larger one-time items are separately disclosed non-recurring income and cost which usually refer to larger capital gains or losses on divestments, larger asset impairments and restructuring costs and other larger non-recurring income and costs recognized during the period	Used to provide information regarding items which impact comparability between periods.
EBITDA	Profit for the period excluding larger one-time items, net finance cost, income tax, depreciation, amortization and impairments of tangible, 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	$\text{EBITA} \div (\text{Interest income} - \text{interest expense})$	Used as a measure of the ability to fund interest expenses.
NET DEBT	Current and non-current loans, adjusted for components of derivatives relating to these loans + net provisions for pensions and similar obligations + lease liabilities – cash and cash equivalents and other short-term investments	Used as a measure of net financial obligations.
NET DEBT/EBITA	$\text{Net debt} \div \text{EBITA 12 months rolling}$	Used as an indication of the duration (in years) required to fund existing net financial obligations with free cash flows from the ongoing business.
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.

EBITA and EBITDA

MSEK	April-June		January-June		12 months	Full year
	2020	2019	2020	2019	ended June 30, 2020	
Profit for the period	1,227	1,080	2,388	1,960	4,323	3,895
Income tax expense	355	294	710	536	1,339	1,165
Net finance cost	84	60	162	129	281	247
Operating profit for the period	1,666	1,434	3,260	2,624	5,943	5,307
Amortization and impairment intangible assets ¹⁾	20	16	40	32	444	436
EBITA	1,686	1,450	3,300	2,656	6,387	5,742
Depreciation and impairment tangible and right-of-use assets	129	116	257	226		480
EBITDA	1,815	1,566	3,557	2,882		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	April-June		January-June		Full year
	2020	2019	2020	2019	
Operating profit for the period	1,666	1,434	3,260	2,624	5,307
Less operating loss from Other operations	38	22	97	65	137
Less larger one-time items	-	-	-	-	367
Operating profit from product segments	1,704	1,456	3,356	2,689	5,812
Amortization, depreciation and impairment intangible, tangible and right-of-use assets ¹⁾	149	133	297	259	548
Less amortization, depreciation and impairment intangible, tangible and right-of-use assets for Other operations	-16	-15	-33	-30	-64
EBITDA from product segments	1,837	1,574	3,620	2,918	6,296
Sales from product segments	4,039	3,622	7,984	6,795	14,363
EBITDA margin from product segments, %	45.5	43.5	45.3	42.9	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	April-June		January-June		Full year
	2020	2019	2020	2019	
Impairment charge – European chewing tobacco business	-	-	-	-	-367
Total larger one-time items in operating profit	-	-	-	-	-367

EBITA interest cover

MSEK	January-June		12 months	Full year
	2020	2019	ended June 30, 2020	
EBITA	3,300	2,656	6,387	5,742
Interest income	37	52	76	91
Interest expense	-180	-173	-343	-336
EBITA interest cover	23.2	22.0	23.9	23.4

Net debt/EBITA

MSEK	12 months	Full year
	ended June 30, 2020	
Net debt	13,384	11,925
EBITA 12 months rolling	6,387	5,742
Net debt/EBITA	2.1	2.1

Net debt

MSEK	January-June		Full year 2019
	2020	2019	
Non-current loans	14,576	12,988	12,130
Current loans	1,550	505	1,300
Components of derivatives (liabilities) ¹⁾	30	24	91
Components of derivatives (assets) ²⁾	-917	-897	-839
Non-current lease liabilities ³⁾	163	184	172
Current lease liabilities ⁴⁾	75	78	81
Net provision for pensions and similar obligations ³⁾	1,892	1,335	1,451
Net asset for pensions and similar receivables ⁵⁾	-79	-83	-91
Cash and cash equivalents	-3,907	-2,161	-2,370
Net debt	13,384	11,971	11,925

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

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

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

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

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

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

Quarterly data

Consolidated income statement in summary

MSEK	Note	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19
Sales, including tobacco tax		5,118	4,846	4,877	4,685	4,591
Less tobacco tax		-986	-816	-944	-856	-872
Sales		4,133	4,029	3,933	3,829	3,719
Cost of goods sold		-1,487	-1,429	-1,451	-1,340	-1,350
Gross profit		2,646	2,600	2,482	2,489	2,369
Selling and administrative expenses		-982	-1,009	-1,020	-904	-936
Share of net profit/loss in associated companies		2	3	4	1	0
Impairment charge – European chewing tobacco business	5	-	-	-367	-	-
Operating profit		1,666	1,594	1,098	1,586	1,434
Finance income		10	30	25	23	28
Finance costs		-94	-108	-83	-83	-87
Net finance cost		-84	-78	-59	-60	-60
Profit before income tax		1,582	1,515	1,039	1,526	1,374
Income tax expense		-355	-354	-283	-346	-294
Profit for the period		1,227	1,161	756	1,180	1,080
<i>Attributable to:</i>						
Equity holders of the Parent		1,227	1,161	756	1,180	1,080
Non-controlling interests		0	0	0	0	0
Profit for the period		1,227	1,161	756	1,180	1,080

Quarterly data by product segment

Sales

MSEK	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19
Smokefree	2,695	2,508	2,475	2,315	2,261
Cigars	1,069	1,128	1,040	1,117	1,095
Lights	275	309	323	298	266
Sales from product segments	4,039	3,945	3,838	3,729	3,622
Other operations	94	84	95	100	98
Sales	4,133	4,029	3,933	3,829	3,719

Operating profit

MSEK	Note	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19
Smokefree		1,301	1,154	1,060	1,093	1,039
Cigars		351	431	359	423	411
Lights		52	67	100	88	6
Operating profit from product segments		1,704	1,652	1,520	1,603	1,456
Other operations		-38	-58	-54	-18	-22
Impairment charge – European chewing tobacco business	5	-	-	-367	-	-
Operating profit		1,666	1,594	1,098	1,586	1,434

Operating margin by product segment

Percent	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19
Smokefree	48.3	46.0	42.8	47.2	46.0
Cigars	32.9	38.2	34.5	37.9	37.5
Lights	18.9	21.7	31.1	29.4	2.3
Operating margin from product segments	42.2	41.9	39.6	43.0	40.2

EBITDA by product segment

MSEK	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19
Smokefree	1,401	1,252	1,159	1,185	1,124
Cigars	374	453	381	444	432
Lights	62	78	111	99	17
EBITDA from product segments	1,837	1,783	1,651	1,728	1,574

EBITDA margin by product segment

Percent	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19
Smokefree	52.0	49.9	46.8	51.2	49.7
Cigars	35.0	40.1	36.6	39.8	39.5
Lights	22.7	25.2	34.3	33.3	6.5
EBITDA margin from product segments	45.5	45.2	43.0	46.3	43.5

Additional quarterly data

Depreciation, amortization and impairments

MSEK	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19
Property, plant and equipment	106	105	108	101	95
Right-of-use assets	23	22	23	22	21
Intangible assets ¹⁾	20	21	19	16	16
Total	149	148	150	140	133

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

Net finance cost

MSEK	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19
Interest income	8	30	17	21	28
Interest expense	-93	-87	-82	-82	-82
Net interest expense	-85	-57	-64	-60	-55
Other finance costs, net	1	-21	6	0	-5
Total net finance cost	-84	-78	-59	-60	-60

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

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

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