Swedish Match

Q3 2019

Interim Report
January – September 2019

Q3 growth in sales and earnings driven by *ZYN*

- **In local currencies, sales increased by 8 percent for the third quarter. Reported sales increased by 13 percent to 3,829 MSEK (3,388).**
- **In local currencies, operating profit from product segments[1)] increased by 17 percent for the third quarter. Reported operating profit from product segments increased by 22 percent to 1,607 MSEK (1,317).**
- **Operating profit amounted to 1,586 MSEK (1,305) for the third quarter.**
- **Profit after tax amounted to 1,180 MSEK (959) for the third quarter.**
- **Earnings per share increased by 27 percent to 7.04 SEK (5.55) for the third quarter.**
- ***ZYN* in more than 60,000 stores in the US, and average sales per store continued to increase.**
- **Lights operating profit benefited from land and forestry asset sales.**
- **On October 22, 2019, the US FDA authorized modified risk tobacco status for eight *General* snus varieties.**

1) Excludes Other operations.

CEO Lars Dahlgren comments:

Impressive growth aligned with our vision

Swedish Match again delivered very strong financial results driven by the excellent performance of *ZYN* nicotine pouches in the US. Sales and operating profit for our two largest product segments, Snus and moist snuff and Other tobacco products, increased in local currencies. The Lights product segment rebounded from an unusually weak second quarter and also benefited from land and forestry asset sales.

Following the national rollout of *ZYN* in the US during the second quarter, we continued to expand distribution and marketing behind the *ZYN* brand. Market data continues to indicate that the national rollout markets trend consistently with, if not better than, how our established Western region market performed based on comparable time in market. US *ZYN* volumes in the quarter increased sequentially versus the second quarter despite third quarter pipeline volume attributable to new stores being significantly lower than second quarter levels. As anticipated, competitor product offerings are now being more aggressively introduced in the US market, and we consider this a testament to the market potential of the nicotine pouch category.

There is a fast-growing interest among consumers and regulators in products that compete with traditional cigarettes. We continue to advocate for rational and science-based regulatory frameworks that not only recognize the important role that smokeless products can play in responsibly transitioning adult cigarette consumers to less harmful products, but also allow for continued innovations that will benefit adult consumers. In 2015, Swedish Match became the first tobacco company to receive approval by the FDA to market new products through the pre-market tobacco application pathway for its *General* snus in the US. Earlier this week, Swedish Match became the first tobacco company to be granted modified risk tobacco product (MRTP) designations by the FDA for eight *General* snus products in the US, including Mint and Wintergreen varieties, permitting us to more accurately communicate to adult consumers the relative health attributes of our authorized products compared to cigarettes. The MRTP decision is a great recognition for the Company and a testament to our vision and our commitment to product stewardship, public health and scientific evidence. Outside the US, there is also a need for more clearly defined and proportionate regulations, so that adult consumers will have access to these responsibly marketed non-combustible nicotine alternatives with dramatically reduced negative health effects compared to cigarettes and certain other inhaled products.

In Scandinavia, the combined market for snus and nicotine pouches continued to grow strongly despite tough year-on-year comparisons. While there is good growth for modern and innovative snus products, it is the rapidly growing nicotine pouch category that is driving overall Scandinavian smokeless market growth. Within the conventional snus category in Scandinavia, our market share remains under pressure. While this is partly due to our strong position in the more traditional and declining segments of the snus category, we must be more effective at expanding and enhancing our product offerings in growing segments. In addition, we are also significantly underrepresented in the attractive nicotine pouch category in both Sweden and Norway. Our objective is to improve our performance in these rapidly growing segments of the smokeless market, while retaining our market share in the more traditional segments. Outside the US and Scandinavia, we foresee strong potential over the longer term for nicotine pouches and we have now launched *ZYN* on a limited scale in a number of European markets. For moist snuff in the US, category volumes remained soft, and our volumes declined somewhat in the quarter.

Within the Other tobacco products (cigars and chewing tobacco) product segment, we continued to see weakness in the overall cigar category, driven by sharp volume declines in the HTL segment of the market. However, in the quarter, we outperformed the category with our portfolio positioning directed towards the more attractive segments of the market. The inventory shortage situation for our rolled leaf cigars improved and going forward, we expect that we will be able to better meet the underlying market demand. We remain confident that our cigar business is well positioned to participate in future growth opportunities of the cigar category given our broad and competitive product range. Our chewing tobacco business in the US had a solid quarter, with a continued focus on offsetting volume declines and negative mix effects with pricing and operational efficiencies. In Europe, the regulatory risks related to the chew bag category have increased, following an adverse announcement from the court in the so-called Hartmann case in Germany, see page 10.

In summary, I am very pleased with the third quarter financial performance. With our strong heritage and focus on smokeless products and harm reduction, we continue to be an innovative leader in the changing landscape of nicotine consumption.

Summary of consolidated income statement

MSEK	July-September 2019	2018	Chg %	January-September 2019	2018	Chg %	Full year 2018
Sales	3,829	3,388	13	10,806	9,664	12	12,966
Sales from product segments[1)]	3,729	3,295	13	10,525	9,399	12	12,612
Operating profit from product segments[1)]	1,607	1,317	22	4,303	3,690	17	4,936
Operating profit	1,586	1,305	21	4,209	3,616	16	4,812
Profit before income tax	1,526	1,232	24	4,021	3,397	18	4,531
Profit for the period	1,180	959	23	3,140	2,653	18	3,578
Operating margin from product segments, %[1)]	43.1	40.0		40.9	39.3		39.1
Earnings per share, basic and diluted, SEK	7.04	5.55		18.60	15.22		20.63

1) Excluding Other operations.

The third quarter

(Note: Comments below refer to the comparison between the third quarter 2019 vs. the third quarter 2018).

Sales

Group sales and sales from product segments both increased by 13 percent to 3,829 MSEK (3,388) and 3,729 MSEK (3,295), respectively. Currency translation positively affected the comparability of sales from product segments by 161 MSEK, and in local currencies, sales from product segments increased by 8 percent. The Snus and moist snuff product segment, and specifically nicotine pouch sales growth in the US, was the key source of sales growth during the quarter. In local currencies, sales increased slightly for Other tobacco products and declined for the Lights product segment. The accounting consequences of an enhanced retailer merchandising program in the US beginning January 1, 2019 negatively impacted the reported sales development of our US businesses. Adjusted for this retailer merchandising program, sales from product segments would have increased by 9 percent in local currencies.

Earnings

Operating profit from product segments increased by 22 percent to 1,607 MSEK (1,317). In local currencies, operating profit from product segments was up by 17 percent and increased for all product segments, with the Lights product segment aided by land and forestry asset sales.

Group operating profit amounted to 1,586 MSEK (1,305). Currency translation has affected the comparison of the operating profit positively by 61 MSEK.

The Group’s net finance cost amounted to 60 MSEK (73). The income tax expense amounted to 346 MSEK (273) and the corporate tax rate was 22.7 percent (22.2).

The Group’s profit for the period amounted to 1,180 MSEK (959).

Earnings per share for the third quarter increased by 27 percent to 7.04 SEK (5.55).

The first nine months

(Note: Comments below refer to the comparison between the first nine months 2019 vs. the first nine months 2018).

Sales

Group sales increased by 12 percent to 10,806 MSEK (9,664). Currency translation affected the sales comparison positively by 571 MSEK. In local currencies, sales from product segments increased by 6 percent. Adjusted for the above-mentioned retailer merchandising program in the US, sales from products segments would have increased by 7 percent in local currencies.

Earnings

Operating profit from product segments amounted to 4,303 MSEK (3,690). In local currencies the operating profit from product segments increased by 11 percent and increased for all product segments with the Lights product segment benefiting from land and forestry asset sales.

Group operating profit amounted to 4,209 MSEK (3,616). Currency translation has affected the comparison of the operating profit positively by 218 MSEK.

The Group's net finance cost amounted to 188 MSEK (219). Income tax expense amounted to 881 MSEK (744), corresponding to a corporate tax rate of 21.9 percent (21.9).

The Group's profit for the period amounted to 3,140 MSEK (2,653).

Earnings per share for the first nine months increased by 22 percent to 18.60 SEK (15.22).

ONYX

In September, General Onyx Gold was introduced on the Swedish snus market.

General Onyx Gold is dark and smoky in its character, while General Onyx Silver has a strong and spicy tobacco character with a clear element of bergamot.

Both snus products feature a distinctive look, with onyx black pouches.

Snus and moist snuff

Third quarter highlights:

- Higher sales and operating profit in both Scandinavia and the US in local currencies
- Calendar effects positively impacted shipment volume comparisons in Scandinavia and the US. Underlying Scandinavian shipment volumes were up by less than 1 percent
- Strong growth from our portfolio of snus and *ZYN* nicotine pouches outside Scandinavia, led by growth for *ZYN* from both existing stores and store expansion in the US

Key data

MSEK	July-September 2019	2018	Chg %	January-September 2019	2018	Chg %	Full year 2018
Sales	1,935	1,601	21	5,327	4,495	19	6,127
Operating profit	940	752	25	2,491	2,066	21	2,791
Operating margin, %	48.6	47.0		46.8	46.0		45.6
EBITDA	1,020	810	26	2,712	2,230	22	3,025
EBITDA margin, %	52.7	50.6		50.9	49.6		49.4

The third quarter

(Note: Comments below refer to the comparison between the third quarter 2019 vs. the third quarter 2018).

In local currencies, sales for Snus and moist snuff increased by 18 percent, substantially attributable to snus and nicotine pouches outside of Scandinavia. Sales in local currencies also grew for snus and nicotine pouches in Scandinavia but declined somewhat for moist snuff in the US (negatively impacted by the aforementioned retailer merchandising program). Operating profit in local currencies improved in both Scandinavia and the US. The operating margin improved compared to the third quarter of 2018 as well as sequentially compared to the second quarter of 2019 due to improved profitability for the US businesses. In the US, operating profit and operating margin grew despite the adverse effects of a changed segment allocation methodology for shared operating expenses of our US business. The change recognizes the designation of *ZYN* as a more established business within our US portfolio. Under the 2018 allocation methodology Snus and moist snuff expenses would have been 18 MSEK lower and Other tobacco products expenses would have been higher by the same amount.

In Scandinavia, the Swedish and Norwegian markets demonstrated continued volume growth, with the total Scandinavian market for the combined snus and nicotine pouch segments estimated to have grown by more than 6 percent on an underlying basis (adjusted for inventory fluctuations and calendar effects). Swedish Match snus and nicotine pouch shipment volumes, including Gotlandssnus, acquired in the third quarter 2018, grew by 2 percent, with modest declines for snus more than offset by strong growth of nicotine pouches. Swedish Match estimates that its underlying organic snus and nicotine pouch volumes (excluding Gotlandssnus and adjusted for calendar effects) were up by less than 1 percent. Average selling prices were higher than the prior year quarter as a result of price increases in both Sweden and Norway. Sales and gross profit in Scandinavia increased on higher volumes and higher realized pricing, partially offset by increased manufacturing costs.

In Sweden, competitive activity has been intense both within the premium and the value segments of the conventional snus category and Swedish Match's market share of the snus category declined compared to the prior year. Swedish Match's market share in the rapidly growing nicotine pouch category has increased slightly over the past year in Sweden. 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.

For our US moist snuff business volumes declined slightly, due to category softness as well as promotional phasing. In local currencies, sales were essentially flat (when adjusting for the new retailer merchandiser program) on improved pricing and operating profit improved. Swedish Match continued to gain market share in the attractive moist snuff pouch segment in the quarter. Volumes for snus and nicotine pouches outside Scandinavia increased sharply, stemming primarily from *ZYN* in the US. The distribution of *ZYN* in the US grew sequentially with presence in more than 60,000 stores at the end of the quarter. The sharp increase in volumes for snus and nicotine pouches outside Scandinavia was attributable to both increasing velocities (measured on a cans per store per week basis) for stores where *ZYN* was in place before the national rollout in April 2019, and growing store velocities for stores that have been added with the national launch. We did not note any significant depletion of second quarter pipeline volumes during the third quarter as retailers and distributers have maintained stock levels given the growth prospects of *ZYN*.

The first nine months

(Note: Comments below refer to the comparison between the first nine months 2019 vs. the first nine months 2018).

Sales for the product segment grew by 14 percent in local currencies. In local currencies, operating profit was higher for snus and nicotine pouches in Scandinavia and for moist snuff in the US as well as for snus and nicotine pouches outside of Scandinavia (primarily *ZYN* in the US).

In Scandinavia, shipment volumes grew by less than 2 percent. Swedish Match estimates that its underlying organic Scandinavian snus and nicotine pouch volumes (excluding Gotlandssnus and adjusted for calendar effects) increased by less than 1 percent. Operating profit for snus and nicotine pouches in Scandinavia grew on higher sales. In the US, sales in local currency for moist snuff declined as a consequence of the accounting effects of the new retailer merchandising program. For snus and nicotine pouches outside Scandinavia, the favorable financial development resulted from higher volumes, improved pricing, and lower manufacturing costs, partially offset by increased marketing expenses and sales allowances tied to the national rollout of *ZYN* in the US. Shipments of *ZYN* in the US amounted to 31 million cans during the first nine months, up from 8.5 million cans in the prior year.

Swedish Match shipment volumes

Millions of cans	July-September 2019	2018	Chg %	January-September 2019	2018	Chg %	Full year 2018
Snus and nicotine pouches, Scandinavia[1)]	68.5	66.9	2	197.3	193.8	2	263.4
Moist snuff, US	31.2	31.7	-1	93.6	96.7	-3	126.3
Snus and nicotine pouches, outside Scandinavia[1)]	15.9	6.6	142	40.2	17.5	130	25.2

1) Includes snus volumes for Gotlandssnus from acquisition date, August 22, 2018.

Swedish Match Scandinavian snus and nicotine pouches market shares[1)]

Percent	July-September 2019	2018	Chg ppts	January-September 2019	2018	Chg ppts	Full year 2018
Snus, Sweden	61.3	63.9	-2.6	61.5	64.6	-3.1	64.2
Snus, Norway	55.7	54.2	1.5	55.2	54.6	0.6	54.6
Nicotine pouches, Sweden	25.9	24.7	1.2	25.3	17.8	7.5	19.7
Nicotine pouches, Norway[2)]	15.1	19.7	-4.6	15.9	17.4	-1.5	17.6

1) Swedish Match estimates using Nielsen data (excluding tobacconists and e-commerce): 13 weeks to September 29, 2019 and September 30, 2018, respectively. All figures for the Swedish market have been restated to reflect changes in Nielsen store measurements. Data for both the current and prior year periods include brands acquired in 2018.
2) Nicotine pouches in Norway contain a small amount of tobacco for regulatory reasons.

Other tobacco products

Third quarter highlights:

- US cigar reported shipment volumes up 1 percent with gains in natural leaf varieties offsetting declines for HTL
- Market declines for HTL cigars continued, as well as for US chewing tobacco

Key data

MSEK	July-September 2019	July-September 2018	Chg %	January-September 2019	January-September 2018	Chg %	Full year 2018
Sales	1,496	1,384	8	4,320	4,007	8	5,240
Operating profit	579	519	11	1,675	1,501	12	1,956
Operating margin, %	38.7	37.5		38.8	37.4		37.3
EBITDA	612	539	13	1,774	1,566	13	2,046
EBITDA margin, %	40.9	39.0		41.1	39.1		39.0

The third quarter

(Note: Comments below refer to the comparison between the third quarter 2019 vs. the third quarter 2018).

In local currencies, sales for Other tobacco products were up by 1 percent and operating profit was up by 4 percent. In local currency, sales and operating profit increased for both cigars and US chewing tobacco. Sales of chewing products outside of the US (chew bags and tobacco bits) were flat on an underlying basis while operating profit declined. In the US, operating profit and operating margin benefited from the aforementioned changed segment allocation methodology for shared operating expenses of our US business. Under the 2018 allocation methodology Other tobacco products expenses would have been 18 MSEK higher and Snus and moist snuff expenses would have been lower by the same amount.

Cigar volumes were relatively flat in the quarter as volume growth for natural leaf varieties offset volume declines for homogenized tobacco leaf (HTL) varieties. For both natural leaf small and rolled leaf varieties, Swedish Match shipment volumes were higher than the same period prior year. As of the third quarter Swedish Match is utilizing the externally developed MSA data set that is also used by most of our major US competitors instead of our previous proprietary data set in order to track distributor shipments to the trade. While the data is comparable to the previous data source there are some minor inconsistencies on a sequential basis. Based on this new measure of distributor shipments to retail, total cigar category volumes declined by close to 5 percent in the quarter, most notably within the HTL segment. Under this new measure, Swedish Match volumes declined as well but were down to a lesser extent due to our portfolio positioning skewed toward natural leaf cigars.

Chewing tobacco shipments in the US (excluding contract manufacturing volumes) during the quarter were down. Volumes for traditional premium varieties declined, while they grew for value brands. Based on distributor shipments to retail, Swedish Match's volumes declined at a more modest pace than the overall category resulting in market share gains in both the premium segment and the value segment. Sales and operating profit for US chewing tobacco benefited from price increases, partly offset by adverse mix effects given the category shift to value products. Swedish Match's largest market for chewing tobacco outside the

US (chew bags and tobacco bits) is Germany, which may be impacted by developments from court proceedings in the Bavarian Administrative Court relating to the legality of V2 Tobacco's chewing tobacco assortment (*please refer to Events after the reporting period on page 10*).

The first nine months

(Note: Comments below refer to the comparison between the first nine months 2019 vs. the first nine months 2018).

In local currencies, sales for Other tobacco products declined by 1 percent, while operating profit was up by 2 percent, attributable in large part to US cigars.

Cigar shipment volumes declined by 3 percent and reported sales in US dollars declined at a similar rate. Average prices improved, but reported sales were negatively impacted by the aforementioned retailer merchandising program in the US, and operating profit for cigars grew in local currency.

For chewing tobacco, sales in local currencies were essentially flat with a decline for chew bags and US chewing offset by additional revenue for Oliver Twist tobacco bits acquired in the second quarter of 2018. Operating profit in local currencies was also relatively unchanged from the prior year quarter.

Swedish Match US shipment volumes

	July-September 2019	July-September 2018	Chg %	January-September 2019	January-September 2018	Chg %	Full year 2018
Cigars, millions of sticks	429	427	1	1,284	1,320	-3	1,703
Chewing tobacco, thousands of pounds (excluding contract manufacturing volumes)	1,477	1,526	-3	4,421	4,744	-7	6,093

Lights

Third quarter highlights:

- Modest sales declines for both lighters and matches, and lower sales for complementary products
- Increased operating profit (both including and excluding asset sales relating to matches) for both lighters and matches despite volume declines, aided by positive mix effects
- Land and forestry asset sales in Brazil positively impacted results by 34 MSEK

Key data

MSEK	July-September 2019	July-September 2018	Chg %	January-September 2019	January-September 2018	Chg %	Full year 2018
Sales	298	310	-4	878	897	-2	1,246
Operating profit	88	46	89	137	123	12	189
Operating margin, %	29.4	14.9		15.6	13.7		15.2
EBITDA	99	57	75	171	153	12	230
EBITDA margin, %	33.3	18.2		19.5	17.1		18.4

The third quarter

(Note: Comments below refer to the comparison between the third quarter 2019 vs. the third quarter 2018).

Sales for Lights were down 4 percent, primarily due to steep sales declines for complementary products. Sales for both lighters and matches also declined, but only modestly, despite notable volume declines. Both matches and lighters experienced positive market and format mix effects which served to partly offset the impacts of the lower volume.

Operating profit grew for both matches and lighters, while operating profit declined for complementary products. Operating profit was positively impacted by asset sales in Brazil, with the sale of land and forestry assets generating an additional 34 MSEK of profit in the third quarter. Excluding these asset sales, operating profit would have been relatively flat on an underlying basis, with modest profit improvement for matches and lighters being offset by a lower result for complementary products.

The first nine months

(Note: Comments below refer to the comparison between the first nine months 2019 vs. the first nine months 2018).

Sales declined by 2 percent, primarily as a result of the weak development for matches during the second quarter and for complementary products in both the second and third quarter. Lighter sales increased despite lower volumes as a result of favorable market and format mix. Operating profit declined for lighters on higher nylon costs and for complementary products on lower sales. Operating profit for matches grew due to proceeds from the sale of assets during the third quarter. The operating profit in the prior year included restructuring costs in Brazil of approximately 12 MSEK during the first quarter, while restructuring charges of a similar magnitude were incurred during the second quarter of 2019.

Swedish Match shipment volumes, worldwide

	July-September		Chg	January-September		Chg	Full year
	2019	2018	%	2019	2018	%	2018
Matches, billion sticks	12.7	15.2	-16	39.8	46.4	-14	64.5
Lighters, million units	78.7	89.3	-12	228.2	239.9	-5	333.9

Financing and cash flow

Cash flow from operating activities for the first nine months amounted to 3,764 MSEK (2,614). The increase was driven by the stronger EBITDA development from product segments, timing of income tax payments and improved cash flow from working capital.

Investments in property, plant and equipment increased to 548 MSEK (464). During the third quarter of 2019, Swedish Match made a 49 percent investment in a newly established distribution company, which in turn acquired two distribution companies. These acquisitions have been financed by a loan from Swedish Match of 58 MSEK (see Note 5).

Net finance cost for the first nine months declined to 188 MSEK (219), mainly due to lower average interest rate on debt and improved returns on excess cash which was partly offset by higher interest cost from increased average level of bond loans.

During the first nine months, new bond loans of 999 MSEK were issued and bond loans, including loan hedge derivatives, amounting to 1,092 MSEK have been repaid. As of September 30, 2019, Swedish Match had 12,827 MSEK of interest-bearing debt excluding retirement benefit obligations but including the recognition of lease liabilities of 267 MSEK from the adoption of IFRS 16. The Group's interest-bearing debt, excluding retirement benefit obligations at December 31, 2018 amounted to 12,705 MSEK. During the remainder of 2019, none of the bond debt falls due for payment. For further detail on the maturity profile of the debt portfolio, please see Swedish Match's website. Net retirement benefit obligations increased to 1,496 MSEK as of September 30, 2019, from 1,024 MSEK at December 31, 2018 due to decreases in discount rates and translation effects as a result of the weaker SEK.

As of September 30, 2019, Swedish Match had 1,500 MSEK in unutilized committed credit lines. Cash and cash equivalents amounted to 2,489 MSEK at the end of the period, compared to 2,886 MSEK at December 31, 2018.

The net debt as of September 30, 2019 amounted to 11,834 MSEK compared to 10,843 MSEK at December 31, 2018.

Shareholder distributions and the share

In the first nine months 2019, Swedish Match paid dividends of 1,777 MSEK to its shareholders. During the same period, Swedish Match repurchased 4.5 million shares for 1,875 MSEK at an average price of 413.07 SEK, following authorization from the Annual General Meetings held in 2018 and 2019. Total shares bought back by Swedish Match since the buyback program started have been repurchased at an average price of 135.68 SEK. As per September 30, 2019 Swedish Match held 4.3 million shares, corresponding to 2.52 percent of the total number of shares. The number of shares outstanding, net, as per September 30, 2019, amounted to 165.7 million.

Other events during the quarter

Public Health Groups versus FDA in Maryland Federal Court

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

Events after the reporting period

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

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

The Bavarian Administrative Court in Germany rules on chewing tobacco

The Bavarian Administrative Court in Germany has on October 14, 2019 issued a press release announcing that the court had found that certain of V2 Tobacco's Thunder chew bag products as well as the Thunder loose chew products sold in Germany are to be regarded as oral tobacco not intended for chewing. The court refers to the European Court of Justice's (ECJ) ruling of October 17, 2018 on the definition of chewing tobacco under the EU Tobacco Directive (Directive 2014/40/EU). According to the ECJ, only products which can be consumed in the proper sense only by chewing, i.e. products which can release their essential ingredients in the mouth only by chewing, may be classified as chewing tobacco. The ECJ noted that the final determination of whether products can be consumed in the proper sense only by chewing is to be made by the national courts taking into account all relevant objective characteristics of the products such as their composition, consistency, method of dispensation and, where appropriate, their actual use by consumers. The Bavarian Administrative Court is expected to present its final judgement inclusive of the grounds for the court's decision in October/November 2019.

As Swedish Match has communicated previously, negative rulings in national courts related to chew bags could restrict Swedish Match from distributing and selling chew bags in their present form in the EU markets thereby negatively impacting the carrying value of Swedish Match's reported intangibles from the September 2017 acquisition of V2 Tobacco. For the nine months ending September 30, 2019, chew bag sales amounted to 130 MSEK (1.2 percent of total company sales) and chew bag operating profit amounted to 25 MSEK (0.6 percent of total company operating profit). Approximately half of Swedish Match's chew bag sales were in Germany.

Nominating Committee

In accordance with the instructions adopted by the Annual General Meeting 2019, a Nominating Committee has been appointed. In addition to Conny Karlsson (Chairman of the Board), Filippa Gerstädt (Nordea Funds), Hans Ek (SEB Investment Management AB), Will James (Standard Life Aberdeen PLC), and David Pawelkowski (Zadig Gestion (Luxembourg) S.A.) have been appointed members of the Nominating Committee.

Outlook

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

For 2019, on a full year basis, Swedish Match expects the Scandinavian snus market to continue to grow and to remain highly competitive. Swedish Match expects the US snus/nicotine pouch market to grow. In the US moist snuff market, we expect continued growth for pouches. For US chewing tobacco we expect continued market declines. In both Scandinavia and markets outside of Scandinavia, we expect segment growth and increased competitive activity for nicotine pouches (both without tobacco and with small amounts of tobacco).

We will continue to explore growth opportunities for smokeless tobacco and nicotine pouch products outside Scandinavia. In the US, we will broaden the distribution for *ZYN*, to make this popular nicotine pouch product available to consumers nationally. Further for *ZYN*, selected additional geographies outside the US will be considered. The decision to further scale up the investment in *ZYN* production capacity in the US is expected to result in increased capital expenditures in 2019 compared to 2018.

Swedish Match expects the US cigar market to remain highly competitive.

The effective corporate tax rate in 2019, excluding associated companies and larger one-time items, is expected to be in the 22 percent to 23 percent range (21.7).

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 Report of the Board of Directors in the Swedish Match annual report for 2018, 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.

Sales in the Parent Company for the first nine months amounted to 31 MSEK (34). Loss before income tax amounted to -340 MSEK (-362) and net loss for the first nine months amounted to -258 MSEK (-281). The decrease in loss before income tax compared to previous year is primarily related to a dividend received from a subsidiary.

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

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

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

During the first nine months, the Parent Company made share repurchases of 4.5 million (4.4) shares for 1,875 MSEK (1,958).

A dividend of 1,777 MSEK (2,911) 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, 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 full year 2019 report will be released on February 12, 2020.

Stockholm, October 25, 2019

Lars Dahlgren
President and CEO

Product segments summary and key ratios

Sales

MSEK	July-September 2019	July-September 2018	Chg %	January-September 2019	January-September 2018	Chg %	Full year 2018
Snus and moist snuff	1,935	1,601	21	5,327	4,495	19	6,127
Other tobacco products	1,496	1,384	8	4,320	4,007	8	5,240
Lights	298	310	-4	878	897	-2	1,246
Sales from product segments	**3,729**	**3,295**	**13**	**10,525**	**9,399**	**12**	**12,612**
Other operations	100	93	6	281	266	6	353
Sales	**3,829**	**3,388**	**13**	**10,806**	**9,664**	**12**	**12,966**

Operating profit

MSEK	July-September 2019	July-September 2018	Chg %	January-September 2019	January-September 2018	Chg %	Full year 2018
Snus and moist snuff	940	752	25	2,491	2,066	21	2,791
Other tobacco products	579	519	11	1,675	1,501	12	1,956
Lights	88	46	89	137	123	12	189
Operating profit from product segments	**1,607**	**1,317**	**22**	**4,303**	**3,690**	**17**	**4,936**
Other operations	-21	-12		-93	-74		-124
Operating profit	**1,586**	**1,305**	**21**	**4,209**	**3,616**	**16**	**4,812**

Operating margin by product segment

Percent	July-September 2019	July-September 2018	January-September 2019	January-September 2018	Full year 2018
Snus and moist snuff	48.6	47.0	46.8	46.0	45.6
Other tobacco products	38.7	37.5	38.8	37.4	37.3
Lights	29.4	14.9	15.6	13.7	15.2
Operating margin from product segments	**43.1**	**40.0**	**40.9**	**39.3**	**39.1**

EBITDA by product segment

MSEK	July-September 2019	July-September 2018	Chg %	January-September 2019	January-September 2018	Chg %	Full year 2018
Snus and moist snuff	1,020	810	26	2,712	2,230	22	3,025
Other tobacco products	612	539	13	1,774	1,566	13	2,046
Lights	99	57	75	171	153	12	230
EBITDA from product segments	**1,731**	**1,406**	**23**	**4,656**	**3,950**	**18**	**5,301**

EBITDA margin by product segment

Percent	July-September 2019	July-September 2018	January-September 2019	January-September 2018	Full year 2018
Snus and moist snuff	52.7	50.6	50.9	49.6	49.4
Other tobacco products	40.9	39.0	41.1	39.1	39.0
Lights	33.3	18.2	19.5	17.1	18.4
EBITDA margin from product segments	**46.4**	**42.7**	**44.2**	**42.0**	**42.0**

Key ratios

	January-September		12 months ended	Full year
	2019	2018	Sep 30, 2019	2018
Operating margin from product segments, %	40.9	39.3	40.4	39.1
Operating margin, %	39.0	37.4	38.3	37.1
Net debt, MSEK[1)]	11,834	11,034	11,834	10,843
Investments in property, plant and equipment, MSEK	548	464	732	649
Depreciation, amortization and impairments, MSEK[2)]	398	298	515	415
EBITA, MSEK	4,258	3,663	5,470	4,875
EBITA interest cover	23.5	17.3	22.1	17.5
Net debt/EBITA	-	-	2.2	2.2
Share data				
Number of shares outstanding at end of period	165,671,405	171,472,705	165,671,405	170,210,705
Average number of shares outstanding	168,822,439	174,337,322	169,309,378	173,445,540

1) 2019 includes lease liabilities of 267 MSEK following the adoption of IFRS 16.
2) 2019 includes depreciations relating to right-of-use assets of 64 MSEK following the adoption of IFRS 16.

Financial statements

Condensed consolidated income statement

MSEK		Jul-Sep		Chg	Jan-Sep		Chg	Full year
	Note	2019	2018	%	2019	2018	%	2018
Sales, including tobacco tax		4,685	4,217		13,345	12,146		16,335
Less tobacco tax		-856	-828		-2,539	-2,482		-3,369
Sales		**3,829**	**3,388**	**13**	**10,806**	**9,664**	**12**	**12,966**
Cost of goods sold		-1,340	-1,231		-3,925	-3,589		-4,832
Gross profit		**2,489**	**2,157**	**15**	**6,882**	**6,076**	**13**	**8,133**
Selling and admin. expenses		-904	-853		-2,674	-2,462		-3,324
Share of profit/loss in associated companies		1	1		1	2		3
Operating profit		**1,586**	**1,305**	**21**	**4,209**	**3,616**	**16**	**4,812**
Finance income		23	16		73	46		65
Finance costs		-83	-89		-262	-266		-346
Net finance cost		-60	-73		-188	-219		-281
Profit before income tax		**1,526**	**1,232**	**24**	**4,021**	**3,397**	**18**	**4,531**
Income tax expense		-346	-273		-881	-744		-953
Profit for the period		**1,180**	**959**	**23**	**3,140**	**2,653**	**18**	**3,578**
Attributable to:								
Equity holders of the Parent		1,180	959		3,139	2,653		3,578
Non-controlling interests		0	0		0	0		0
Profit for the period		**1,180**	**959**	**23**	**3,140**	**2,653**	**18**	**3,578**
Earnings per share, basic and diluted, SEK	4	7.04	5.55		18.60	15.22		20.63

Condensed consolidated statement of comprehensive income

MSEK	Jul-Sep		Jan-Sep		Full year
	2019	**2018**	**2019**	**2018**	**2018**
Profit for the period	**1,180**	**959**	**3,140**	**2,653**	**3,578**
Other comprehensive income that may be reclassified to the income statement					
Translation differences related to foreign operations	295	-103	533	280	331
Translation differences included in profit and loss	-	0	-	-2	-2
Effective portion of changes in fair value of cash flow hedges	38	22	102	-15	39
Income tax relating to reclassifiable components of other comprehensive income	-8	-4	-21	0	-11
Sub-total, net of tax for the period	**325**	**-86**	**615**	**262**	**356**
Other comprehensive income that will not be reclassified to the income statement					
Actuarial gains/losses attributable to pensions, incl. payroll tax	-155	80	-310	249	118
Income tax relating to non-reclassifiable components of other comprehensive income	37	-18	69	-67	-38
Sub-total, net of tax for the period	**-118**	**62**	**-241**	**182**	**80**
Total comprehensive income for the period	**1,387**	**935**	**3,513**	**3,098**	**4,014**
Attributable to:					
Equity holders of the Parent	1,387	935	3,513	3,098	4,014
Non-controlling interests	0	0	0	0	0
Total comprehensive income for the period	**1,387**	**935**	**3,513**	**3,098**	**4,014**

Condensed consolidated balance sheet

MSEK	Note	September 30, 2019	December 31, 2018
Intangible assets		2,794	2,708
Property, plant and equipment		3,295	2,941
Right-of-use assets	1	269	-
Investments in associated companies		36	24
Other non-current assets and operating receivables	3	19	19
Other non-current financial assets and receivables	3,7	2,057	1,420
Total non-current assets		**8,471**	**7,113**
Other current financial receivables	3,7	139	226
Current operating assets and receivables	3	3,681	3,762
Cash and cash equivalents	3	2,489	2,886
Total current assets		**6,308**	**6,874**
Total assets		**14,779**	**13,987**
Equity attributable to equity holders of the Parent		-5,751	-5,611
Non-controlling interests		16	16
Total equity		**-5,735**	**-5,595**
Non-current financial provisions		1,252	1,186
Non-current loans	3	13,143	12,282
Other non-current financial liabilities	1,3,7	1,773	1,140
Other non-current operating liabilities	3	428	415
Total non-current liabilities		**16,596**	**15,024**
Current loans	3	502	1,229
Other current financial liabilities	1,3,7	565	245
Other current operating liabilities	3	2,851	3,085
Total current liabilities		**3,918**	**4,559**
Total liabilities		**20,514**	**19,582**
Total equity and liabilities		**14,779**	**13,987**

Condensed consolidated cash flow statement

MSEK	Note	January-September 2019	2018
Operating activities			
Profit before income taxes		**4,021**	**3,397**
Share of profit/loss in associated companies		-1	-2
Dividend received from associated companies		1	3
Other non-cash items etc.		348	203
Income tax paid		-584	-798
Cash flow from operating activities before changes in working capital		**3,785**	**2,802**
Changes in working capital		-21	-188
Net cash generated from operating activities		**3,764**	**2,614**
Investing activities			
Purchase of property, plant and equipment		-548	-464
Proceeds from sale of property, plant and equipment		10	1
Purchase of intangible assets		-23	-5
Acquisition of subsidiaries[1)]		-	-541
Investments in associated companies		-1	-
Changes in financial receivables from associated companies		-58	-
Changes in financial receivables etc.		0	0
Net cash used in investing activities		**-620**	**-1,009**
Financing activities			
Proceeds from borrowings		999	2,846
Repayment of borrowings		-1,092	-1,250
Dividend paid to equity holders of the Parent		-1,777	-2,911
Lease payments	1	-69	-
Repurchase of own shares		-1,875	-1,958
Realized exchange gain/losses on financial instruments		190	104
Other		-2	0
Net cash used in financing activities		**-3,627**	**-3,170**
Net decrease in cash and cash equivalents		**-483**	**-1,565**
Cash and cash equivalents at the beginning of the period		2,886	3,998
Effect of exchange rate fluctuations on cash and cash equivalents		86	63
Cash and cash equivalents at the end of the period		**2,489**	**2,496**

1) Acquisition of subsidiaries in 2018 refer to the acquisitions of House of Oliver Twist and Gotlandssnus. For further disclosures regarding the acquisition, see Note 4 Business combinations in the annual report for 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, 2018	**-4,202**	**1**	**-4,201**
Profit for the period	2,653	0	2,653
Other comprehensive income, net of tax for the period	445	0	445
Total comprehensive income for the period	**3,098**	**0**	**3,098**
Dividend	-2,911	0	-2,911
Repurchase of own shares	-1,958	-	-1,958
Cancellation of shares	-13	-	-13
Bonus issue	13	-	13
Acquisition of non-controlling interests	-	15	15
Equity at September 30, 2018	**-5,974**	**16**	**-5,958**
Equity at January 1, 2019	**-5,611**	**16**	**-5,595**
Profit for the period	3,139	0	3,140
Other comprehensive income, net of tax for the period	373	0	373
Total comprehensive income for the period	**3,513**	**0**	**3,513**
Dividend	-1,777	0	-1,777
Repurchase of own shares	-1,875	-	-1,875
Cancellation of shares	-13	-	-13
Bonus issue	13	-	13
Acquisition of non-controlling interests	-	0	0
Equity at September 30, 2019	**-5,751**	**16**	**-5,735**

Condensed Parent Company income statement

MSEK	January-September 2019	January-September 2018
Sales	31	34
Administrative expenses	-247	-166
Operating loss	**-216**	**-133**
Result from participation in Group companies	97	-2
Finance income	0	-
Finance costs	-221	-228
Net finance cost	-221	-228
Loss before income tax	**-340**	**-362**
Income tax	82	81
Loss for the period	**-258**	**-281**

Condensed Parent Company statement of comprehensive income

MSEK	January-September 2019	January-September 2018
Loss for the period	**-258**	**-281**
Other comprehensive income that may be reclassified to the income statement		
Effective portion of changes in fair value of cash flow hedges	102	-15
Income tax relating to components of other comprehensive income	-21	0
Other comprehensive income/loss, net of tax for the period	**81**	**-16**
Total comprehensive loss for the period	**-177**	**-297**

Condensed Parent Company balance sheet

MSEK	September 30, 2019	September 30, 2018	December 31, 2018
Intangible and tangible assets	1	1	1
Non-current financial assets	32,145	31,660	31,701
Current assets	965	1,488	4,161
Total assets	**33,111**	**33,149**	**35,863**
Equity	**11,324**	**14,055**	**15,154**
Untaxed reserves	**1,785**	**1,330**	**1,785**
Provisions	108	56	78
Non-current liabilities	13,145	12,280	12,280
Current liabilities	6,749	5,427	6,566
Total liabilities	**20,002**	**17,764**	**18,924**
Total equity and liabilities	**33,111**	**33,149**	**35,863**

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.

With effect from January 1, 2019, Swedish Match applies the new accounting standard IFRS 16 Leases. Other changes to IFRS standards, amendments and interpretations of existing standards applicable as of January 1, 2019 did not have an effect on the Group's financial result or position. In all other aspects, the accounting principles and basis of calculation in this report are the same as in the annual report for 2018.

The nature and effect of the change from the adoption of IFRS 16

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

Real estate leases, such as rental of office and factory premises, warehouses and storages, represent approximately 70 percent 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.

For the transition to IFRS 16, Swedish Match applied the cumulative catch-up method in accordance with IFRS 16.C5(b). The transition to IFRS 16 did not result in an adjustment to the opening balance of retained earnings of the annual reporting period commencing January 1, 2019. The transition method also means that IFRS 16 is applied to the financial statements prospectively as per January 1, 2019. Consequently, comparable information in this report has not been restated. For further information on the effect on the Group's balance sheet from the transition to IFRS 16, see the reconciliation table below.

The Group's net profit for the full year 2019 is estimated to be reduced by an immaterial amount, mainly relating to higher interest costs on lease liabilities. The Group's EBITDA for the full year 2019 is estimated to improve by approximately 84 MSEK as lease payments recognized as operating costs when incurred under the previous accounting standard are replaced by depreciation costs on the right-of-use assets and interest expense on the related lease liabilities. The Group's net debt as per January 1, 2019 has increased by 272 MSEK as lease liabilities are classified as financial liabilities. The impacts to net debt/EBITA ratio and other key ratios are immaterial.

The carrying values of the Group's right-of-use assets are reported in the balance sheet under a new asset category defined as right-of-use assets. Lease liabilities are reported in the balance sheet as *Other non-current financial liabilities* and *Other current financial liabilities* depending on the timing of the payments under the lease contracts. For information on the amounts reported at the end of the period for the Group's lease liabilities, see Note 7 in this report.

The new standard for the accounting of lease contracts is dependent on management judgements and estimates of certain variables which have a direct impact on the reported balances. The most relevant assumption is the discount rates applied in the measurement of the lease liabilities and the corresponding right-of-use assets. Judgements on the likelihood of exercising or not exercising extension and termination options in lease contracts may also have an impact on the reported lease obligation and right-of-use asset. For further information on the accounting principles for IFRS 16, see Note 1 in the annual report for 2018.

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

Condensed consolidated balance sheet

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

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 – July to September

MSEK	Segments											
	Snus and moist snuff		Other tobacco products		Lights		Total segments		Other operations		Group	
Primary geographical markets	**Jul-Sep 2019**	**2018**	**Jul-Sep 2019**	**2018**	**Jul-Sep 2019**	**2018**	**Jul-Sep 2019**	**2018**	**Jul-Sep 2019**	**2018**	**Jul-Sep 2019**	**2018**
Scandinavia	1,148	1,117	26	33	13	11	1,187	1,161	100	93	1,286	1,254
The US	777	476	1,433	1,313	16	12	2,226	1,801	-	-	2,226	1,801
Other markets	10	8	38	38	269	287	317	333	-	-	317	333
Total sales	**1,935**	**1,601**	**1,496**	**1,384**	**298**	**310**	**3,729**	**3,295**	**100**	**93**	**3,829**	**3,388**

Sales – January to September

MSEK	Segments											
	Snus and moist snuff		Other tobacco products		Lights		Total segments		Other operations		Group	
Primary geographical markets	**Jan-Sep 2019**	**2018**	**Jan-Sep 2019**	**2018**	**Jan-Sep 2019**	**2018**	**Jan-Sep 2019**	**2018**	**Jan-Sep 2019**	**2018**	**Jan-Sep 2019**	**2018**
Scandinavia	3,319	3,186	79	57	32	33	3,429	3,277	281	266	3,710	3,542
The US	1,988	1,287	4,123	3,831	55	31	6,165	5,148	-	-	6,165	5,148
Other markets	21	22	118	119	791	833	931	974	-	-	931	974
Total sales	**5,327**	**4,495**	**4,320**	**4,007**	**878**	**897**	**10,525**	**9,399**	**281**	**266**	**10,806**	**9,664**

Note 3 – Carrying value and fair value

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

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

Level 1 - Quoted prices (unadjusted) in active markets
Level 2 - Inputs other than quoted prices included within level 1 that are observable, either directly or indirectly
Level 3 - Inputs that are not based on observable market data

The following table shows carrying value and fair value for financial instruments per September 30, 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	-	1,472	-	-	-	1,472	1,472
Other non-current financial receivables	-	-	-	949	494	1,443	1,443
Other current assets and financial receivables	34	60	-	-	265	359	359
Prepaid expenses and accrued income1)	-	-	-	2	104	105	105
Cash and cash equivalents	-	2,489	-	-	-	2,489	2,489
Total assets	**34**	**4,021**	**-**	**951**	**863**	**5,868**	**5,868**
Loans and borrowings	-	-	13,644	-	-	13,644	13,992
Other non-current financial liabilities	-	-	184	5	58	247	247
Other current liabilities	-	-	114	-	1,498	1,612	1,612
Accrued expenses and deferred income1)	-	-	92	21	757	870	870
Trade payables	-	-	319	-	-	319	319
Total liabilities	**-**	**-**	**14,353**	**26**	**2,313**	**16,692**	**17,040**

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	-	985	-	985
Derivative financial liabilities	-	26	-	26

The following table shows carrying value and fair value for financial instruments per September 30, 2018.

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	-	1,493	-	-	-	1,493	1,493
Other non-current financial receivables	-	-	-	434	743	1,177	1,177
Other current assets and financial receivables	10	-	-	134	216	360	360
Prepaid expenses and accrued income1)	-	-	-	1	107	108	108
Cash and cash equivalents	-	2,496	-	-	-	2,496	2,496
Total assets	**10**	**3,989**	**-**	**569**	**1,066**	**5,634**	**5,634**
Loans and borrowings	-	-	13,518	-	-	13,518	13,584
Other non-current financial liabilities	-	-	31	1	59	92	92
Other current liabilities	17	-	-	-	1,542	1,559	1,559
Accrued expenses and deferred income1)	-	-	86	26	755	868	868
Trade payables	-	-	319	-	-	319	319
Total liabilities	**17**	**-**	**13,954**	**27**	**2,356**	**16,356**	**16,422**

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	-	579	-	579
Derivative financial liabilities	-	44	-	44

No transfer in or out of level 2 has been made during the third quarter of 2019. The recognized amounts are regarded as reasonable estimates for all items measured at carrying value in the balance sheet, except for loans and borrowings, as these amounts have a long time to maturity. The fair value of loans and borrowings differ from their carrying value as a consequence of changes in the market interest rates. Items not valued at fair value in the balance sheet are measured at amortized cost. The total nominal amount of outstanding derivatives is 9,312 MSEK (9,090) of which 6,304 MSEK (7,196) is in cash flow hedges consisting of cross currency and interest rate swaps related to bond loans. The remaining 3,008 MSEK (1,894) consist of currency swaps related to the conversion of surplus cash in US dollars to Swedish kronor. Methodologies utilized in the valuation of financial instruments can be found in Note 1 in the annual report for 2018.

Note 4 – Earnings per share

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

Earnings per share

Basic and diluted	July-September		January-September		Full year
	2019	**2018**	**2019**	**2018**	**2018**
Profit for the period attributable to equity holders of the Parent, MSEK	1,180	959	3,139	2,653	3,578
Weighted average number of shares outstanding	167,352,790	172,597,848	168,822,439	174,337,322	173,445,540
Earnings per share, SEK	7.04	5.55	18.60	15.22	20.63

Note 5 – Related party transactions

During the third quarter 2019, Swedish Match invested in a 49 percent ownership interest in a newly established tobacco distribution company in Slovenia, OTP d.o.o (OTP). Also during the third quarter, OTP acquired two distribution companies, STG Slovenia and STG Croatia. The acquisitions have been financed by a loan from Swedish Match. As per September 30, 2019, the financial loan to OTP amounted to 58 MSEK.

No other material transactions with related parties have occurred during the period.

Note 6 – Tax related contingencies

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 new proposed decision, is claiming total income tax and surcharges of approximately 350 MSEK excluding interest charges. In May 2019, the County Administrative Court ruled in favor of the Tax Agency in one of the cases. Swedish Match still believes in a positive outcome and has appealed the case 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 similar case rulings, no provision has been recognized for potential losses associated with these cases.

Note 7 – 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, larger one-time items, net finance cost and income tax	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), items which impact comparability between periods, financing and corporate income tax.
OPERATING MARGIN FROM PRODUCT SEGMENTS (%)	100 × Operating profit from product segments ÷ 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 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	Operating profit excluding larger one-time items, net finance cost, income tax, depreciation, amortization and impairments of tangible and intangible assets	Used as an alternative measure of operating performance that is not impacted by historical investments and the related accounting treatment of such investments as well as items which impact comparability between periods.
EBITDA FROM PRODUCT SEGMENTS	Operating profit from product segments, excluding Other operations, larger one-time items, net finance cost, income tax, depreciation, amortization and impairments of tangible and intangible assets	Used as an alternative measure of operating performance 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 × EBITDA ÷ Sales	Used as an alternative measure of operating profitability.
EBITDA MARGIN FROM PRODUCT SEGMENTS (%)	100 × EBITDA from product segments ÷ 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	Operating profit excluding larger one-time items, net finance cost, tax, amortization and impairments of intangible assets	Used as a proxy for the free cash flow of the ongoing business available for payment of financial obligations.
EBITA INTEREST COVER	EBITA ÷ (Interest expense - interest income)	Used as a measure of the ability to fund interest expenses.
NET DEBT	Current and non-current loans, adjusted for hedges relating to these loans + net provisions for pensions and similar obligations – cash and cash equivalents and other short-term investments	Used as a measure of net financial obligations.
NET DEBT/EBITA	Net debt ÷ 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	Profit for the period excluding larger one-time items ÷ 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.

Net debt

MSEK	September 30, 2019	September 30, 2018	Full year 2018
Non-current loans	13,143	12,283	12,282
Current loans	502	1,235	1,229
Components of derivatives (liabilities)1)	-	17	20
Components of derivatives (assets)2)	-1,084	-839	-826
Non-current lease liabilities3)	184	-	-
Current lease liabilities4)	83	-	-
Net provision for pensions and similar obligations3)	1,584	1,077	1,106
Net asset for pensions and similar receivables5)	-88	-243	-83
Cash and cash equivalents	-2,489	-2,496	-2,886
Net debt	**11,834**	**11,034**	**10,843**

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	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18
Sales, including tobacco tax	4,685	4,591	4,069	4,189	4,217
Less tobacco tax	-856	-872	-811	-888	-828
Sales	**3,829**	**3,719**	**3,258**	**3,301**	**3,388**
Cost of goods sold	-1,340	-1,350	-1,234	-1,244	-1,231
Gross profit	**2,489**	**2,369**	**2,023**	**2,057**	**2,157**
Selling and administrative expenses	-904	-936	-834	-862	-853
Share of net profit/loss in associated companies	1	0	1	1	1
Operating profit	**1,586**	**1,434**	**1,190**	**1,196**	**1,305**
Finance income	23	28	24	21	16
Finance costs	-83	-87	-93	-83	-89
Net finance cost	-60	-60	-69	-62	-73
Profit before income tax	**1,526**	**1,374**	**1,121**	**1,134**	**1,232**
Income tax expense	-346	-294	-242	-209	-273
Profit for the period	**1,180**	**1,080**	**880**	**925**	**959**
Attributable to:					
Equity holders of the Parent	1,180	1,080	880	925	959
Non-controlling interests	0	0	0	0	0
Profit for the period	**1,180**	**1,080**	**880**	**925**	**959**

Quarterly data by product segment

Sales

MSEK	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18
Snus and moist snuff	1,935	1,876	1,515	1,632	1,601
Other tobacco products	1,496	1,480	1,344	1,233	1,384
Lights	298	266	314	349	310
Sales from product segments	**3,729**	**3,622**	**3,174**	**3,214**	**3,295**
Other operations	100	98	84	87	93
Sales	**3,829**	**3,719**	**3,258**	**3,301**	**3,388**

Operating profit

MSEK	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18
Snus and moist snuff	940	874	676	725	752
Other tobacco products	579	578	518	456	519
Lights	88	6	43	66	46
Operating profit from product segments	**1,607**	**1,458**	**1,238**	**1,246**	**1,317**
Other operations	-21	-25	-48	-50	-12
Operating profit	**1,586**	**1,434**	**1,190**	**1,196**	**1,305**

Operating margin by product segment

Percent	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18
Snus and moist snuff	48.6	46.6	44.6	44.4	47.0
Other tobacco products	38.7	39.1	38.6	37.0	37.5
Lights	29.4	2.3	13.8	18.9	14.9
Operating margin from product segments	**43.1**	**40.3**	**39.0**	**38.8**	**40.0**

EBITDA by product segment

MSEK	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18
Snus and moist snuff	1,020	947	745	795	810
Other tobacco products	612	611	550	480	539
Lights	99	17	55	76	57
EBITDA from product segments	**1,731**	**1,576**	**1,349**	**1,351**	**1,406**

EBITDA margin by product segment

Percent	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18
Snus and moist snuff	52.7	50.5	49.1	48.7	50.6
Other tobacco products	40.9	41.3	40.9	38.9	39.0
Lights	33.3	6.5	17.4	21.8	18.2
EBITDA margin from product segments	**46.4**	**43.5**	**42.5**	**42.0**	**42.7**

Additional quarterly data

Depreciation, amortization and impairments

MSEK	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18
Property, plant and equipment	101	95	89	102	85
Right-of-use assets	22	21	21	-	-
Intangible assets	16	16	16	16	16
Total	**140**	**133**	**126**	**117**	**101**

Net finance cost

MSEK	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18
Interest income	21	28	24	15	16
Interest expense	-82	-82	-90	-81	-87
Net interest expense	**-60**	**-55**	**-66**	**-66**	**-71**
Other finance costs, net	0	-5	-3	4	-2
Total net finance cost	**-60**	**-60**	**-69**	**-62**	**-73**

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Swedish Match develops, manufactures, and sells quality products with market-leading brands in the product segments Snus and moist snuff, Other tobacco products, 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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