

**MINUTES**

kept at the Annual General Meeting of Swedish Match AB (publ), Reg. No. 556015-0756, on April 11, 2018 in Stockholm

**§ 1**

The Chairman of the Board, Conny Karlsson, opened the Meeting.

Björn Kristiansson was elected as the Chairman of the Meeting.

It was noted that the secretary of the Board, Marie-Louise Heiman, was assigned to keep the minutes at the Meeting.

The Meeting resolved to not permit any audio and video recording, other than on behalf of the Company for internal use.

**§ 2**

The list of shareholders present was approved as the voting list, Appendix 1.

**§ 3**

Ossian Ekdahl and Peter Lundkvist were appointed to verify the minutes along with the Chairman of the Meeting.

**§ 4**

The secretary announced that the notice to the Annual General Meeting was published in Post- och Inrikes Tidningar on March 7, 2018, that the notice has been provided on the Company's website as from March 5, 2018 and that information in respect of the notice was published in Svenska Dagbladet on March 7, 2018.

The Meeting declared itself to have been duly convened.

The notice to attend the Meeting was appended to the minutes, Appendix 2.

**§ 5**

The Agenda, as set out in Appendix 3, was approved.

**§ 6**

The annual report and the auditors' report, the consolidated financial statements and the auditors' report on the consolidated financial statements for 2017, the auditors' opinion regarding compliance with the previously adopted principles for remuneration to the members of the executive management, Appendix 4, as well as the Board of Directors' proposal regarding the allocation of profit and motivated statement were presented, Appendices 5 and 6.

The President gave accounts of the Company's operations and result during 2017.

The Chairman of the Board reported on the work and function of the Board of Directors, the Compensation Committee and the Audit Committee, as well as on the remuneration for auditing and other work paid to Swedish Match's auditors in 2017.

The auditor in charge, Peter Ekberg, Deloitte AB, reported on the auditing work.

The shareholders were given the opportunity to ask questions. The questions were answered by the President and the Chairman of the Board.

**§ 7**

It was resolved to adopt the income statement and balance sheet, along with the consolidated income statement and consolidated balance sheet, as presented in the annual report, Appendix 7.

**§ 8**

The Board of Directors' proposal according to Appendix 5 was presented.

It was resolved that the funds at the disposal of the Annual General Meeting shall be allocated by way of a dividend of 16:60 SEK per share to be paid to the shareholders, that the remaining profits be carried forward, and that the record day for the right to receive a cash dividend shall be April 13, 2018.

**§ 9**

It was resolved to discharge the members of the Board of Directors and the President from liability for the period January 1 – December 31, 2017.

It was noted that the decision was unanimous with the exception of 242 462 votes against which had been submitted in advance.

It was noted that the members of the Board of Directors and the President did not take part in this resolution.

**§ 10**

Daniel Ovin, the Chairman of the Nominating Committee, reported on how the work of the Nominating Committee has been conducted.

Pursuant to the Nominating Committee's proposal, it was resolved that the Board of Directors, for the period until the next Annual General Meeting, shall consist of seven ordinary Board members and no deputies.

**§ 11**

The Nominating Committee's proposal as set out in Appendix 8 was presented.

Pursuant to the Nominating Committee's proposal, it was resolved that the Board of Directors, for the period up until the end the Annual General Meeting 2019, shall receive the following remuneration:

the Chairman shall receive 1,910,000 SEK, the Deputy Chairman shall receive 900,000 SEK and the other Board members shall each receive 764,000 SEK; and that the Chairman of the Compensation Committee shall receive 270,000 SEK and the Chairman of the Audit Committee shall receive 310,000 SEK and the other members of these committees shall each receive 135,000 SEK. It was further resolved in accordance with the Nominating Committee's proposal.

**§ 12**

The Nominating Committees' proposal according to Appendix 9 was presented.

Pursuant to the Nominating Committee's proposal, it was, for the period up until the end of the next Annual General Meeting, resolved to re-elect Charles A. Blixt, Andrew Cripps, Jacqueline Hoogerbrugge, Conny Karlsson, Pauline Lindwall, Wenche Rolfsen, and Joakim Westh as ordinary Board members, to re-elect Conny Karlsson as Chairman of the Board of Directors, and Andrew Cripps as Deputy Chairman of the Board of Directors.

It was noted that the employees' associations have, through special elections, appointed Patrik Englebretsson (the Swedish Trade Union Confederation, LO), Pär-Ola Olausson (the Swedish Trade Union Confederation, LO) and Dragan Popovic (the Swedish Federation of Salaried Employees in Industry and Services, PTK) as ordinary Board members, as well as Niclas Bengtsson (the Swedish Confederation of Professional Associations, SACO), Niclas Ed (the Swedish Federation of Salaried Employees in Industry and Services, PTK) and Matthias Eklund (the Swedish Trade Union Confederation, LO) as Deputy Board members.

**§ 13**

Pursuant to the Nominating Committee's proposal according to Appendix 10 it was resolved that the remuneration to the auditor is to be paid according to approved accounts.

**§ 14**

The Board of Directors' proposal according to Appendix 11 was presented.

Pursuant to the Board of Directors' proposal according to Appendix 11, it was resolved to adopt the principles for remuneration to members of the executive management.

**§ 15 a)**

The Board of Directors' proposal according to Appendix 12 was presented.

Pursuant to the Board of Directors' proposal, it was resolved that the Company's share capital shall be reduced by 12,533,911:65 SEK by means of withdrawal of 5,850,000 shares in the Company; and that the reduced amount shall be allocated to a fund to be used pursuant to a resolution adopted by the General Meeting.

It was noted that the resolution was unanimously.

**§ 15 b)**

Pursuant to the Board of Directors' proposal, Appendix 12, it was resolved that the Company's share capital shall be increased by 12,533,911:65 SEK through a transfer from non-restricted shareholders' equity to the share capital (bonus issue), whereby the share capital will be increased without issuing any new shares.

**§ 16**

The Board of Directors' proposal according to Appendix 13 was presented.

Pursuant to the Board of Directors' proposal, it was resolved to authorize the Board of Directors to resolve on acquisitions of the Company's own shares, on one or several occasions prior to the next Annual General Meeting, provided that the Company's holding does not at any time exceed 10 percent of all shares in the Company; and that the shares shall be acquired on Nasdaq Stockholm at a price within the price interval registered at any given time (i.e. the interval between the highest bid price and the lowest selling price).

The Board of Directors shall be able to resolve that purchase of own shares shall be made within a repurchase program in accordance with the Market Abuse Regulation (EU) No 596/2014 ("MAR") and the Commission Delegated Regulation (EU) No 2016/1052 (the "Safe Harbour Regulation"), if the purpose of the purchase only is to decrease the Company's equity.

It was noted that the resolution was supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting, and that the resolution thereby had been passed with requisite majority.

Aktiespararna expressed its reservation against the resolution.

**§17**

The Board of Directors' proposal according to Appendix 14 was presented.

Pursuant to the Board of Directors' proposal, it was resolved to authorize the Board of Directors to resolve on transfer of the Company's own shares, on one or several occasions prior to the next Annual General Meeting. The shares may only be transferred in conjunction with the financing of company acquisitions and other types of strategic investments and acquisitions, and the transfers may not exceed the maximum number of treasury shares held by the Company at any given time.

Transfer of own shares shall be made either on Nasdaq Stockholm or in another manner. In conjunction with the acquisition of companies or operations, transfer of own shares may be made with deviation from the shareholders' preferential rights and at a price within the price interval registered at any given time (i.e. the interval between the highest bid price and the lowest selling price) at the time of the decision regarding the transfer and in accordance with the rules of Nasdaq Stockholm. Payment for shares transferred in this manner may be made in cash or through a non-cash issue or offsetting of claims against the Company, or on other specific terms.

It was noted that the resolution was supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting, and that the resolution thereby had been passed with requisite majority.

Aktiespararna expressed its reservation against the resolution.

**§ 18**

The Board of Directors' proposal according to Appendix 15 was presented.

Pursuant to the Board of Directors' proposal, it was resolved to authorize the Board of Directors to resolve, for the period until the end of the next Annual General Meeting, to issue new ordinary shares on one or more occasions, with or without deviation from shareholders' preferential rights and against payment in cash, in kind or by set-off.

The number of shares that may be issued may not exceed a maximum dilution effect of 10 percent of the share capital and votes at the time of the Annual General Meeting 2018. The subscription price shall be determined according to prevailing market conditions at the time the shares are issued.

It was noted that the resolution was supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting, and that the resolution thereby had been passed with requisite majority.

Aktiespararna expressed its reservation against the resolution.

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Minutes checked by:

Minutes kept by:

Björn Kristiansson  
Chairman

Marie-Louise Heiman

Ossian Ekdahl

Peter Lundkvist

### **Notice to the Annual General Meeting in Swedish Match AB (publ)**

The shareholders of Swedish Match AB (publ), Reg. No. 556015-0756, are hereby notified of the Annual General Meeting to be held on Wednesday, April 11, 2018, at 15.30 CET at the cinema Skandia, Drottninggatan 82, Stockholm, Sweden.

#### **Agenda**

1. Opening of the Meeting and election of the Chairman of the Meeting.
2. Preparation and approval of the voting list.
3. Election of one or two persons to verify the minutes.
4. Determination of whether the Meeting has been duly convened.
5. Approval of the Agenda.
6. Presentation of the annual report and the auditor's report, the consolidated financial statements and the auditor's report on the consolidated financial statements for 2017, the auditor's opinion regarding compliance with the principles for remuneration to members of the executive management as well as the Board of Directors' proposal regarding the allocation of profit and motivated statement. In connection thereto, the President's speech and the Board of Directors' report on its work and the work and function of the Compensation Committee and the Audit Committee.
7. Resolution on adoption of the income statement and balance sheet and of the consolidated income statement and consolidated balance sheet.
8. Resolution regarding allocation of the Company's profit in accordance with the adopted balance sheet and resolution on a record day for dividend.
9. Resolution regarding discharge from liability in respect of the Board members and the President.
10. Resolution regarding the number of members of the Board of Directors to be elected by the Meeting.
11. Resolution regarding remuneration to the members of the Board of Directors.
12. Election of members of the Board, the Chairman of the Board and the deputy Chairman of the Board.
13. Resolution regarding remuneration to the auditor.
14. Resolution regarding principles for remuneration to members of the executive management.
15. Resolution regarding:
  - a. the reduction of the share capital by means of withdrawal of repurchased shares; and
  - b. bonus issue.
16. Resolution regarding authorization of the Board of Directors to resolve on acquisitions of shares in the Company.
17. Resolution regarding authorization of the Board of Directors to resolve on transfer of shares in the Company.
18. Resolution regarding authorization of the Board of Directors to issue new shares.

#### **The Proposals of the Nominating Committee**

**Item 1:** Björn Kristiansson, attorney at law, is proposed as the Chairman of the Meeting.

**Item 10:** The Board of Directors is proposed to consist of seven members and no deputies.

**Item 11:** Remuneration to the members of the Board of Directors is proposed to be paid as follows for the period until the Annual General Meeting 2019 (2017 resolved remuneration within brackets). The Chairman of the Board shall receive 1,910,000 SEK (1,840,000), the deputy Chairman shall receive 900,000 SEK (870,000) and the other Board members elected by the

Meeting shall each receive 764,000 SEK (735,000). It is further proposed that the Board, as remuneration for committee work, be allotted 270,000 SEK (260,000) to the Chairman of the Compensation Committee and 310,000 SEK (260,000) to the Chairman of the Audit Committee, and 135,000 SEK (130,000) to each of the other members of these committees.

**Item 12:** The following members of the Board of Directors are proposed for re-election for the period until the end of the Annual General Meeting 2019: Charles A. Blixt, Andrew Cripps, Jacqueline Hoogerbrugge, Conny Karlsson, Pauline Lindwall, Wenche Rolfsen and Joakim Westh. Conny Karlsson is proposed to be re-elected as Chairman of the Board and Andrew Cripps is proposed to be re-elected as deputy Chairman of the Board.

**Item 13:** Remuneration to the auditor is proposed to be paid according to approved accounts.

### **The Proposals of the Board of Directors**

**Item 8:** The Board of Directors proposes an ordinary dividend of 9.20 SEK per share, and a special dividend of 7.40 SEK per share, in total 16.60 SEK per share, and that the remaining profits are carried forward. The proposed record day for the right to receive the dividend is Friday April 13, 2018. Payment through Euroclear Sweden AB is expected to be made on Wednesday April 18, 2018.

**Item 14:** The Board of Directors proposes that the 2018 Annual General Meeting adopts principles for remuneration and other terms of employment for members of executive management according to the following. Remuneration and other terms of employment shall correspond to market practice. In addition to the fixed salary, the members of the executive management may be entitled to variable remuneration. The variable remuneration may include an annual short term program to be paid out in the beginning of the following year, depending on the outcome of the program, and a long term program with a performance period which shall not be shorter than three years. The variable remuneration, which shall be capped in relation to the fixed salary, shall primarily be based on specific, clear, predetermined and measurable financial or operational objectives. The variable remuneration may include an obligation to purchase and hold shares in the Company. The proposed principles are unchanged compared to the principles adopted by the 2017 Annual General Meeting. Full details on the proposed principles for remuneration and other terms of employment for the executive management and its application in 2018 are available on the Company's website [www.swedishmatch.com](http://www.swedishmatch.com).

**Item 15 a):** The Board proposes that the Annual General Meeting resolves to reduce the share capital by way of cancellation of own shares. The purpose of the reduction is allocation to unrestricted equity to be used as resolved by the Annual General Meeting in accordance with item b) below. The reduction of the share capital shall be made by cancellation of such own shares that are held by the Company three weeks prior to the Annual General Meeting. The reduction of the share capital may be made with no more than 19,282,941 SEK by way of cancellation of no more than 9,000,000 shares. The exact reduction amount and the exact number of shares proposed to be cancelled will be presented in the complete proposal, which will be held available no later than three weeks prior to the Annual General Meeting. The resolution to reduce the share capital under this item a) may be effectuated without obtaining an authorization from the Swedish Companies Registration Office or, in disputed cases, a court of general jurisdiction, as the Company simultaneously effectuates a bonus issue, as set out under item b) below, with an amount corresponding to no less than the amount the share capital is being reduced with, as set out above. Combined, these measures entail that neither the Company's restricted equity nor its share capital is reduced.

**Item 15 b):** With the purpose of restoring the share capital after the proposed reduction of the share capital, as set out under item a) above, the Board proposes that the Annual General Meeting simultaneously resolves to increase the share capital by way of a bonus issue with an amount corresponding to no less than the amount the share capital is reduced with by way of

cancellation of shares, as set out under item a) above. The bonus issue shall be carried out with the amount being transferred from equity without the issuance of new shares. The exact amount of the increase will be presented in the complete proposal, which will be held available no later than three weeks prior to the Annual General Meeting.

Resolutions by the Annual General Meeting in accordance with items 15 a)-b) above shall be adopted as a joint resolution and require approval by shareholders representing no less than two thirds of the votes cast as well as the shares represented at the Annual General Meeting. The Board further proposes that the Annual General Meeting authorizes the Board to make such minor adjustments to the above resolutions as may be required to file the resolutions with the Swedish Companies Registration Office or Euroclear Sweden AB and to take such other measures required to execute the resolutions.

**Item 16:** The Board of Directors proposes that it be authorized to resolve on acquisition of the Company's own shares, on one or several occasions prior to the next Annual General Meeting, provided that the Company's holding does not at any time exceed 10 percent of all shares in the Company. The shares shall be acquired on Nasdaq Stockholm at a price within the price interval registered at any given time, *i.e.* the interval between the highest bid price and the lowest selling price. The purpose of the repurchasing right is primarily to enable the Company to adapt its capital structure to its capital needs over time, and thereby contribute to an increased shareholder value.

The resolution of the Annual General Meeting with regard to the Board's proposal under item 16 requires the support of shareholders representing at least two thirds of both the votes cast and the shares represented at the Meeting.

**Item 17:** The Board of Directors proposes that it be authorized to resolve on transfer of the Company's own shares, on one or several occasions prior to the next Annual General Meeting. The shares may only be transferred in conjunction with the financing of company acquisitions and other types of strategic investments and acquisitions, and the transfers may not exceed the maximum number of treasury shares held by the Company at any given time. Transfer of own shares shall be made either on Nasdaq Stockholm or in another manner. In conjunction with the acquisition of companies or operations, transfer of own shares may be made with deviation from the shareholders' preferential rights and at a price within the price interval registered at any given time (*i.e.* the interval between the highest bid price and the lowest selling price) at the time of the decision regarding the transfer and in accordance with the rules of Nasdaq Stockholm. Payment for shares transferred in this manner may be made in cash or through a non-cash issue or offsetting of claims against the Company, or on other specific terms. The reason for the authorization and deviation from the shareholders' preferential rights is, where appropriate, to be able to transfer shares in conjunction with the financing of any company acquisitions and other types of strategic investments and acquisitions in a cost-efficient manner.

The resolution of the Annual General Meeting with regard to the Board's proposal under item 17 requires the support of shareholders representing at least two thirds of both the votes cast and the shares represented at the Meeting.

**Item 18:** The Board of Directors proposes it be authorized to, for the period until the end of the next Annual General Meeting, to issue new ordinary shares on one or more occasions, with or without deviation from shareholders' preferential rights and against payment in cash, in kind or by set-off. The number of shares that may be issued may not exceed a maximum dilution effect of 10 percent of the share capital and votes at the time of the Annual General Meeting 2018. The reasons for the authorization and deviation from shareholders' preferential rights are that the Board wishes to increase the Company's financial flexibility and to allow the Company to issue common shares as payment in connection with acquisitions the Company might make. The subscription price shall be determined according to prevailing market conditions at the time the shares are issued.



The resolution of the Annual General Meeting with regard to the Board's proposal under item 18 requires the support of shareholders representing at least two thirds of both the votes cast and the shares represented at the Meeting.

#### **Documents**

The annual report, the auditor's report, the auditor's opinion according to item 6 and full details of the proposals and statements regarding items 8, 14, 15 a) - b), 16, 17, and 18, will be made available at Swedish Match headquarters (Legal Department) at Sveavägen 44, in Stockholm, Sweden, no later than Wednesday March 21, 2018. The documents will be sent to shareholders upon request, provided that such shareholder states its address. All the above documents will be available on the Company's website, [www.swedishmatch.com](http://www.swedishmatch.com) and be presented at the Annual General Meeting.

#### **Number of shares and votes in the Company**

The total number of shares and votes in Swedish Match AB (publ) as per Friday March 2, 2018 amounts to 181,800,000 of which 5,889,462 shares are repurchased own shares which may not be represented at the Meeting.

#### **Right to participate in the Meeting**

In order to participate in the Meeting you need to be registered as a shareholder in the share register kept by Euroclear Sweden AB on Thursday April 5, 2018. In addition, you need to notify Swedish Match of your intention to participate in the Meeting no later than Thursday April 5, 2018, at which time the notification shall have been received by Swedish Match. Shareholders who wish to be accompanied by one or two assistants at the Meeting shall also inform Swedish Match thereof within the appointed period of time.

#### **Notice of participation**

Notice of participation may be submitted in writing to Swedish Match AB (publ), "Årsstämman", c/o Euroclear Sweden AB, P.O 191,101 23 Stockholm, Sweden, by telephone at +46 (0)8 402 90 42 (09:00 – 16:00 CET), or via the Internet at [www.swedishmatch.com/agm](http://www.swedishmatch.com/agm). Upon giving notice of participation, the shareholder shall state his or her name/company name, civic ID/corporate registration number, address, telephone number (daytime) and the name(s) of assistant(s), if any. Receipt of notification will be confirmed by Swedish Match, which will issue an attendance card prior to the Meeting to be presented at the entrance to the venue where the Meeting is held.

#### **Proxy form**

Proxy forms are available upon request and on the Company's website [www.swedishmatch.com](http://www.swedishmatch.com).

#### **Proxy**

Shareholders who are represented by proxy shall issue a power of attorney for the proxy. If the power of attorney is issued by a legal entity, a copy of the corporate registration certificate for such legal entity shall be enclosed (or if no such document is available, an equivalent authorization document). The proxy is valid for one year from the date of issuance or the longer period of validity stated in the proxy, however not longer than five years from the date of issuance. To facilitate entry at the Meeting, the power of attorney in original as well as the corporate registration certificate and other authorization documents, if any, should be provided to the Company at the address stated above no later than Monday April 9, 2018.

#### **Voting right registration**

Shareholders whose shares are nominee registered and who wish to participate in the Meeting must temporarily re-register such shares in their own name (i.e. voting right registration). Request for re-registration shall be submitted to the nominee in sufficient time to allow the re-registration to be effective at Euroclear Sweden AB no later than Thursday, April 5, 2018.

**Information at the Annual General Meeting**

The Board of Directors and the President shall, if any shareholder so requests and the Board of Directors considers that it may be done without significant harm to the Company, provide information regarding circumstances that may affect the assessment of an item on the Agenda, and circumstances that may affect the assessment of the Company's or its subsidiaries' financial position and the Company's relation to other companies within the Group.

The entrance to the venue for the Meeting will open at 14:30 (CET). Coffee will be served before the Meeting.

Stockholm, February 2018

SWEDISH MATCH AB (publ)  
*The Board of Directors*

**AGENDA  
OF THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF  
SWEDISH MATCH AB  
WEDNESDAY, 11 APRIL 2018, AT 3:30 PM**

1. Election of Chairman of the Meeting.
2. Preparation and approval of voting list.
3. Election of one or two persons to verify the minutes.
4. Determination of whether the Meeting has been duly convened and issues relating to attendance of the Meeting.
5. Approval of the Agenda.
6. Presentation of the Annual Report and the Auditor's Report and of the Consolidated Financial Statements and the Auditor's Report on the Consolidated Financial Statements for 2017, the Auditor's Statement regarding compliance with the principles for remuneration to members of the executive management as well as the Board of Directors' motion regarding the allocation of profit and motivated statement.

In connection therewith, the President's speech and the Board of Director's report regarding its work and the work and function of the Compensation Committee and the Audit Committee.

7. Resolution on adoption of the Income Statement and Balance Sheet and of the Consolidated Income Statement and Consolidated Balance Sheet.
8. Resolution regarding allocation of the Company's profit in accordance with the adopted Balance Sheet and resolution on a record day for dividend.
9. Resolution regarding discharge from liability in respect of the Board members and the President.
10. Resolution regarding the number of members of the Board of Directors to be elected by the Meeting.
11. Resolution regarding remuneration to the members of the Board of Directors, specifying the distribution between the Chairman and other Board Members and remuneration for committee work.
12. Election of members of the Board, the Chairman of the Board and the deputy Chairman of the Board.
13. Resolution regarding remuneration to the auditor.
14. Resolution regarding principles for remuneration to members of the executive management.

15. a) Resolution regarding the reduction of the share capital by way of a recall of repurchased shares, and that the transfer of the reduced amount to a fund to be used pursuant to a resolution adopted by the General Meeting; and  
b) Resolution regarding a bonus issue.
16. Resolution regarding authorization of the Board of Directors to resolve on acquisition of shares in the Company.
17. Resolution regarding authorization of the Board of Directors to resolve on transfer of the Company's own shares,
18. Resolution regarding authorization of the Board of Directors to resolve on issuing new ordinary shares



## Auditors' report in accordance with Chapter 8, Section 54 of the Swedish Companies Act (2005:551), regarding compliance with the guidelines for remuneration to senior executives approved by the Annual General Meeting

**To the Annual General Meeting of Swedish Match AB (publ), Corporate Identity Number 556015-0756.**

We have audited whether the Board of Directors and the managing director of Swedish Match AB (publ) have complied with the guidelines for remuneration to senior executives during the financial year 2017 which were approved by the Annual General Meeting on April 28, 2016 and by the Annual General Meeting on May 4, 2017.

### **Responsibilities of the Board of Directors and the managing director**

The Board of Directors and the managing director are responsible for compliance with these guidelines and for such internal control as the Board of Directors and the managing director determine is necessary to enable compliance with these guidelines.

### **Auditor's responsibility**

Our responsibility is to express an opinion, based on our audit, to the Annual General Meeting as to whether the guidelines have been complied with. We conducted our audit in accordance with FAR's standard RevR 8 *Audit of Remuneration to Senior Executives in Listed Companies*. This standard requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the guidelines have, in all material aspects, been complied with.

The audit firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our audit has included a review of the organization for and the documentation supporting the remuneration to senior executives as well as new decisions related to compliance with the guidelines. Our procedures have also included testing a sample of payments during the year to senior executives. The procedures selected depend on the auditor's judgment, including the assessment of the risks of whether the guidelines have not, in all material aspects, been complied with. In making those risk assessments, the auditor considers internal control relevant to the compliance of the guidelines in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

We believe that our audit procedures provide a reasonable basis for our opinion, as set out below.

### **Opinion**

In our opinion, the Board of Directors and the managing director of Swedish Match AB (publ) have, during the financial year 2017 complied with the guidelines for remuneration to senior executives which were approved by the Annual General Meeting on April 28, 2016 and by the Annual General Meeting on May 4, 2017.

Stockholm, March 5, 2018

Deloitte AB

*Signature on Swedish original*

Peter Ekberg  
Authorized Public Accountant

*This is a translation of the Swedish language original. In the event of any differences between this translation and the Swedish language original, the latter shall prevail.*

**The Board of Directors' proposal under item 8 on the Agenda of the Annual General Meeting of Swedish Match AB (publ) on April 11, 2018**

The Board of Directors proposes an ordinary dividend of SEK 9.20 per share, and a special dividend of SEK 7.40 per share, in total SEK 16.60 per share, and that the remaining profits are carried forward.

The proposed record day for the right to receive the dividend is April 13, 2018. Payment through Euroclear Sweden AB is expected to be made on April 18, 2018.

The Board of Directors' motivated statement concerning the justification of the proposed profit allocation in accordance with Chapter 18, § 4 of the Swedish Company Act, is enclosed in Appendix 6.

**Statement by the Board of Directors pursuant to chapt. 18, §4 and chapt. 19, §22 of the Swedish Companies Act with regard to the dividend proposal submitted to the 2018 Annual General Meeting in respect of the 2017 financial year, and the Board's proposal regarding a mandate to repurchase the Company's own shares.**

**Background**

The Board of Directors has analyzed and evaluated the proposed dividend payment, both the ordinary and the special dividend, in respect of the 2017 financial year, and the proposed mandate in respect of the repurchase of the Company's own shares. The analysis has been based, among other things, on a review of the Group's financial strategy and a financial and strategic long-term plan, including a risk analysis. The proposed dividend and exercise of share repurchases under the proposed mandate to buy back the Company's own shares have been assessed in view of the financial strategy, adopted for the Group by the Board of Directors. Please see the Directors' Report for a description of the financial strategy and the dividend policy.

**The nature, scope and inherent risks of the operations**

The nature of the operations is specified in the Articles of Association and published Annual Reports. The operations conducted by the Company do not entail any risks over and above those that arise, or may be assumed to arise, within the industry, or those generally associated with the conduct of commercial operations. The tobacco industry is relatively insensitive to fluctuations in the economic climate. Please see the Directors' Report for details of significant events and risk factors as well as the notes to the financial statements. No other material events have occurred that affect the Company's ability to make a dividend payment or buy back its own shares.

**The financial position of the Company and the Group**

The financial position of the Company and the Group on December 31, 2017 is shown in the most recently published Annual Report. The consolidated shareholders' equity has been calculated in accordance with International Financial Reporting Standards (IFRS) adopted by the EU, and by applying RFR 1.2 Supplementary Accounting Rules for Groups issued by the Swedish Financial Reporting Board. The Parent Company's shareholders' equity has been calculated in accordance with the same principles as for the Group, with exemptions and supplements by applying the Swedish Financial Reporting Board's recommendation, RFR 2.1, Accounting for Legal Entities.

On December 31, 2017 the consolidated shareholders' equity was negative 4,179 MSEK, negative 191 MSEK of which is attributable to a hedge reserve. On December 31, 2017 the equity of the Parent company amounted to 19,221 MSEK whereof the unrestricted equity amounted to 18,832 MSEK. The amount includes market valuation of certain subsidiaries of 19,800 MSEK.

The Group's actual financial position differs from the financial position reported in the most recently published Annual Report in that the companies that make up the corporate Group own a number of assets with market values which exceed the reported values. Based on the closing price of the Swedish Match share, the market value of the Group's shareholders' equity was 56.9 bn SEK on December 29, 2017.

On December 31, 2017 the Group's interest coverage ratio, based on EBITA (earnings before financial items, adjusted for large non-recurring items, tax and amortization of intangible

assets/net interest items) was 12.6x and the net debt in relation to EBITA excluding STG was 1.9x.

#### *The proposed dividend in relation to the financial position*

As can be seen from the proposed allocation of profits, the Board proposes an ordinary dividend of 9.20 SEK per share and a special dividend of 7.40 SEK. Given the number of outstanding shares on December 31, 2017 the total ordinary dividend payment is 1,618 MSEK and the special dividend 1,302 MSEK. As the Company is repurchasing shares, the total amount will be lower at the AGM.

The total dividend of 2,920 MSEK correspond to 15.2 percent of the Parent Company's shareholders' equity and lowers the Group's reported shareholders' equity by 2,920 MSEK. The ratio of the dividend to the market value of shareholders' equity of the Group on December 31, 2017 is 5.1 percent.

The Board also proposes that the Annual General Meeting gives the Board a mandate to buy back shares in the Company to the extent that the Company at any time holds a maximum of 10 percent of its registered shares. Assuming 17.600 million shares bought back at a price of 310 SEK total buy backs would amount to 5,456 MSEK. This amount corresponds to 33 percent of the Parent Company's reported shareholders' equity after proposed dividend payments and lowers the Group's reported shareholders' equity by 5,456 MSEK. If exercised in full, the buy-back program would correspond to about 10 percent of the market value of the Group's shareholders' equity on December 31, 2017.

The Board considers the proposed mandate to buy back shares to be flexible. The Board will at future board meetings decide and evaluate actual utilization of the mandate.

#### *The proposed dividend in relation to liquidity*

Based on a review of the Group's financial strategy and a financial and strategic long-term plan, including a risk analysis, the Board of Directors is of the view that the proposed dividend (special and ordinary) in combination with the mandate to repurchase shares do not affect the Company's ability to fulfill existing and predicted payment liabilities at the correct time. The Company's liquidity forecast includes a readiness to handle variations in ongoing payment obligations. For a more detailed description of the Group's liquidity, please see accompanying note to the Group's financial statements regarding financial instruments in the most recently published Annual Report.

Based on the same review, the Board is of the opinion that the proposed dividend and the buy-back do not jeopardize fulfillment of the investments deemed necessary.

#### *Summary*

The Board of Directors' is of the opinion that the Company's financial position does not give rise to any assessment other than that the Company is able to continue its operations and can be expected to fulfill its obligations in both the short and the long term.

#### **Justification of the asset transfers**

With reference to the above, the Board believes that the assessment of the Parent Company's and the Group's financial positions justify the asset transfers with reference to the requirements imposed on the size of the Parent Company's and the Group's shareholders' equity by the



nature, scope, and inherent risk of the operations, as well as to the consolidation requirements, liquidity and position in general of the Parent Company and the Group's operations.

Stockholm, February 13, 2018



Conny Karlsson  
Chairman of the Board



Andrew Cripps  
Deputy Chairman



Charles A Blixt  
Board Member



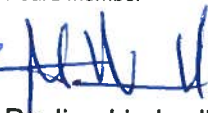
Patrik Engelbrektsson  
Board Member



Jacqueline Hoogerbrugge  
Board Member



Eva Larsson  
Board Member



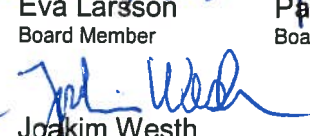
Pauline Lindwall  
Board Member



Dragan Popovic  
Board Member



Wenche Rolfsen  
Board Member



Joakim Westh  
Board Member

☆☆☆  
Swedish Match®

# Annual Report 2017



STRENGTH  
THROUGH QUALITY  
AND INNOVATION

# This is Swedish Match

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

Swedish Match provides consumers with the best quality products with well-known brands and works to conduct business in a responsible way in everything the Company does. Some of Swedish Match's brands include: *General* (snus), *Longhorn* (moist snuff), *ZYN* (nicotine pouches without tobacco), *Onico* (pouch products with neither nicotine nor tobacco), *White Owl*

(homogenized tobacco leaf cigars), *Game* (natural leaf cigars), *Red Man* (chewing tobacco), *Thunder* (chew bags), *Fiat Lux* (matches), and *Cricket* (lighters).

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

Sales for 2017 amounted to 16,101 MSEK and the average number of employees was 5,413.

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

## PRODUCTS AND BRANDS

### SNUS AND MOIST SNUFF



Swedish Match has a market leading position in the Scandinavian snus market. In the US, Swedish Match is well positioned as the third largest snus and moist snuff company. Production of snus takes place in Sweden and Denmark and moist snuff is produced in the US. This product area also includes pouch products without tobacco, manufactured in Sweden. >> Read more on page 16.

### OTHER TOBACCO PRODUCTS



Swedish Match is a major player in the US market for mass market cigars and the largest manufacturer of US chewing tobacco. Most of the products are sold on the US market. Production of cigars and chewing tobacco takes place in the US and cigars are also produced in the Dominican Republic. Chew bags are produced in Denmark. >> Read more on page 23.

### LIGHTS

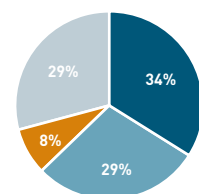


Swedish Match is the market leader for matches in many markets throughout the world, with well-known local brands. For lighters, the Company has strong market positions in many countries. Production of matches takes place in Sweden and Brazil. Lighters are produced in the Netherlands, the Philippines and Brazil. The Company also offers a portfolio of complementary products (mainly on the Brazilian market), which include for example disposable razors, batteries and light bulbs. >> Read more on page 26.

## FINANCIALS IN BRIEF

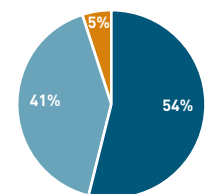


SALES BY PRODUCT AREA



- Snus and moist snuff
- Other tobacco products
- Lights
- Other operations

OPERATING PROFIT BY PRODUCT AREA<sup>1)</sup>



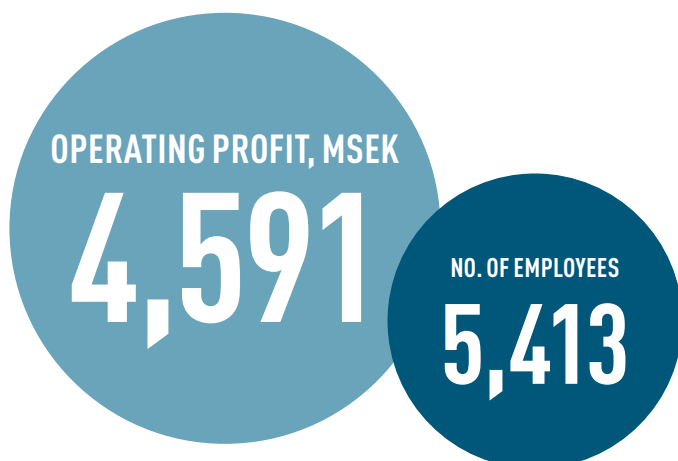
- Snus and moist snuff
- Other tobacco products
- Lights

<sup>1)</sup> Excluding Other operations and larger one-time items. Totals may not add up due to rounding.



## 2017 IN BRIEF

- In local currencies, sales increased by 3 percent. Reported sales increased by 4 percent to 16,101 MSEK (15,551).
- In local currencies, operating profit from product areas increased by 5 percent. Reported operating profit from product areas increased by 6 percent to 4,218 MSEK (3,990).
- Operating profit, including larger one-time items, amounted to 4,591 MSEK (6,420).
- Profit after tax amounted to 3,400 MSEK (5,123).
- Earnings per share amounted to 18.88 SEK (27.38). Earnings per share excluding both larger one-time items, dividends from STG in 2017 and share of net profit in STG in 2016 increased by 14 percent to 16.39 SEK (14.39).
- On August 31, Swedish Match acquired V2 Tobacco, a Danish smokeless tobacco company.
- In November, Swedish Match completed the divestment of its remaining shareholding in STG.
- During 2017, Swedish Match distributed 5,498 MSEK to its shareholders in the form of an ordinary dividend, a special dividend and share repurchases.



### KEY DATA

MSEK	2017 <sup>1)</sup>	2016 <sup>1)</sup>	2015
Sales	16,101	15,551	14,486
Operating profit from product areas <sup>2)</sup>	4,218	3,990	3,690
Operating margin from product areas, % <sup>2)</sup>	26.2	25.7	25.5
EBITDA from product areas <sup>2)</sup>	4,599	4,329	4,008
Operating profit <sup>3)</sup>	4,591	6,420	4,008
Operating margin, % <sup>3)</sup>	28.5	41.3	27.7
Profit for the year	3,400	5,123	2,803
Earnings per share, SEK <sup>4)</sup>	18.88	27.38	14.48
Earnings per share, excluding income from STG, SEK <sup>4)</sup>	18.37	26.44	12.62
Earnings per share, excluding income from STG and larger one-time items, SEK <sup>4)</sup>	16.39	14.39	12.79
Ordinary dividend per share, SEK	9.20 <sup>5)</sup>	8.50	8.00
Special dividend per share, SEK	7.40 <sup>5)</sup>	7.50	21.50

<sup>1)</sup> Profit for the full year 2016 includes Swedish Match's share of STG's net income until the date of partial divestment in September 2016, thereafter, the shareholding in STG has been reclassified as a financial asset. Full year 2017 includes dividends received from the investment in STG.

<sup>2)</sup> Excluding larger one-time items and share of net profit in STG.

<sup>3)</sup> Including larger one-time items and share of net profit in STG. Larger one-time items in 2017 include a capital gain from the sale of shares in STG, in two tranches, totaling 197 MSEK (206 MSEK after tax), a capital gain from sale of land of 107 MSEK as well as an income from a defined benefit plan amendment of 69 MSEK (43 MSEK after tax).

<sup>4)</sup> Basic and diluted.

<sup>5)</sup> Board proposal.

## CONTENT

ii	<b>This is Swedish Match</b>
2	<b>CEO comment</b>
4	<b>Strategy</b>
6	<b>Global market overview</b>
10	<b>Swedish Match's organization</b>
12	<b>Risks and risk management</b>
14	<b>Regulatory engagement</b>
<b>16</b>	<b>Swedish Match's business</b>
16	Snus and moist snuff
21	Moving from harm reduction toward harm elimination
23	Other tobacco products
26	Lights
<b>28</b>	<b>Sustainability</b>
28	Our approach to Sustainability
30	Swedish Match in the global community
32	Improve public health
34	Ensure ethical business practices
36	Support equal opportunity
38	Reduce greenhouse gases
40	Reduce waste
41	Eliminate child labor
44	Employer of choice
<b>46</b>	<b>Shareholder information</b>
46	Shareholder communication
48	The share
50	Five year summary 2013–2017
52	Quarterly data 2016–2017
53	Definitions
<b>54</b>	<b>Financial reports</b>
54	CFO comment
55	Content
56	Report of the Board of Directors
63	Proposed distribution of earnings
64	Consolidated financial statements
97	Parent Company financial statements
108	Auditor's report
<b>112</b>	<b>Corporate Governance</b>
112	Chairman's comment
113	Governance report
119	Risk management and internal control over financial reporting
120	Board of Directors
122	Group Management

The formal audited part of this document is on pages 55–107. The reviewed governance report is on pages 112–123 and the sustainability report on pages 28–45.

# A year of solid growth

**2017 has been a year marked by growth in both sales and operating profit from product areas – a year which has demonstrated the benefits of our strategy and our approach.**

With a vision of a world without cigarettes, the combination of maintaining our standards of quality and tradition, while capitalizing on market opportunities through innovation, provides Swedish Match with a firm foundation for future growth opportunities.

Investments that we have made within our consumer insights and R&D functions have strengthened our portfolio of smokeless offerings, and we have supplemented organic efforts through acquisitions. We believe that the best alternatives to cigarettes lie in smokeless products – with and without tobacco. By providing men and women with a choice of highly innovative offerings that meet their changing needs and continuing to satisfy our product loyal consumer base with traditional high quality products, we are able to successfully compete and grow.

We are seeing the fruits of our efforts that we have made over recent years – from research and development, well nurtured brands, new technologies, and our strategic choices in line with our vision. The success of *G.3* in Norway, *XR* in Sweden, and our newest efforts with chew bags – chewing tobacco in convenient pouches, and *ZYN* – nicotine pouches without tobacco – are examples of some of our growth drivers in the smokeless arena.

**In Scandinavia**, the snus market has been dynamic on a number of fronts. In Sweden, competitive activity remains fierce with new product launches, new varieties, and packaging changes within each product segment. At the same time, however, we noted more stability in pricing within each product segment. Upward price adjustments were made, not only by Swedish Match, but for many competitive products as well. The premium segment has held its share of the overall market, in large part due to the growth of innovative product offerings, including *XR* and *One* – modern snus variants with attractive pricing. In Norway, our dedicated efforts drove a change in our market share performance compared to prior years. Growth from our *G.3* range significantly outpaced the market in 2017, and our share of the total market has been much more stable than before.

At Swedish Match we understand and willingly accept the responsibility that comes with selling products intended for adult consumers only. Far too often, however, we are faced with increased

regulation based on ideology rather than science. The regulations themselves are at times both arbitrary and discriminatory. We will not and must not passively capitulate to regulations that we believe elevate ideology over societal health. Norway, for example, has passed plain packaging regulations that seemingly ignore the underlying comparable health risks of cigarettes versus snus. We challenged this regulation through the Norwegian courts, but have lost in two instances. In January 2018, the legality of the snus ban within the EU was once again heard by the European Court of Justice, and we anticipate that it will be several months before the court reaches a final verdict. We would like to believe that justice will prevail and that we will see the removal of this disproportionate and discriminatory ban that limits informed choice by European consumers.

**In the growing US snus market**, our volumes were up, gross profit was higher, and operating losses improved. For moist snuff, while the overall market demonstrated modest volume growth, the pricing environment has improved, and both the pouch segment and the bulk pack segment (tubs) continued to markedly outpace the overall category. Within our own portfolio, we have been gaining share with our moist snuff pouches, and grew volumes with tubs, while we continued to face intense competitive pressure for our more traditional standard pack loose varieties. One of the most exciting developments in the US smokeless market has been the very positive reception for *ZYN*, our line of nicotine pouch products without tobacco. Volume growth has been impressive. Not only have we expanded our distribution in the western US, but also have experienced growth through faster turnover in existing stores. We are investing more behind *ZYN*, as we see significant opportunities with these types of innovative products. We are currently building new capacity in the US in our Owensboro, Kentucky facility, investing more than 60 million dollars, to enable us to produce locally to support the growth of *ZYN*. Products like snus and *ZYN* also bring dramatic health benefits compared with cigarettes.

We view the US FDA as an increasingly strong advocate for the concepts of harm reduction and continuum of risk, enabling informed smokers to transition toward products that are less

“2017 has been a year marked by growth in both sales and operating profit from product areas – a year which has demonstrated the benefits of our strategy and our approach. Investments that we have made within our consumer insights and R&D functions have strengthened our portfolio of smokeless offerings, and we have supplemented organic efforts through acquisitions.”

Lars Dahlgren, President and CEO



harmful than cigarettes. Our snus products clearly fit this profile, supported by extensive and long duration research and scientific data.

**Within Other tobacco products**, the cigar market remained dynamic, with good growth and strong competition in both the natural leaf and HTL segments. We had another outstanding year for cigars, with record volumes, higher sales, and higher operating profit in local currency. The operating performance for cigars was even stronger than our reported numbers show when considering that FDA user fees were in place for all of 2017 but only for the last quarter of 2016. For US chewing tobacco, the market continued its long term decline (down 7 percent), and we have seen a notable shift in both the market and our own portfolio toward value priced products. We are, however, encouraged by the fact that our market share development in both the premium and value segments improved during 2017. Also during 2017, we acquired V2 Tobacco, providing us with greater scale and a stronger position for chew bags, which are both more convenient and easier to use than many other chewing products. The V2 Tobacco acquisition provides us with state of the art production from our plant in Denmark, and further enhances our growth opportunities.

**Our Lights product area** faced challenges, with volume declines for both lighters and matches. Sales for matches increased, however, due to pricing, mix, and positive currency effects – and the sales performance for complementary products was strong. Overall, still, we registered declines in both sales and operating profit for Lights. However, we see opportunities to grow our business in several markets. In China, for example, the *Cricket* lighter brand is now sold in over 30,000 stores on the mainland. We have also implemented a number of successful supply chain initiatives.

**Sustainability work** for Swedish Match is concentrated in those areas which are most important for the Company, our stakeholders, and society as a whole. This past year we have made significant strides in further refining and focusing our efforts to those areas where we can truly make a difference. We have been highly engaged

and have made good progress, and I hope that you spend some time reading more about our efforts in the sustainability section of our annual report.

With a solid operational performance, and having sold our remaining shareholding in **Scandinavian Tobacco Group (STG)**, we are delivering healthy returns to our shareholders with dividends and share repurchases. The Board recently proposed that the proceeds from the final sale of our shares in STG be paid to shareholders as a special dividend. If approved by the Annual General Meeting, a total 6,682 MSEK will have been paid to shareholders as a result of our divestments of shares in STG.

I firmly believe in strong and positive relationships with our customers, our consumers, and our employees. Only with these strong relationships, and the passion and innovative spirit of our employees, in line with our core values, are we best able to deliver a growing and sustainable business. I look forward to further adaptation and innovation in the changing market, built on the strength of our traditional businesses to provide benefits to you, our shareholders.

Stockholm, March, 2018

Lars Dahlgren  
President and CEO



**VISION**  
**A world without cigarettes**

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

# Vision and Operational strategy

## OPERATIONAL STRATEGY

### Snus and moist snuff businesses

To achieve our vision, we leverage our unique snus and moist snuff platforms of consumer insights, innovation and product quality.

- In Scandinavia, we will continue to develop the snus category. We will defend and strengthen our leading market positions and brands by focusing on product development and consumer satisfaction.

- In the US, we will target the faster growing market segments within moist snuff while further supporting the expansion of snus and nicotine pouches without tobacco.
- Outside our core markets, we will continue our efforts to establish Swedish snus and other innovative smokefree products in selected markets.

### Other businesses

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

- In our cigars business, we will selectively invest in growth segments with an objective to maximize long term profitability and cash generation.
- In our chewing tobacco businesses, we will protect profitability in the US by mitigating the impact of volume declines through cost focus and price leadership. For chew bags, we will continue to grow and establish new international markets based on our strong capabilities and brands.
- In our lights businesses, we will continue to focus on operational excellence while selectively investing in profitable growth markets and product segments.



# Financial strategy and position

The Swedish Match operations are characterized by strong cash flows. The financial strategy is based on the basic principles of not utilizing more capital than necessary, and continually optimizing the balance sheet, with due consideration for flexibility and stability requirements.

## Net debt

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

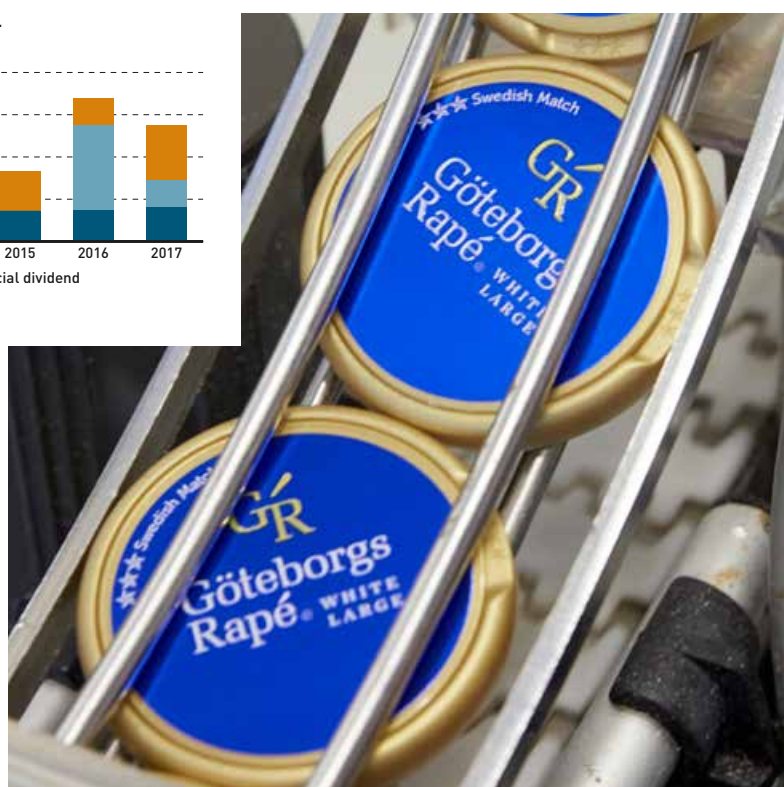
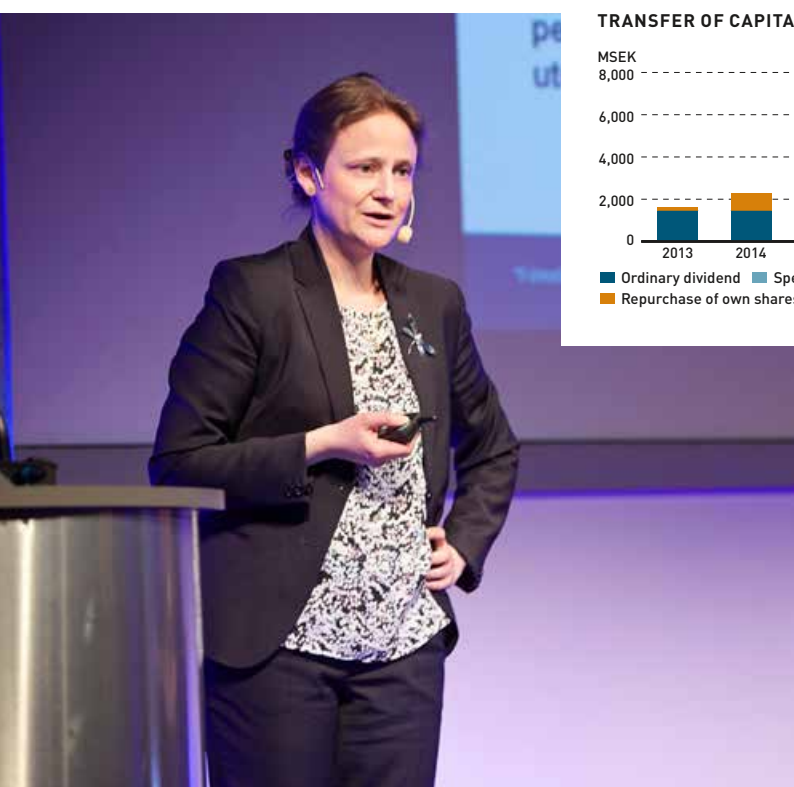
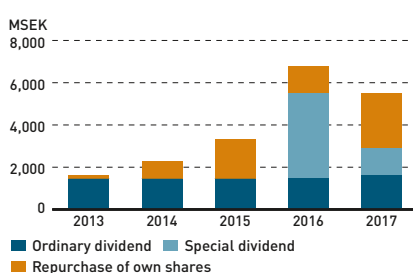
- anticipated future profitability and cash flow
- investment and expansion plans
- acquisition opportunities
- development of interest rates and credit markets

The Board of Directors' long term goal is to maintain a Standard & Poor's BBB and a Moody's Baa2 long term rating.

## Shareholder distribution

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

TRANSFER OF CAPITAL





# A changing landscape – and a focus on innovation

**Swedish Match is at the forefront of the global tobacco market with its portfolio of snus and innovative smokeless products in supporting its vision of a world without cigarettes. The continuously growing interest from consumers and certain important policymakers in tobacco harm reduction is very well aligned with the Company's vision.**

## TOTAL TOBACCO MARKET

Smokeless tobacco products primarily include snus, moist snuff, various forms of chewing tobacco, as well as niche products, such as dissolvables and nasal tobacco. Smokeless tobacco is a small but growing tobacco category compared to cigarettes, and is consumed in many parts of the world in different types and formats.

In Scandinavia, the dominant form of smokeless tobacco is snus. In Sweden, the number of snus users has been growing and has surpassed the number of cigarette users.<sup>1)</sup> In the US, snus is a small but growing segment, while the dominant forms of smokeless tobacco are moist snuff and chewing tobacco. In other parts of the world, such as in India and certain countries in Africa and Asia, local variants of oral and nasal smokeless tobacco products are consumed in relatively large volumes. In the European Union (EU) and certain other countries, the sale of snus is prohibited while other tobacco products are allowed to be sold.

Large global tobacco companies rely on cigarettes for the bulk of their revenues and profits, and cigarettes account for roughly 90 percent of all tobacco consumed globally.<sup>2)</sup> Swedish Match does not produce cigarettes. Generally, cigarette consumption has been declining over the past decade in most developed countries, while in many emerging markets, cigarette consumption has continued to increase.<sup>2)</sup> Other smoking products sold globally include fine-cut and roll-your-own tobaccos, cigars, and pipe tobacco. Of these product categories, Swedish Match participates in the US mass market cigar market. In recent years, the presence of e-cigarettes/vaping products

<sup>1)</sup> Source: Ipsos Sweden, Market Report, 2016.

<sup>2)</sup> Source: Euromonitor.

and innovative smoking products has grown in certain markets. Other products, such as nicotine pouches without tobacco, are also in the market as alternatives to traditional tobacco products.

The global tobacco market is exposed to ever-increasing levels of restrictions and regulations, as governments and other regulatory and non-governmental organizations seek to reduce tobacco consumption, and, most notably, cigarette consumption. These regulations, along with taxation measures, have had impacts on tobacco growing, production, product availability, packaging and labeling, consumer pricing, and location of use. At the same time, there is a growing understanding of the continuum of risk concept and an evidence-based approach to tobacco and nicotine products regulation.

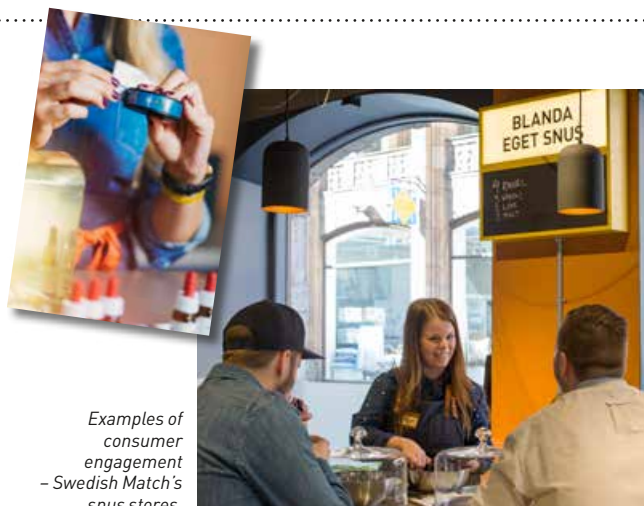
## SHORT FACTS

- The global tobacco market is composed of smoking tobacco products, such as cigarettes, cigars, and pipe tobacco, and smokeless tobacco products, such as, snus, moist snuff, and chewing tobacco.
- The largest segment is cigarettes, accounting for roughly 90 percent of all tobacco consumed globally.
- Smokeless tobacco is a small but growing category compared to cigarettes.
- In Scandinavia, the dominant form of smokeless tobacco is snus. In Sweden, for example, snus consumption has continued to grow which to a large extent explains the decline in the use of cigarettes. Medical consensus recognizes Swedish snus manufactured according to the GOTHIA TEK® standard as a dramatically safer alternative to cigarettes.
- In recent years, the market for new, innovative nicotine products, has increased. Nicotine pouch products without tobacco and e-cigarettes/vaping products are examples of products available in certain markets as alternatives to traditional tobacco products.

## TRENDS

The global tobacco market is undergoing a significant shift in consumption trends, most notably away from cigarettes. Tobacco regulations are becoming increasingly restrictive. Adjacent product categories to cigarettes have grown in focus and importance to meet consumer needs for safer products and products without the disadvantages of second-hand smoke. Many of these product categories deliver nicotine without combusted and inhaled tobacco. Examples in these categories include snus, moist snuff, e-cigarettes/vaping products, heat-not-burn tobacco products, and non-pharmaceutical nicotine containing products.

Consumer engagement has become increasingly important within certain product categories. For example, educating consumers about snus and its less harmful health characteristics compared to cigarettes is key to help build category awareness.



*Examples of consumer engagement – Swedish Match's snus stores.*

## SNUS IN THE EU

The sale and distribution of tobacco products for oral use, except those intended to be smoked or chewed, has been banned in the EU since 1992. As Swedish snus is neither smoked nor chewed, it is prohibited for sale. Upon Sweden's entry into the EU in 1995, the country was granted a permanent exemption from this ban on snus.

Cigarettes and other types of traditional smokeless tobacco products, including Asian/African types, chewing tobacco and nasal snuff can all be legally sold within the EU. In addition, various adjacent and innovative products are also allowed to be sold.



# Regional differences for smokeless products



### North America

In the US, the dominant form of smokeless tobacco is moist snuff. Moist snuff has its origins from Scandinavian products brought over by immigrants. The majority of moist snuff is consumed in the traditional loose format, although consumption of moist snuff in pouch format has increased rapidly in recent years. Snus, which is pasteurized and not fermented, is a small and relatively new product category. Nicotine pouches without tobacco is a small but rapidly growing segment. Chewing tobacco consumption is in a long term state of decline but this category nevertheless remains a significant segment of the US smokeless tobacco market. There is also a tradition for smokeless tobacco on the Canadian market.

### Europe

In Europe, smokeless tobacco traditionally has been consumed as a chewing tobacco product or as nasal snuff. Today, these smokeless product categories are small but nevertheless significant in certain markets. Although scientifically recognized as a safer alternative to cigarettes, tobacco products for oral use (such as snus) except those intended to be smoked or chewed are banned within the EU while cigarettes, chewing tobacco, nasal snuff and certain other smokeless tobacco products are allowed to be sold. In certain European countries, most particularly in central Europe and in the alpine regions, smokeless products enjoy greater use. As in Denmark, chew bags is a small but growing segment in certain European markets.

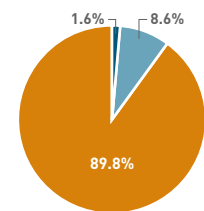
### Scandinavia

In Sweden, smokeless tobacco consumption has a long tradition, with snus being the dominant form. Today, there are more snus users than cigarette users in the country. In Norway, the transformation from a small traditional snus market to a market where the consumption of cigarettes has shifted to snus, especially among younger adults, has been rapid. In Scandinavia, snus has traditionally been used by men, and is increasing among women. In certain North European markets, such as in Denmark and Finland, there are historical ties to snus. Modern chewing products, such as chew bags, is a small but growing segment in Denmark.

### Asia and Africa

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

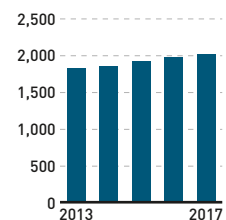
GLOBAL TOBACCO MARKET (VALUE)<sup>11</sup>



- Smokeless
- All other tobacco products
- Cigarettes

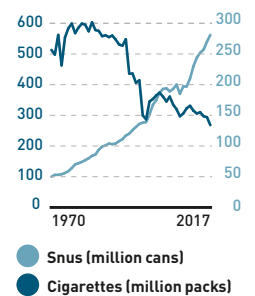
Smokeless tobacco is a small tobacco category compared to cigarettes.

SNUS AND MOIST SNUFF IN SCANDINAVIA AND THE US 2013-2017 (VOLUME, MILLION CANS)<sup>12</sup>



Consumption of snus in Scandinavia as well as snus and moist snuff in the US has been growing in recent years.

TOBACCO CONSUMPTION IN SWEDEN 1970-2017 (VOLUME)<sup>13</sup>



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

<sup>11</sup> Source: Euromonitor. The segment "All other tobacco products" includes e-cigarettes.  
<sup>12</sup> Source: Swedish Match and industry estimates.  
<sup>13</sup> Source: Swedish Match estimates.

# Our markets

## Snus and pouch products without tobacco in Scandinavia

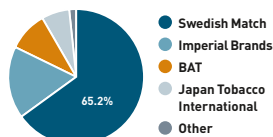
The Scandinavian snus market is estimated to have amounted to slightly more than 390 million cans in 2017, up by close to 4 percent from previous year.<sup>1)</sup> Consumption has been migrating from traditional loose products to pouch products, which at the end of 2017 accounted for more than 80 percent of volumes in Scandinavia.<sup>1)</sup> Swedish Match holds the leading position in Scandinavia with Sweden being the largest market. The Scandinavian market also includes pouch products with neither nicotine nor tobacco. In late 2016, Swedish Match introduced nicotine pouches without tobacco on the Swedish market on a limited scale and expanded the distribution during 2017.

### Main brands

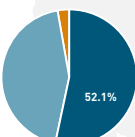
Snus, Sweden: *General, Göteborgs Rapé, Kaliber, Kronan, Ettan, Grov, Catch*  
 Snus, Norway: *General, G.3, The Lab, Nick & Johnny*  
 Pouch products with neither nicotine nor tobacco, Sweden and Norway: *Onico*  
 Nicotine pouches without tobacco, Sweden: *ZYN*

### Competition

#### SWEDEN<sup>1)</sup>

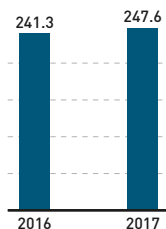


#### NORWAY<sup>1)</sup>



### Shipment volumes (million cans)

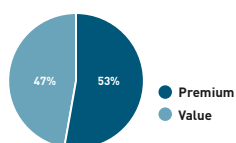
#### SNUS<sup>2)</sup>



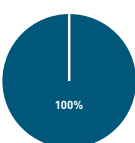
### Segment

#### SNUS CONSUMPTION BY PRICE SEGMENT

##### SWEDEN<sup>1)</sup>



##### NORWAY<sup>1)</sup>



<sup>1)</sup> Swedish Match's estimates using Nielsen data (excluding tobacconists for Sweden), full year 2017.  
<sup>2)</sup> Includes V2 Tobacco snus volumes from date of acquisition.

## Moist snuff in the US

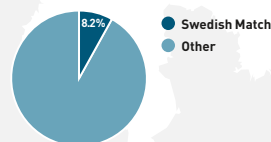
The moist snuff market in the US is concentrated in the southern and mid-Atlantic states. In 2017, the market is estimated by Swedish Match to have grown by approximately 1 percent, to more than 1.5 billion cans, with the pouch segment growing more rapidly than the overall market and accounting for approximately 16 percent. Swedish Match holds the number 3 position for moist snuff in the US.

### Main brands

*Longhorn, Timber Wolf*

### Competition

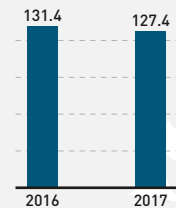
#### MOIST SNUFF<sup>1)</sup>



<sup>1)</sup> Swedish Match and industry estimates, full year 2017, on a can equivalent basis.

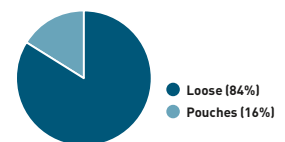
### Shipment volumes (million cans)

#### MOIST SNUFF



### Segment

#### MOIST SNUFF CONSUMPTION BY FORMAT<sup>1)</sup>



## Snus and nicotine pouches without tobacco outside Scandinavia

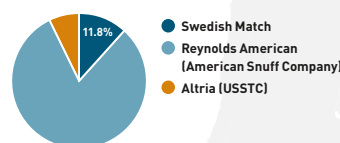
The main market for Swedish snus and nicotine pouches without tobacco outside Scandinavia is the US. The US snus category in recent years has shown growth and in 2017 was a 55-60 million can market. Swedish Match holds the number 2 position in this market. Swedish Match is currently also active in the snus markets in Canada and Malaysia. A relatively new product category in the US is nicotine pouches without tobacco. This category is small, but is growing at a rapid pace.

### Main brands

Snus: *General*  
 Nicotine pouches without tobacco: *ZYN*

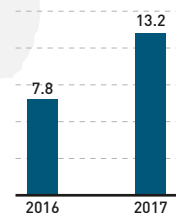
### Competition

#### SNUS IN THE US<sup>1)</sup>



### Shipment volumes (million cans)

#### SNUS AND NICOTINE POUCHES OUTSIDE SCANDINAVIA<sup>2)</sup>



<sup>1)</sup> Swedish Match and industry estimates, full year 2017, on a can equivalent basis.  
<sup>2)</sup> Includes V2 Tobacco snus volumes from date of acquisition.

## Chewing tobacco in the US and Europe

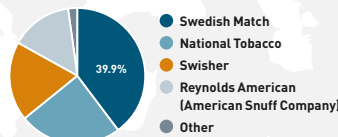
Swedish Match sells traditional chewing tobacco in the US, as well as chew bags, a modern form of chewing tobacco, in certain European markets. The US chewing tobacco market is in a long term state of volume decline. It is estimated that the market declined by approximately 7 percent in 2017. However, the decline was more pronounced in the premium segment where Swedish Match has a leading position. The decline was approximately 10 percent in this segment. During the year, Swedish Match has been gaining share in both segments with slower than industry volume declines. Swedish Match holds the leading position for chewing tobacco in the US. In Europe, the market for chew bags is small, but growing. Denmark is one of the larger markets with a market size of approximately 2 million cans. After acquiring V2 Tobacco during 2017, Swedish Match has broadened its geographical footprint for chew bags. The competitive landscape within this category has seen new players in the market during the past years, including BAT and Imperial, among others.

### Main brands

Chewing tobacco, the US: *Red Man*  
Chew bags, Europe: *Thunder, General Cut*

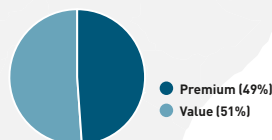
### Competition

#### CHEWING TOBACCO IN THE US<sup>1)</sup>



### Segment

#### CHEWING TOBACCO IN THE US<sup>1)</sup>

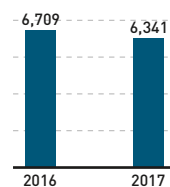


### Significant markets for chew bags in Europe

- Germany
- Denmark
- Switzerland
- Slovenia
- Czech Republic

### Shipment volumes (thousand pounds)

#### CHEWING TOBACCO IN THE US<sup>2)</sup>

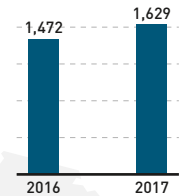


## Cigars in the US

Swedish Match estimates that the US mass market cigar market grew by approximately 10 percent in volume terms in 2017 and amounts to approximately 7.2 billion cigars excluding little cigars<sup>1)</sup> (a segment in which Swedish Match does not participate). The market is highly competitive with extensive activity for low priced and promotional products. Swedish Match is the largest player in the natural leaf segment and also participates in the larger homogenized tobacco leaf segment. For the total market for mass market cigars in the US, Swedish Match estimates that it holds the number 2 position based on actual shipments.

### Shipment volumes (million sticks)

#### MASS MARKET CIGARS

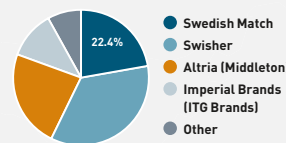


### Main brands

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

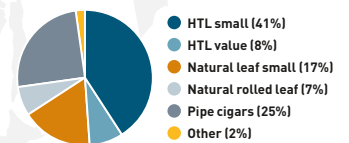
### Competition

#### MASS MARKET CIGARS<sup>2)</sup> (EXCLUDING LITTLE CIGARS)



### Segment

#### MASS MARKET CIGARS<sup>3)</sup>



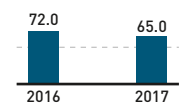
<sup>1)</sup> Little cigars are typically filter tipped and packaged in packs of 20 (similar to cigarette packaging).  
<sup>2)</sup> Full year 2017 based on CMPP.  
<sup>3)</sup> Swedish Match and industry estimates for mass market cigars excluding little cigars, full year 2017.

## Lights worldwide

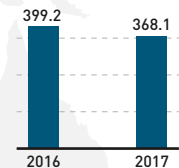
Lights products have been used for a variety of occasions. The market for traditional match products has been declining in most markets over the past decade while lighter use has shown growth in some markets, most notably in Asia. Swedish Match has a strong presence in Latin America, especially Brazil, as well as in large parts of Europe and Asia Pacific.

### Shipment volumes

#### MATCHES (billion sticks)



#### LIGHTERS (million units)



### Main brands

Matches: *Solstickan* (Sweden), *Swan Vestas* (UK), *Tres Estrellas* (Spain), *Fiat Lux* (Brazil), *Redheads* (Australia)  
Lighters: *Cricket* (globally)

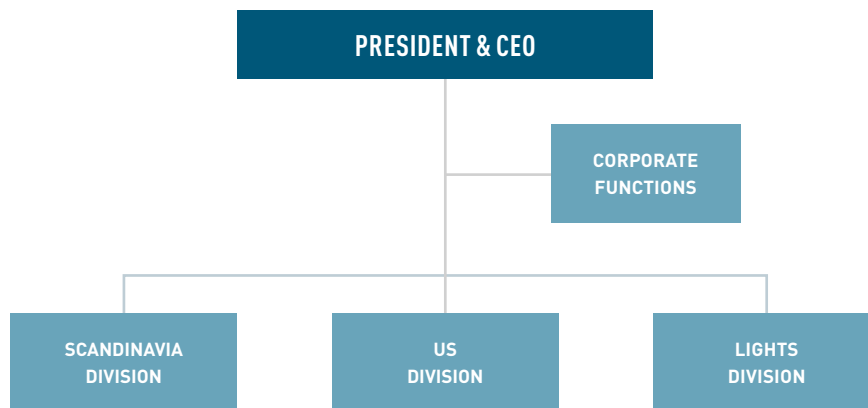
### Competition

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

<sup>1)</sup> Swedish Match and industry estimates, full year 2017.  
<sup>2)</sup> Excluding contract manufacturing.



# How we operate



**With a flexible and innovative approach, Swedish Match always works to have the right strategy, people, competencies, products, and structure in place in order to rapidly meet changing market conditions. Swedish Match organization consists of three divisions and the Corporate functions. Swedish Match operates in eleven countries and our products are sold across the globe.**

### Scandinavia Division

Scandinavia Division is responsible for the snus and smokeless businesses in Scandinavia, including development, manufacturing, marketing, and sales. The division is responsible for expanding into certain new export markets, including sales of chew bags in Europe. The Scandinavia Division also manages the supply for the Group's smokeless products outside of Scandinavia, which includes snus, moist snuff, and chewing tobacco sold in the US as well as chew bags sold in Europe and nicotine pouches without tobacco sold in both Sweden and the US. In addition, Scandinavia Division is responsible for developing new smokeless products and improving the current product portfolio. Focus is on strengthening the position in the smokeless category and growing the category in Scandinavia through efficient sales processes, marketing activities, and product development as well as expansion into certain new export markets.

### US Division

US Division is responsible for sales and marketing of snus, moist snuff, chewing tobacco, and nicotine pouches without tobacco in the US. The US Division also has the full responsibility for US mass market cigars, including sales and marketing, as well as the supply chain. US Division's focus is on the sales process, brand marketing, trade category management and go-to-market strategies in order to

secure quality distribution and expand the share of market for the Company's products in the US. The US Division also focuses on building the category for Swedish snus and nicotine pouches without tobacco in the US and Canada. For the US mass market cigars and chewing tobacco categories, the continued focus is on profitability and value creation.

### Lights Division

Lights Division manufactures and markets matches and lighters throughout the world with production units in Brazil, the Netherlands, the Philippines and Sweden. The division also sells complementary products sourced from third party manufacturers, mainly in the Brazilian market. Lights Division has its own sales forces in Brazil and Turkey as well as a wide network of distribution partners worldwide.

### Corporate functions

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



Employees at the Kungälv factory, Sweden.

## OPERATING LOCATIONS



# Managing risks – a part of conducting business

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

### BEING COMPETITIVE

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

### OPERATING SAFELY

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

### BEING FINANCIALLY STABLE

- Strict financial policies in place and monitoring by Board of Directors
- Transaction currency hedging via matching of buying and selling currencies – production and sales to large extent in same countries
- Clear priority use of cash, ensuring that fulfillment of commitments are not jeopardized

### Risk management within Swedish Match

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

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

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

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

### Annual ERM process

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

## RISK AREAS

Important risks to address arise in the areas of competition, production, regulation, and finance among other areas.<sup>11</sup>

### Competition

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

### Production

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

### Suppliers

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

As a complement to the internal reviews, at times an independent third party conducts risk inspections at critical suppliers.

Swedish Match strives to work with suppliers who have a healthy, long term financial position and who support our values. Our Supplier Code of Conduct specifies what we expect and require from our suppliers in terms of employment and labor practices, workplace practices, ethical business practices and environmental management practices. The Supplier Code of Conduct forms the basis for our relationship with suppliers and is an integral part of most of our significant business agreements. In complement to continuous risk assessments performed as part of the due diligence processes for suppliers, we assigned external expertise to advance the general assessment of risk related to business integrity and human rights for our supply chain in 2016. This risk assessment now forms the basis for our efforts to identify and mitigate specific risk in dialogue with prioritized suppliers. We have procedures in place, and under continuous development, to further emphasize sustainable supply chain management.

### Regulation

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

Most importantly Swedish Match needs to continue to provide consumers with less harmful alternatives to cigarettes and strive toward the vision of a world without cigarettes, in order to avoid further regulatory burden. A critical activity is to educate and inform decision makers about Swedish Match's tobacco products, especially snus and its dramatically less harmful health

characteristics compared to cigarettes. More information on harm reduction can be found in the sustainability section on page 32.

### Financial

The financial market conditions are continuously changing with changing currency exchange rates, interest rates and availability of funds. A strengthening of the Swedish krona could cause lower financial results presented in SEK from the translation of foreign operations and lower proceeds at realization of such assets. The transaction exposure is relatively low as most production is located in the country where sales are conducted. Higher interest rates could have a negative impact on net finance expense. Swedish Match has a large part of its business being conducted outside Sweden with a significant part in the US. The currency exchange rate development is not in the control of Swedish Match. Acknowledging that there is a speculative element in hedging the currency translation exposure, Swedish Match has decided to normally not hedge this exposure. However, Swedish Match is mindful of the cash impact from currency rate changes and strives to regularly distribute dividends from its foreign subsidiaries to the Swedish parent company.

Swedish Match is a highly cash generative company with a stable financial policy. Excess cash not needed by the Company is distributed to shareholders by means of both dividends and share repurchases. Swedish Match is optimizing its cost of capital by ensuring an appropriate leverage. In order to manage interest rate risk and refinancing risk, the Company strives to have an even spread of maturities. In addition, the Company shall as a general rule secure financing for the coming twelve months before any share repurchases are executed.



<sup>11</sup> More information on risks can also be found in the Report of the Board of Directors and financial risks presented in Note 27 Financial instruments and financial risks to the Group Consolidated Financial Statements.



# Regulation – harm reduction is gaining ground

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

Swedish Match believes that tobacco regulation will continue to become more global in character and steadily increase in scope. It is Swedish Match's aspiration to see a move from "one-size-fits-all" tobacco regulation to an approach that takes into account the differences between product categories and their accompanying risk profiles. Smokeless tobacco regulation should ultimately be based upon standards which strive to ensure that consumers receive attractive products with the highest possible product quality with minimal risk i.e. product standards based on the principles of food regulation.

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

There is an increasingly enlightened approach toward harm reduction in, for example the US, UK, some countries in Europe, and New Zealand. In the US, the Food and Drug Administration (FDA) reaffirmed its intention to regulate in a manner that will encourage consumers to migrate from cigarettes to less harmful products. The FDA's stated philosophy is very well aligned with our vision and

should be beneficial for both *General* snus and ZYN nicotine pouches from a regulatory perspective. Certain other countries continue to take an alternative approach by not recognizing the positive role these types of products can have in reducing the harm caused by cigarette smoking. In several of these markets, we are actively working to change the situation toward the more enlightened approach, sometimes through litigation. We are currently challenging the ban on snus within the EU in the European Court of Justice and have been litigating the disproportionate and discriminatory decision to fold snus into the Norwegian plain packaging regulation.

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

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



## REGULATORY DEVELOPMENTS IN THE US

On July 28, the US FDA announced a new comprehensive regulatory plan for tobacco. In the announcement, FDA Commissioner Dr. Scott Gottlieb acknowledged that there is a difference in risk profile for different tobacco and nicotine containing products. He envisioned a world where cigarettes lose their addictive potential through reduced nicotine levels where less harmful products, efficiently delivering satisfying levels of nicotine, are available to those adults who need or want them. The FDA announcement is an important step forward for scientifically based regulation of tobacco and nicotine products.

As part of the July announcement, the FDA also extended deadlines for substantial equivalence reports and premarket applications (PMTA) under the deeming regulation. For combustible products (including cigars) the deadlines were extended to August 8, 2021 and for non-combustible products (including products such as ZYN) the deadlines were extended to August 8, 2022. The FDA also announced that it would seek public comment on the role that flavors in tobacco products play in attracting youth, as well as the role they may play in helping smokers switch to potentially less harmful forms of nicotine delivery.

## REGULATORY DEVELOPMENTS IN EUROPE

Tobacco products for oral use, except those intended to be smoked or chewed, have been banned in the EU since 1992. As Swedish snus is neither smoked nor chewed, it is prohibited for sale. Upon Sweden's entry into the EU in 1995, the country was granted a permanent exemption from the sales ban on snus. Cigarettes and other types of traditional smokeless tobacco products (including certain Asian/African varieties, chewing tobacco and nasal snuff) can all be legally sold within the EU. In 2016, Swedish Match initiated legal proceedings in the UK in order to challenge the EU ban on snus. Swedish Match is of the opinion that the snus ban is both discriminatory and disproportionate. The British High Court decided to refer the case to the European Court of Justice for preliminary ruling and the case was heard on January 25, 2018. The judgement is expected during the second half of 2018.

In early 2018, the Swedish Government announced its intent to propose to the Parliament a new legislation on tobacco and similar products. The proposed legislation is scheduled to take effect from January 1, 2019 and contains a number of proposed measures including a ban on smoking in various outdoor public places (including outdoor restaurants), a ban on consumer self-service for all tobacco products at point of sale, a ban on tobacco advertising at point of sale other than in specialty tobacco shops and a minimum of 20 snus pouches per can. The announced proposal also includes implementation of

the EU mandated track and trace system for tobacco products. The Government has also considered a number of further legislative measures proposed in a 2016 Official Report on tobacco legislation such as a ban on exposing tobacco products at retail and a ban on flavor designations on snus cans but has decided not to include these measures in its proposal to Parliament.

In Norway, plain packaging regulation for snus came into force on July 1, 2017. New snus products launched after this date have to be in plain packaging. Products on the market prior to July 1, 2017, are required to be in plain packaging in the trade from July 1, 2018. Swedish Match challenged the regulation as it is discriminatory and not based on a proper scientific review of the health effects of snus. Swedish Match failed to get a preliminary injunction against the legislation.

In Switzerland the Government has made public a proposal to lift the Swiss ban on snus. The proposal has been sent out for consultation. A final proposal to the Swiss Parliament is expected towards the end of 2018 with the final decision by Parliament and implementation expected to take a number of years.

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## SWEDISH MATCH'S OPINION ON REGULATIONS:

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



# Growing markets driven by modernization

**Markets for smokeless alternatives, including snus and moist snuff, as well as innovative products, such as nicotine pouches without tobacco, have been growing in volume in both Scandinavia and the US. As the market leader in Scandinavia and a significant player in the US, Swedish Match has been a participant in this growth and is well positioned to grow further.**

In Scandinavia, Swedish Match has experienced growing snus volumes in both the Swedish and Norwegian markets. On the US moist snuff market, the Company offers attractive alternatives in two of the fastest growing formats – pouches and tubs. In the US, the snus market continued to grow, and Swedish Match has outpaced the market. While the market for nicotine pouches without tobacco is relatively new, the volume development for the Company's products is promising.

### Strategy

Swedish Match's vision is of a world without cigarettes, providing consumers enjoyable alternatives that are both satisfying and dramatically safer than smoking. Smokeless alternatives, including snus and moist snuff, as well as innovative products (such as nicotine pouches without tobacco) are an important part in moving toward the vision. As snus consumption grows, cigarette consumption declines. In Scandinavia, consumer preference for snus versus cigarettes has increased over the years, especially among younger adults in Norway. Swedish Match is dedicated to further developing the growing snus categories in Scandinavia, the US, and potentially other markets, thereby contributing significantly to improved public health.

The Company's major competitive strengths include its superior quality products, in depth know-how, and ability to quickly adapt to evolving consumer needs. The Company's strengths also include

offering both traditional and innovative high quality products with both well established and new brands, and its capabilities in the areas of analyzing the needs of consumers, conducting research, and servicing customers.

Swedish Match will leverage its unique Snus and moist snuff platform, and continue to innovate and develop new and improved products with outstanding quality and value. Swedish Match will endeavor to drive category growth and maintain its leading position in Scandinavia. It will also work to develop the snus and nicotine pouch categories in the US and establish a strong presence in the market. Swedish Match will work to build on its position in the moist snuff market, targeting the faster growing segments. The Company will explore opportunities for Swedish snus and other innovative smokeless products in both existing and new markets.

### Financial development

Sales for the product area during the year increased to 5,483 MSEK (5,277). Operating profit for the year grew by 7 percent to 2,357 MSEK (2,197). In the Scandinavian market, Swedish Match's sales grew on higher volumes and positive net price/mix effects. In the US, Swedish Match's moist snuff sales increased in local currency from improved pricing. The total net operating loss related to the sales of snus and nicotine pouches without tobacco outside Scandinavia improved significantly. The operating margin was 43.0 percent (41.6) for the year.





## SCANDINAVIA

Swedish Match is the leading snus producer in Scandinavia and enjoys strong market positions in both Sweden and Norway. In Sweden, *General* is the largest brand in the premium priced segment, while *Kronan* and *Kaliber* are among the leading brands in the value priced segment.<sup>1)</sup> In Norway, *General* is the largest Swedish Match brand on the market, including its *G.3* assortment. In addition to its traditional snus products, Swedish Match offers its nicotine pouches without tobacco product, *ZYN*, in Sweden. Swedish Match also offers *Onico* in both Sweden and Norway, the number one brand in the segment for products with neither nicotine nor tobacco.

### Market

The Scandinavian snus market is estimated to have amounted to slightly more than 390 million cans in 2017, up by close to 4 percent from the previous year.<sup>1)</sup> Over the past several years, consumption has been moving from traditional loose products to pouch products, which at the end of 2017 accounted for more than 80 percent of volumes in Scandinavia.<sup>1)</sup> Swedish Match's Scandinavian shipment volumes measured in number of cans grew by 3 percent, while underlying volumes (excluding hoarding and year-end calendar effects) are estimated to have increased more than 1 percent.

Sweden is the largest snus market in Scandinavia with approximately one million consumers, and growing.<sup>2)</sup> It is estimated that more than 20 percent of Swedish men use snus on a regular basis. The overall percentage of women using snus is lower than for men, but growing.<sup>2)</sup>

The Swedish snus market is estimated by Swedish Match to have grown by close to 4 percent in volume terms in 2017 versus the prior year. The growth of the Swedish snus market in 2017 came from both the value priced segment (which for the full year represented approximately 47 percent of the market) and the premium segment.<sup>1)</sup>

In Sweden, Swedish Match's market position is strongest in the premium priced segment. This segment declined somewhat as a share of the total market while volumes grew. Within the value priced segment, competition remained intense during the year, and Swedish Match grew volumes while losing some market share.

In Norway, the snus market volume has grown by approximately 20 percent over the past three years. During 2017, growth moderated slightly compared to recent years' levels and was around 5 percent versus the prior year.<sup>1)</sup> Swedish Match's market share in volume terms in this market is estimated to have declined by somewhat more than 1 percentage point.<sup>1)</sup> Unlike the Swedish snus market, the Norwegian market is an all premium market and has no value segment.

### Highlights

In Sweden, Swedish Match maintained its strong position in the premium segment, despite efforts by competition with new products. Swedish Match's well-known brands and quality were reinforced through innovations. The *One* series of attractively priced premium snus, based on innovative technology, which was launched during the fall has been received well by consumers. This follows on the successful launch of *XR* in 2015 with similar pricing. *One* has drawn

<sup>1)</sup> Source: Swedish Match estimates of can volume using Nielsen data (excluding tobaccoconists in Sweden), full year 2017.

<sup>2)</sup> Source: Ipsos Sweden, Market Report, 2016.

consumers from both higher and lower priced products, and has helped to stabilize volumes for premium brands of pouch products. Swedish Match also expanded the distribution for ZYN beyond the Company's own snus stores in Sweden and was during 2017 made available online and in one of Sweden's largest convenience store chains. ZYN was first launched on the US market prior to being offered in Sweden. In the value priced segment in Sweden, Swedish Match maintained its leading position, with support from the *Kaliber+* launch and a packaging and product upgrade for the *Kronan* brand. *Kaliber+* has a more fully packed portion than the traditional *Kaliber* and provides a more robust flavor.

In Norway, modern snus products continued to show positive trends, which enabled Swedish Match to improve its share performance. To address a challenging competitive situation, Swedish Match continued to launch line extensions under the G.3 range, with functional properties such as a soft fit, minimal drip and a long-lasting snus experience. *G.3 Volt* and *G.3 Wire* were launched during the year. They are both a stronger product in the slim white dry format. Swedish Match also launched a completely new all white

snus under the brand G.4 – a moist product with a soft mouth feel developed utilizing innovative technology. Volumes declined however for loose snus and for the more traditional original pouches in Norway, segments in which Swedish Match has particularly strong positions, thus contributing to the overall share decline for Swedish Match in this market. From July 1, 2017, Norway has imposed plain packaging regulation, which applies to all snus products launched since that date and from July 1, 2018, the regulation requires that all snus products be in plain packaging. Read more on page 14.

The Swedish Match snus stores provide a unique consumer experience, where snus users can learn more about snus and the Swedish Match range of products. Snus stores are also an ideal venue to present new products. Starting with a store in downtown Stockholm at the end of 2012, the concept now includes locations in Gothenburg, as well as in Strömstad and Åre – both within a short drive from the Norwegian border. During the year, Swedish Match continued to develop the snus store concept with the opening of an e-commerce service.

## A tradition of quality, a spirit of innovation

**Swedish Match is a name synonymous with quality.**

**Ever since the first can of *Ettan* was introduced in 1822, quality has been a tradition.**

From beginnings as loose snus, innovative new products have continually raised the snus standard. In 1967, Svenska Tobaks AB (now Swedish Match) introduced the round snus can and in one edition of the trade magazine *Tobakshandlaren* that year, one could read (free translation from Swedish): "A revolutionary event in its own way began on November 16th with one of our most traditional consumer goods. The old brown oblong snus can is substituted gradually over the next six months and replaced by a round can in a design that suits our time." Portion snus in convenient pouches, introduced in the 1970's, brought a whole new range of highest quality snus. The evolution of the Swedish snus experience has been a continuous process, including the introduction of our GOTHIA TEK® quality standard, portion shapes, different portion sizes, updated packaging design – each step in the evolution has raised the benchmark for quality, built on tradition.

Our snus consumers appreciate the quality and heritage that Swedish Match products signify. We have, through deep consumer insight and painstaking Research and Development, built upon our knowledge and expertise to continue to offer Sweden's snus consumers modern and effective enjoyment products.

Today's portfolio now offers not only traditional loose snus and portion products under classic brands, like *Ettan* and *General*, but also now showcases brand new brands, as well as products with new features, such as *XR*, the *One* series, and *G.3*. All our snus products are produced in accordance with the GOTHIA TEK® quality standard, to ensure that Swedish Match maintains uncompromising quality through a unique expertise and control in all stages – from seed to finished product.





## THE US

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

Swedish Match sells Swedish snus in the US under the *General* brand, priced in line with premium priced moist snuff products. *ZYN* is the Company's brand for its nicotine pouches without tobacco.

### Market

Moist snuff is sold throughout the US and volumes are particularly strong in the southern and mid-Atlantic states. The vast majority of moist snuff users in the US are men. The moist snuff market is highly price competitive. The recent rapid growth of the pouch segment of the market has broadened the appeal of moist snuff to a larger consumer base.

In 2017, the US moist snuff market is estimated by Swedish Match to have grown by approximately 1 percent, and amounted to more than 1.5 billion cans, with the pouch segment accounting for approximately 16 percent of this market. Swedish Match's moist snuff volume measured in number of can equivalents was lower compared to last year. For the full year 2017, Swedish Match estimates its market share by volume of the moist snuff market to be approximately 8 percent.

The US snus market is growing but is still quite small and amounted to 55–60 million cans in 2017. This segment's potential for growth is strong, as snus which is primarily a pouch category, may appeal to a wider segment of the adult tobacco consuming population who desire a discrete, spitless alternative.

A relatively new category on the US market is nicotine pouches without tobacco. This category is small, but is growing at a rapid pace.

<sup>11</sup> Source: Swedish Match estimates.

### Highlights

The premium priced segment of the moist snuff market declined in 2017, while the value priced segment grew.<sup>11</sup> There was continued intensive competitive activity among large competitors, especially in the value segment. While Swedish Match's volume and market share declined for its higher priced brands in the value segment, the Company has maintained its position with its *Longhorn* brand, as well as strengthened its position with pouch products in that rapidly growing segment.

Approximately 84 percent of moist snuff in the US is sold in the traditional loose format<sup>11</sup>, but over the past several years, the percentage of moist snuff sold in pouches has increased. Swedish Match estimates the growth in the pouch segment to have been approximately 4 percent in volume terms in 2017. While volumes declined for more traditional loose products, the Company experienced solid volume growth for its pouch assortment, and for its large pack tub format of loose products.

Swedish Match continued its efforts behind snus and nicotine pouches without tobacco in the US market and there were significant investments during the year to support the expansion. The trends are encouraging and in 2017, as a result of both higher volumes and improved pricing, the net loss after market investments improved. In the US, the Company markets the *General* snus brand – an authentic Swedish snus, available in tobacconists, convenience, and other select stores. During the year, Swedish Match continued to expand the availability of *ZYN*, a range of nicotine pouch products without tobacco, in the western US. By the end of 2017, *ZYN* was available in approximately 9,000 stores. Growing volumes for *ZYN* did not only come as a result of expanded distribution but also from an increase in turns per store. The Company will invest more than 60 MUSD into US production capacity of *ZYN* – a project that was initiated in the fall of 2017 with production anticipated to be operational in 2019.

## SNUS OUTSIDE SCANDINAVIA AND THE US

Outside the Company's core markets, Swedish Match continues its efforts to establish Swedish snus in selected markets. Swedish Match sees good opportunities for its snus products over the longer term and is currently active in Canada and Malaysia.



*In the US, Swedish Match's moist snuff brands include Longhorn and Timber Wolf. The segment for pouches has increased but moist snuff in the traditional loose format still accounts for approximately 84 percent of volumes sold. The category for US snus has in recent years shown growth, and the trends for Swedish Match's brand General are positive.*

# FACTS AND FIGURES

## SNUS AND MOIST SNUFF HIGHLIGHTS

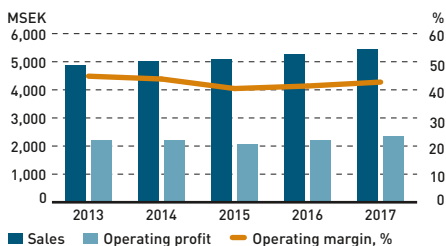
- Growth of G.3 range in Norway leading to notably improved share trends.
- Volume and sales growth in both Sweden and Norway, aided by price increases.
- Continued growth for US moist snuff pouches and tubs.
- Strong growth for Snus and nicotine products outside of Scandinavia.
- Decision to invest in a new production facility for ZYN in the US.

### KEY DATA<sup>1)</sup>

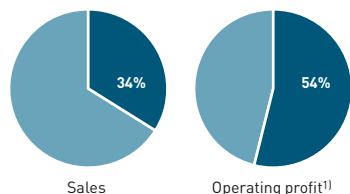
MSEK	2017	2016	2015
Sales	5,483	5,277	5,090
Operating profit	2,357	2,197	2,071
Operating margin, %	43.0	41.6	40.7
Investments in property, plant and equipment	211	247	164
Average number of employees	1,204	1,184	1,087

<sup>1)</sup> Excluding larger one-time items.

### SALES AND OPERATING PROFIT



### SHARE OF GROUP TOTAL



<sup>1)</sup> Excluding Other operations and larger one-time items.

## SNUS AND POUCH PRODUCTS WITHOUT TOBACCO IN SCANDINAVIA

### Main brands:

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

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

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

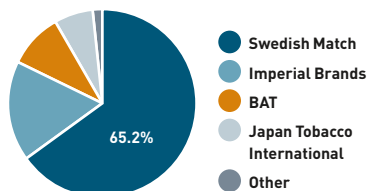
**Nicotine pouches without tobacco, Sweden:** ZYN

### SWEDISH MATCH MARKET SHARES

Market shares (percent) <sup>1)</sup>	2017	2016	Change, ppts
Snus, Sweden, total	65.2	67.3	-2.1
Snus, Sweden, premium	91.2	92.7	-1.6
Snus, Sweden, value	36.0	38.0	-2.0
Snus, Norway, total	52.1	53.5	-1.4

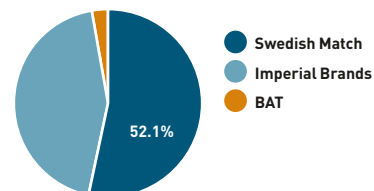
<sup>1)</sup> Source: Swedish Match estimates of can volume using Nielsen data (excluding tobacconists for Sweden), 1 January – 31 December, 2017.

### COMPETITION – SNUS IN SWEDEN



Source: Swedish Match estimates of can volume, using Nielsen data (excluding tobacconists), full year 2017.

### COMPETITION – SNUS IN NORWAY



Source: Swedish Match estimates of can volume, using Nielsen data, full year 2017.

## SNUS, NICOTINE POUCHES AND MOIST SNUFF IN THE US

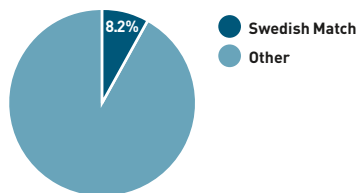
### Main brands:

**Moist snuff:** Longhorn, Timber Wolf

**Snus:** General

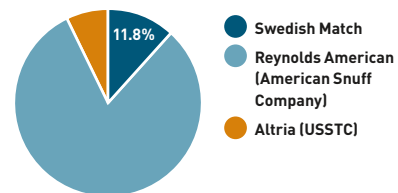
**Nicotine pouches without tobacco:** ZYN

### COMPETITION – MOIST SNUFF IN THE US



Source: Swedish Match and industry estimates, full year 2017, on a can equivalent basis.

### COMPETITION – SNUS IN THE US



Source: Swedish Match and industry estimates, full year 2017, on a can equivalent basis.

## SWEDISH MATCH SHIPMENT VOLUMES SUMMARY

Shipment volumes (millions of cans)	2017	2016	Change, %
Snus, Scandinavia <sup>1)</sup>	247.6	241.3	3
Moist snuff, US	127.4	131.4	-3
Snus and nicotine pouches, outside Scandinavia <sup>1)</sup>	13.2	7.8	70

<sup>1)</sup> Includes V2 Tobacco snus volumes from date of acquisition.

# Moving from harm reduction toward Harm elimination

**Although nicotine has the potential for addiction, the harm to public health is almost exclusively caused by the way nicotine is delivered. Any drug delivered by inhalation of smoke will inevitably be seriously harmful to health.**

When Nicotine Replacement Therapy (NRT) in the form of chewing gums started to be introduced in the early 70's, it was a controversial concept widely opposed by anti-tobacco campaigners but harm reduction with the help of nicotine started to gain ground. It took 30 years of the marketing of nicotine as a "safe and effective" medication before the concept of harm reduction gained real political and legislative attention. Today nicotine is deemed so safe that no prescription is required for patches, flavored gums or lozenges in most developed markets.

In 2008, the American Association of Public Health Physicians (AAPHP) became the first medical organization in the US to officially endorse tobacco harm reduction as a strategy to reduce smoking related mortality. A year later, the US Food and Drug Administration (FDA) decided to encompass the tobacco harm reduction approach and allowed tobacco companies to seek a Modified Risk Tobacco Product (MRTTP) order for a specific tobacco product. This year the FDA has announced a new comprehensive regulatory plan for tobacco and reaffirmed its intention to "push" consumers away from cigarettes toward less harmful products.

Along with increased international advocacy for harm reduction came an

increasing number of studies suggesting that cigarette smokers who switched to products like Swedish snus were more successful in quitting smoking compared to smokers who used NRT. Most evident was the proof of concept from Sweden. Increased snus use by Swedes during the last four decades has been accompanied by decreased cigarette smoking and tobacco-related disease and mortality.<sup>1)</sup> Sweden has the lowest incidence of smoking as well as the lowest tobacco related morbidity and mortality in the western world, despite a western average incidence of nicotine use.<sup>2)</sup> The "Swedish experience", as this phenomenon is often called in scientific literature, is not a result of the public health community campaigning to persuade smokers to switch to snus or from industry advertising. The above underscores not only the power of consumer movements, but also raises the important question – what can be achieved with official harm reduction endorsement, regulatory industry incentives for developing cleaner nicotine containing consumer products and proportionate regulation based on a product risk profile?

The GOTHIA TEK® quality standard for Swedish Match's snus products (with the overarching aim of eliminating any adverse health effects among consumers of snus) is an example of a successful industry

application of the concept of harm reduction. Swedish snus is acknowledged today as the cleanest and most well-controlled tobacco product. It places Swedish snus in a category of its own. With regard to harm elimination, clean forms of nicotine products are in general terms safe to use (i.e. carry an acceptable level of risk) as safety is relative and cannot be measured in absolute terms.

Swedish snus, along with other safe forms of nicotine, including NRTs, have the potential not only to reduce harm caused by smoking but to eliminate it. We do not believe that more rigorously enforced policies and regulations against cigarettes alone will get us to a world without cigarettes but the availability of a wide range of high quality nicotine containing products that are deemed attractive and enjoyable by smokers will. The public spending to achieve this is minimal and the public savings are huge.

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

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

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

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

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

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

<sup>1)</sup> Foulds et al, Effect of smokeless tobacco (snus) on smoking and public health in Sweden *Tob Control* 2003;12:349-359

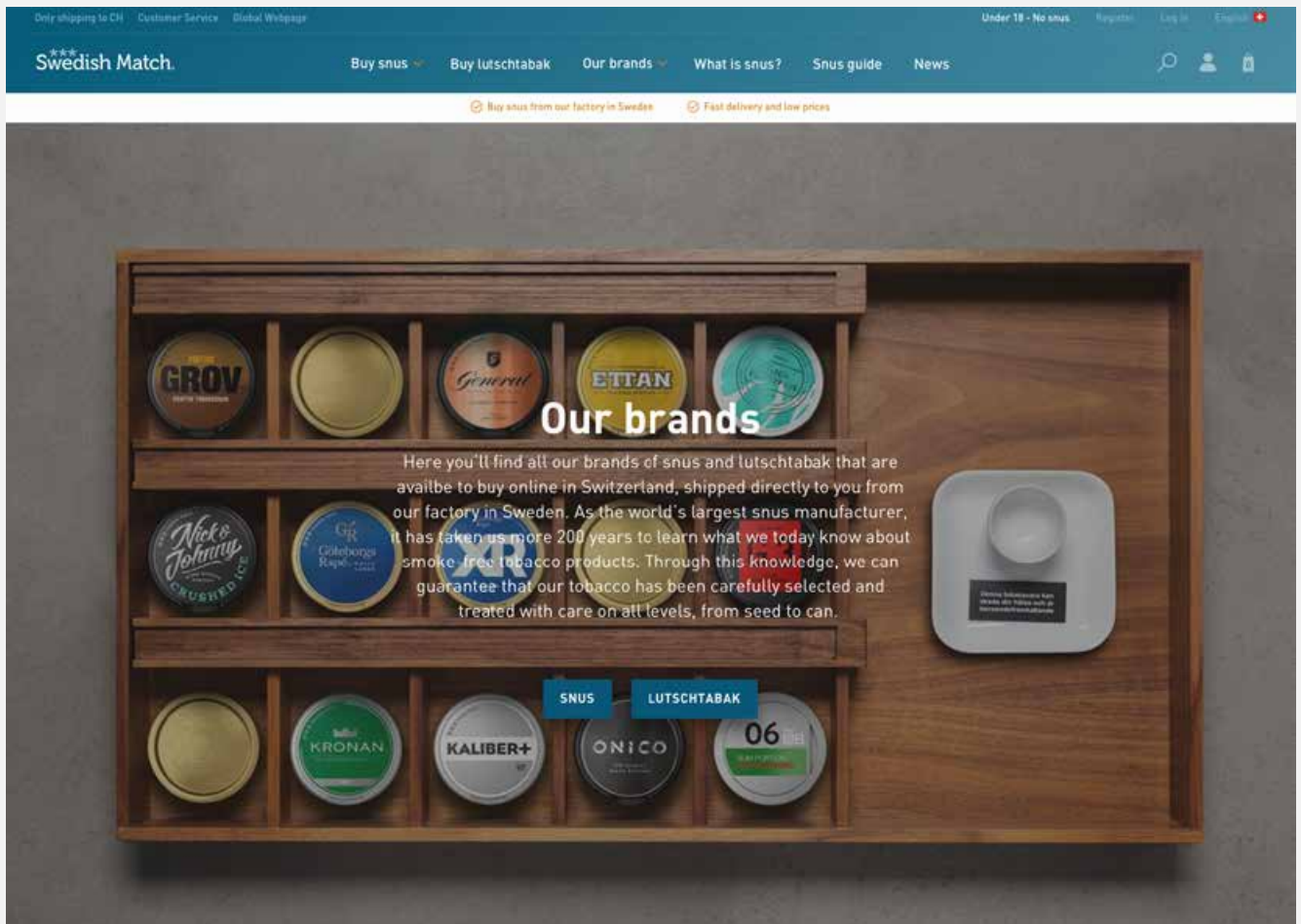
<sup>2)</sup> Houezec J et al, "Tobacco, Nicotine and Harm Reduction," *DRUG & ALCOHOL REVIEW*, Vol.30, No.2 (2011)

## SNUS AND HEALTH

- The availability of snus in Sweden and Norway reduces the prevalence of smoking.
- There is no evidence of a link between snus and increased risk for lung cancer.
- There is no evidence of a link between snus and increased risk for oral cancer.
- Swedish men demonstrate the lowest incidence of any form of tobacco related cancer in the western world.

More information and references on snus and health are available on the Company's website, [www.swedishmatch.com/snus-and-health](http://www.swedishmatch.com/snus-and-health).





# Swedish Match e-commerce service – entire snus range available online

**As of March 2017, Swedish Match's entire snus range can be ordered online for people living in Sweden and from October, 2017, for people living in Switzerland.**

With the new e-commerce service, [www.swedishmatch.se](http://www.swedishmatch.se), consumers can order the entire snus range. It is also possible to order freshly made snus, meaning the factory's latest production. The website includes age control for purchasing to ensure that the products are only sold to people over 18, the legal age in Sweden.

A popular feature is that consumers can also use the website to create their own snus blends using flavoring agents, as it is already possible to do in Swedish Match snus stores in Stockholm, Gothenburg, Strömstad and Åre.

#### The website's main features are:

1. An opportunity to order the entire Swedish Match range, either directly to the door or to the nearest postal provider.
2. An opportunity to make own snus blend online and have this sent home.
3. An opportunity to subscribe to a fixed amount of snus cans each month.

In addition, the website offers consumer information about our new products, product content, Swedish Match's quality work, history of snus and more.

From October, 2017, the e-commerce service was extended to include people living in Switzerland through the website [www.swedishmatch.ch](http://www.swedishmatch.ch).

## OTHER TOBACCO PRODUCTS

# Growth and opportunity

Other tobacco products mainly include cigars and chewing tobacco for the US market but also chew bags for certain markets in Europe. The product area experienced another growth year in both sales and operating profit.

In the US, Swedish Match maintains a strong presence with cigars, especially within the natural leaf segment<sup>1)</sup> where the Company has the leading position, and holds the number one position for chewing tobacco. Swedish Match also sells chew bags, a modern form of chewing tobacco available in small pouches, in certain European markets.

## Strategy

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

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

For chewing tobacco in the US, Swedish Match will capitalize on its leading position in the category and continuously drive productivity improvements. By mitigating the impact of volume declines through cost focus and price leadership Swedish Match can ensure good profitability in this declining category. In certain other markets outside of the US, Swedish Match will develop its presence with chew bags, a modern form of chewing tobacco.

## Financial development

Sales for the product area for the year increased by 8 percent to 4,634 MSEK (4,283), while operating profit increased by 4 percent to 1,776 MSEK (1,705). In local currency, sales for the year were 8 percent higher with growth coming from cigars whereas sales for chewing tobacco declined.

Operating profit in local currency increased by 4 percent compared to the prior year. The operating margin for the product area was 38.3 percent (39.8), negatively impacted by fees paid to the US Food and Drug Administration (FDA) from the fourth quarter of 2016.



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

## CIGARS

Swedish Match maintains a strong presence with cigars in the US with such well known mass market brands as *Game*, *White Owl*, and *Garcia y Vega*.

### Market and highlights

It is estimated by Swedish Match that the market for US mass market cigars grew by approximately 10 percent in volume terms in 2017 and amounted to approximately 7.2 billion cigars excluding little cigars<sup>1)</sup> (a segment in which Swedish Match does not participate). Swedish Match's cigar volumes reached a new record level, increasing by 11 percent. During 2017, the market remained highly competitive with extensive activity for lower priced and promotional products. Swedish Match estimates that the Company's share of market was approximately 22 percent in 2017. Swedish Match participates in both the homogenized tobacco leaf (HTL) segment<sup>2)</sup>, which is the largest segment, and the natural leaf segment, a smaller but growing segment in which Swedish Match holds the leading market position.

During 2017, Swedish Match expanded distribution for a number of cigar products under brands such as *Game*, *Garcia y Vega*, and *White Owl*. The volume growth for *Game* and *Garcia y Vega* natural leaf cigars was particularly strong, and were a major contributing factor for Swedish Match's solid volume growth. The Company's natural leaf cigars offer exceptional quality at an attractive price point. Swedish Match also grew HTL volumes in 2017 with its *White Owl* and *Jackpot* brands.

<sup>1)</sup> Little cigars are typically filter tipped and packaged in packs of 20.

<sup>2)</sup> Homogenized tobacco leaf (HTL) cigars: Cigars which have binders and wrappers made of tobacco leaves that have been ground, mixed with water, homogenized and rolled into sheets to ensure a consistency of look, feel, and quality.

## CHEWING TOBACCO

Swedish Match is the largest player in the US chewing tobacco category, with the market's number one selling brand, *Red Man*. Swedish Match also sells chew bags, a modern form of chewing tobacco available in small pouches, in certain European markets and the largest brands are *Thunder* and *General Cut*.

### Market and highlights

The US market for chewing tobacco is in a long term state of volume decline. It is estimated that the market in 2017 declined in line with historical trends, negatively impacted by significant tax increases in some states in the latter part of 2016, including Pennsylvania. The decline was more pronounced in the premium segment where Swedish Match has a leading position. In this segment, the decline was approximately 10 percent. In the value segment, which declined at a more modest pace than the premium segment, there was growth for the big bag category.

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

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

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

Chew bags represents a very interesting opportunity for Swedish Match as it has proven to be a viable smokeless alternative in some markets in Europe. During 2017, the Company's chew bag products were available in a number of markets including the Czech Republic, Denmark, Germany, and Slovenia. Expanding the Company's offerings of innovative smokeless products in line with the strategy provides greater consumer choice in both existing and new markets. On August 31, 2017, Swedish Match acquired V2 Tobacco, a Danish manufacturer of both chew bags and snus. V2 Tobacco has a broad presence for chew bags in Europe and certain other markets, helping to broaden Swedish Match's footprint for these types of products.

<sup>1)</sup> Source: Swedish Match and industry estimates, full year, 2017.



## FACTS AND FIGURES

### OTHER TOBACCO PRODUCTS HIGHLIGHTS

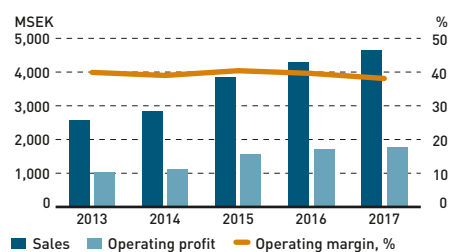
- Record year for cigars, with volumes up by 11 percent to more than 1.6 billion sticks.
- Higher sales and operating profit in local currencies, led by cigars, despite full year of FDA fees.
- US chewing tobacco volume declines and deteriorating mix partially offset by pricing.
- Acquisition of V2 Tobacco increases volume and reach for chew bags.

#### KEY DATA<sup>1)</sup>

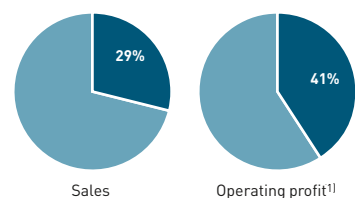
MSEK	2017	2016	2015
Sales	4,634	4,283	3,829
Operating profit	1,776	1,705	1,554
Operating margin, %	38.3	39.8	40.6
Investments in property, plant and equipment	88	191	95
Average number of employees	2,839	2,396	1,975

<sup>1)</sup> Excluding larger one-time items.

#### SALES AND OPERATING PROFIT



#### SHARE OF GROUP TOTAL



<sup>1)</sup> Excluding Other operations and larger one-time items.

### CIGARS IN THE US

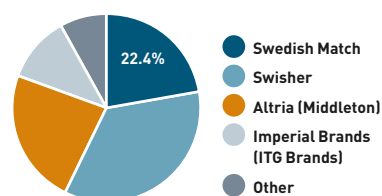
#### Main brands:

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

#### SWEDISH MATCH US SHIPMENT VOLUMES

Shipment volumes	2017	2016	Change, %
Cigars, millions of sticks	1,629	1,472	11
Chewing tobacco, thousands of pounds (excluding contract manufacturing volume)	6,341	6,709	-5

#### COMPETITION – US MASS MARKET CIGARS (EXCLUDING LITTLE CIGARS)



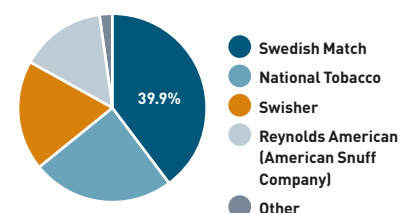
Source: Full year 2017 based on CMPP.

### CHEWING TOBACCO

#### Main brands:

Chewing tobacco in the US: Red Man  
Chew bags in Europe: Thunder, General Cut

#### COMPETITION – US CHEWING TOBACCO



Source: Swedish Match and industry estimates, full year, 2017.

#### SIGNIFICANT MARKETS FOR CHEW BAGS IN EUROPE

Germany  
Denmark  
Switzerland  
Slovenia  
Czech Republic



# Challenging year on lower volumes



**Swedish Match's matches and lighters are sold across the globe and the most important markets are in Europe and Asia, as well as in Brazil in Latin America.**

For lighters, Swedish Match manufactures and sells the *Cricket* brand, with its range of disposable lighters and specialty products for both household and outdoor lighting needs. *Cricket* lighters are well known for their quality, unique design and a number of safety features, such as a fixed flame technology, child safety mechanisms, and fire resistant lighter bodies. Match brands tend to be local, with one brand being iconic in its own country. The Company's match assortment includes products for a wide variety of uses, in sizes and formats that fit every fire lighting need. Swedish Match also sells complementary products, mainly under the *Fiat Lux* brand in Brazil.

## Strategy

With its portfolio of well-known brands and strong market positions, Swedish Match works for continuous operational excellence in the Lights product area. The Company is committed to maintaining and improving its already efficient

manufacturing operations as well as capitalizing on its market positions. With its high and demanding quality standards, fast and flexible production, and ongoing customer feedback, Swedish Match is able to provide consumers and customers with the quality products they demand at attractive prices. The Company will work to grow its sales and profitability for both matches and lighters by tightly controlling costs and strengthening the overall presence for its premium lighter and match products. Swedish Match will also focus on further developing its business for complementary products.

## Financial development

Sales for the Lights product area for the year declined to 1,291 MSEK (1,314). Operating profit declined by 4 percent to 211 MSEK (219). The operating margin was 16.4 percent (16.7).

## Market

The match market is in a long term state of decline in most countries where Swedish Match has a presence. The largest Swedish Match markets are in Europe, Brazil, and parts of Africa. For lighters, market volumes are flat to declining in most developed markets, while they are growing in many developing countries. For lighters, the largest Swedish Match markets are located in Asia and Europe, while the Company also maintains a strong presence in Brazil. Both quality and pricing are important consideration for matches and lighters, and Swedish Match offers products with high quality at competitive prices. Most markets for matches and lighters remain highly competitive. Swedish Match also sells complementary products, such as light bulbs, batteries, razors, and certain other products. The main Swedish Match market for complementary products is Brazil.

## MATCHES

### Main brands:

*Solstickan* (Sweden), *Swan Vestas* (UK), *Tres Estrellas* (Spain), *Fiat Lux* (Brazil), *Redheads* (Australia)

During the year, Swedish Match maintained significant or leading market positions in its largest markets for matches, including Australia (*Redheads*), the UK (*Swan Vestas*), Spain (*Tres Estrellas*), the Nordic countries (*Solstickan*, *Nitedals*

*Hjelpstikker*, and *Tordenskjold*), and Brazil (*Fiat Lux*). Sales for matches increased somewhat as lower volumes were compensated by positive pricing, mix and currency effects but operating profit was down on higher production costs.

## LIGHTERS

### Main brand:

*Cricket* (globally)

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

The lighter business is characterized by variability in volumes and mix, depending on the timing and type of products delivered, geography, and currency fluctuations. Lighter sales and operating profit declined on lower volumes.

## COMPLEMENTARY PRODUCTS

Swedish Match offers a portfolio of complementary products mainly on the Brazilian market, including disposable razors, batteries and light bulbs under the *Fiat Lux* brand. Sales of complementary products increased in 2017 compared to the prior year.



## FACTS AND FIGURES

### LIGHTS HIGHLIGHTS

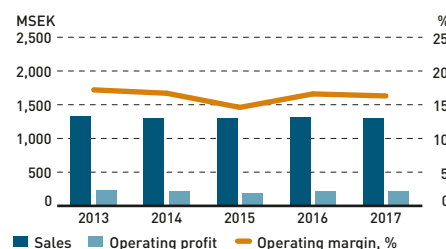
- Good performance for complementary products.
- Volumes for both matches and lighters declined.
- Lower production costs and market support costs for lighters.
- Operating margin similar to prior year, helped by strict cost controls.

### KEY DATA<sup>1)</sup>

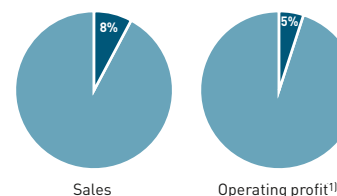
MSEK	2017	2016	2015
Sales	1,291	1,314	1,295
Operating profit	211	219	190
Operating margin, %	16.4	16.7	14.7
Investments in property, plant and equipment	47	76	54
Average number of employees	1,095	1,201	1,154

<sup>1)</sup> Excluding larger one-time items.

### SALES AND OPERATING PROFIT



### SHARE OF GROUP TOTAL



<sup>1)</sup> Excluding Other operations and larger one-time items.

### SWEDISH MATCH SHIPMENT VOLUMES GLOBALLY

Shipment volumes	2017	2016	Change, %
Matches, billion sticks	65.0	72.0	-10
Lighters, million units	368.1	399.2	-8

COMPETITION: Match competition varies widely between markets. Lighter competitors include Bic, Tokai, Flamagas, and a number of other smaller manufacturers.

# Our approach to sustainability

## CEO comment

“At Swedish Match, an important part of our efforts of growth and development of the company is to bring positive change, both within our own organization and for the world around us – especially for those areas where we can have a real positive impact, or can reduce our negative impacts.

This past year, we have continued our knowledge-building within our six focus areas, and have strengthened and further clarified our key performance indicators. We have made substantial progress and I am pleased with the efforts made by our various focus area teams, and our entire Group Management Team, in driving our efforts with a number of actions already initiated.

Our six focus areas are where we devote most of our efforts, engagement and communication – both internally and outside of the organization. Each of the focus areas now have clearer goals and KPIs, and we are committed to take the actions we believe can best move toward those goals.

The ongoing journey in sustainability requires flexibility while maintaining a focused approach. There will always be challenges and risks, and evolution of those challenges and risks as both our knowledge and the world around us adapts to new situations and learnings. Our communications efforts, both within and outside

of the company, and tangible steps we have taken, are already bearing fruit. These efforts are bringing greater understanding, enthusiasm and engagement, and innovative ideas and action from employees, helping to contribute to positive change. We invite all of our stakeholders to engage with us by reading this sustainability report, exploring our website, and providing us feedback in order to help us to make further progress.”



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

Our sustainability strategy emphasizes six areas – public health, ethical business practices, equal opportunity, greenhouse gases, waste, and child labor, which are material to our Company as a whole and in the long term. Our vision of a world without cigarettes is central to our sustainability strategy and how we contribute to making the world a better place.

In our focus area **Improve public health**, we intend to displace cigarettes with attractive sources of nicotine for recreational use (such as Swedish snus and other nicotine containing products like

ZYN), which, apart from their addictive character, have little or no adverse health effects. We strive to develop products that are attractive to cigarette consumers and to inform them about the relative health risks of different nicotine containing products, to allow them to make an informed choice.

In our focus area **Ensure ethical business practices**, our Code of Conduct provides the basic platform for the way we do business. We work diligently to keep the Code of Conduct top of mind through training and dialogue within the Company.



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

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

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

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

### Group common roadmap

Our focus areas form the basis for our common roadmap; this is where we put extra effort and coordinate external reporting of our progress. Swedish Match is a global company made up of fairly autonomous local units. Our aim has been to establish a common group approach in our focus areas, while at the same time allowing for differences and tailored targets and actions at local operating unit level. Sustainability work spans across a broad array of topics, and for best impact and transparency we believe that group-wide efforts and reporting are most effective if concentrated to key areas of focus. Other sustainability efforts relevant to our Company, outside the scope of our focus areas, will continue to be encouraged and are best managed locally. This includes, for example, operational health and safety and emphasizing the well-being of our employees.

### Assessing materiality

Our most recent stakeholder survey (with customers, consumers, suppliers, employees, the financial and scientific communities, as well as regulators) on sustainability topics was conducted in 2015. Results from the survey provided important input to a materiality analysis conducted in 2016. The process, resulting in our focus areas, was directed by the Group Management Team. Key internal stakeholders representing a wide range of departments and different operating units were involved and external expertise was consulted. Relevant sustainability frameworks<sup>1)</sup> were consulted in the process to define the issues that are material to Swedish Match. Materiality was assessed on the basis of the severity of issues in the global context, the Company's actual impact, our potential to directly or indirectly influence the issue, as well as its impact on the long term viability of our business.

### Stakeholder dialogue

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

## OVERALL GOALS



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



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



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



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



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



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

### Integrating sustainability

Sustainability is inherent in our value proposition, meaning that it is managed and driven from the highest levels of our organization. Our Group Management Team (GMT) has the overall responsibility for Swedish Match's efforts on sustainability. GMT and other leaders within the Group are committed and involved in the process to define and further develop the strategy. The CEO reports to the Board of Directors on progress. Heads of operating units are responsible for implementing the strategy in the operating unit under their responsibility. To make our sustainability strategy a reality in all parts of our company, we have built an organization across operating units to back up both development and implementation of the strategy. Swedish Match's sustainability teams provide a platform for inspiration and exchange of competence and ideas. The teams comprise representatives from our operating units and from the GMT for each focus area. Members of these teams are ambassadors at the operating unit level and take part in developing a plan for group common targets, actions and KPIs. They assure execution of actions at the local level and report on progress.

At Group level there is also a sustainability function that reports directly to the CEO and helps to drive continued progress within our sustainability focus areas and actions, facilitates the process towards implemented strategy, and communicates work and results to our important stakeholders.

<sup>1)</sup> Frameworks referred to include the UN Sustainable Development Goals, the UN Global Compact, the UN Guiding Principles on Business and Human Rights, and the GRI Standards framework.

# Our value chain

Swedish Match manufactures snus and pouch products without tobacco, moist snuff, chewing tobacco, cigars, matches and lighters at 13 facilities<sup>1)</sup> – in Sweden, the US, the Dominican Republic, Denmark, the Netherlands, the Philippines and Brazil.

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

## FOCUS AREAS



Raw materials for our products come from many geographies. Materials are mostly sourced through outside parties. There are strict requirements in sourcing.

With the GOTHIA TEK® standard, for example, there needs to be careful testing, at several stages of the value chain, and selection of raw tobacco. Testing starts at the farm level, which makes way for traceability, for our snus products. This way of working has influence on the long term standard for other tobacco products as well as for other raw material supplies.



Snus is distributed and sold to markets in Sweden and Norway through SMD Logistics, Sweden. Chew bags are distributed and sold through own and third parties in Europe. Moist snuff, US chewing tobacco and cigars, alongside snus and nicotine pouches without tobacco are distributed and sold to the US market via third party distributors from company owned warehouses. Matches and lighters are distributed and sold through a wide network of partners, worldwide. In Brazil, matches, lighters, and complementary products are distributed and sold through local partners.



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

Tobacco products are subject to extensive requirements in local laws and regulations and our marketing departments work closely with our legal departments to assure compliance.



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



Our own operations are in scope for all focus areas. The policies that guide us in our daily operations are outlined in our Code of Conduct, which applies to all within the Group. It also forms the foundation for our sustainability strategy and results.

Our employees drive innovation and co-create business success. Their opportunities to develop to their full potential are an important component in this success and in our sustainability efforts. Our employees are the "drivers and doers" behind maintaining high standards of quality in our products, improving procurement practices addressing carbon intensities, eliminating risks and prevalence of child labor and ensuring high standards of business conduct in our value chain.



We are committed to providing attractive alternatives to cigarettes, such as snus and nicotine pouches without tobacco, contributing to improved public health. We use a structured approach to consumer insight, assessing consumers' needs, trends and brand values to influence innovation. Our R&D facilities work to develop new products and to monitor, and improve existing products in line with the GOTHIA TEK® standard (for snus).

<sup>1)</sup> This includes the Silkeborg factory in Denmark which was acquired as part of the V2 Tobacco acquisition.

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

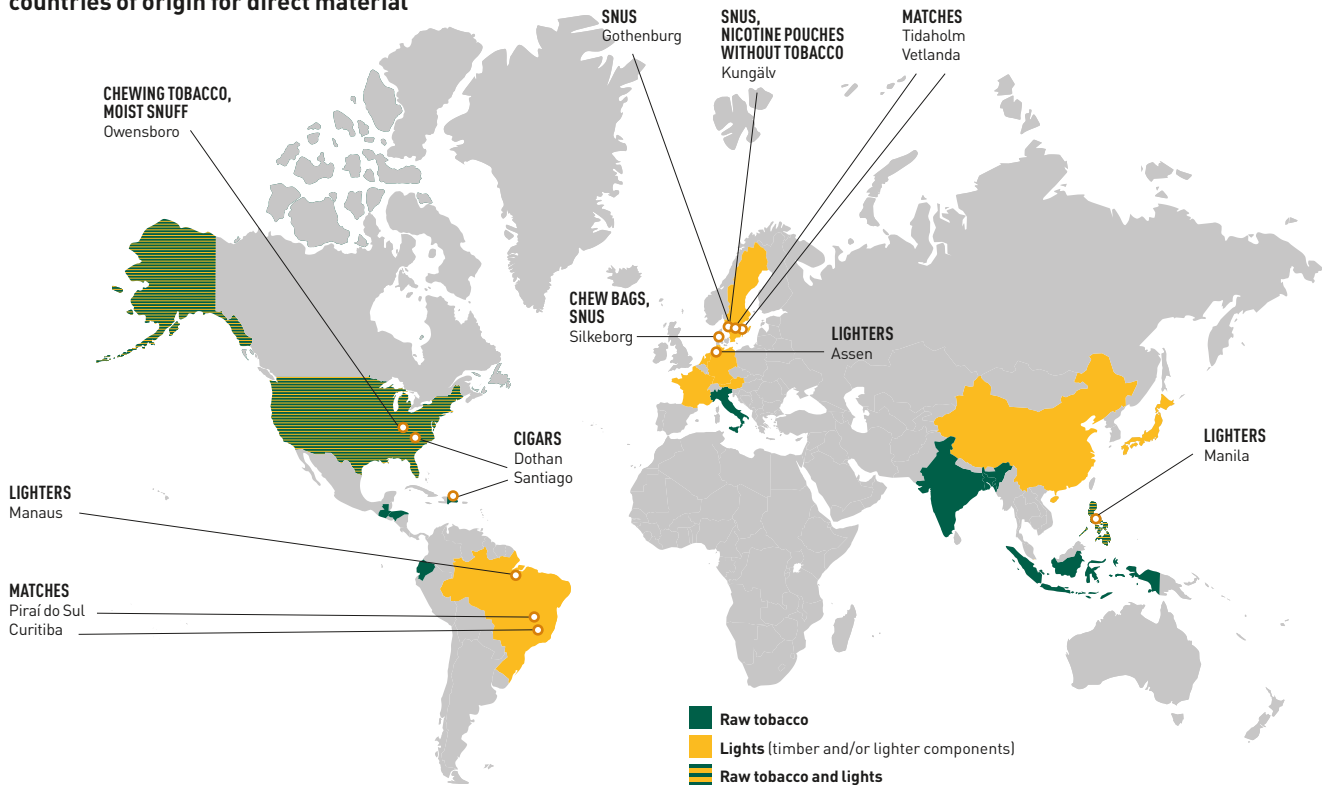
**Supplier Code of Conduct** The Supplier Code of Conduct, reflects Swedish Match's own Code of Conduct and specifies what the Company expects and requires from its suppliers.

## PRODUCTION FACILITIES

Snus is produced in our factories in Kungälv and Gothenburg, Sweden, in accordance with the strict requirements of the GOTHIA TEK® standard. The Kungälv factory also produces nicotine pouches without tobacco. Chew bags are produced in Silkeborg, Denmark. This factory also produces snus. Moist snuff and chewing tobacco are produced in our factory in Owensboro, Kentucky, the US. Cigars are produced in our factories in Dothan, Alabama, the US, and in

Santiago, the Dominican Republic. Matches are manufactured in our factories in Vetlanda (splint) and Tidaholm (matches), Sweden, and Pirai do Sul (splint) and Curitiba (matches), Brazil. Our matches produced in Sweden are manufactured according to our own quality standard, MATCHTEK®. Lighters are manufactured in Assen, the Netherlands, Manila, the Philippines and Manaus, Brazil.

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



## DIRECT MATERIALS

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

### Raw tobacco

Raw tobacco for snus, moist snuff, chewing tobacco, and cigars is sourced through major international suppliers. Swedish Match sources raw tobacco from 20 countries. Ten of these countries (pictured in map above) account for 90 percent of Swedish Match's raw tobacco purchases. Of these, the largest sources come from the Dominican Republic, India, Indonesia, the Philippines and the US.

### Timber

Timber for our match production is grown and sourced locally, close to our factories in Sweden and Brazil. Approximately 98 percent of the timber for production of matches in Brazil is grown in Swedish Match's own plantations. The remaining volume is sourced from local suppliers. Our plantations consist

of roughly 6,000 hectares of planted poplar and pine in the south of the Paraná state and in the north of the Santa Catarina state. Our plantations adhere to strict growing requirements beyond those levels set by laws and regulations.

Aspen used for the production of matches in Sweden is sourced from the southern part of Sweden in the vicinity of our splint factory and is primarily sourced through major timber suppliers. Relatively small quantities are also sourced directly from individual forest owners. Swedish Match Industries AB, the entity producing matches in Sweden, is certified according to FSC's standards for Chain of Custody and Controlled Wood.

### Nylon and lighter components

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

### Core values



PASSION



OWNERSHIP



INNOVATION



QUALITY

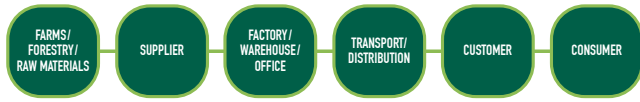
### Quality standards

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



## IMPROVE PUBLIC HEALTH

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



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

### Our commitment

Swedish Match is committed to displacing cigarettes by continuing to develop and to commercialize other alternative sources of nicotine – which will undoubtedly improve public health. Although nicotine has the potential for addiction, the individual and the societal harm is caused by the way nicotine is most commonly delivered. Nicotine, just like caffeine, is in general terms safe to use. Cigarette smoking is the dominant delivery device of nicotine, and it causes death and diseases among users, due to the combustion of tobacco.

In line with our vision of a world without cigarettes, one objective is to increase the awareness of the positive role that snus and nicotine pouches without tobacco can play in improving public health.

### Product quality and safety

The objective of Swedish Match's quality standard GOTHIA TEK®, applied to our snus products, is to eliminate or reduce harmful or potentially harmful constituents, naturally found in tobacco (and other common crops), to a level that meets comparable food standards. The standard sets maximum levels in finished products for sixteen unwanted constituents of which only three are regulated by the Swedish Food Act. For a list of constituents and current levels, please visit the Company's website.

During 2017, Swedish Match has stepped up its efforts in relation to its nicotine pouch product ZYN which does not contain tobacco and which takes our commitment to reduction of potentially harmful constituents one step further.

### Product attractiveness among adult users of tobacco

At the core of Swedish Match's research and development efforts is the consumer, i.e. adult male and female smokers. Behavioral, sensorial and other needs expressed by smokers are carefully assessed and incorporated in our product development processes. Product appeal is highly important in order to successfully encourage people to switch from cigarettes to other nicotine containing products with favorable risk profiles. These types of products can also go a long way in reducing or potentially eliminating smoking initiation. Consequently, modern nicotine replacement therapies (NRTs) are available in appealing flavors and formats. The same logic is applicable for other harm reduction products such as snus and ZYN; the more appealing a specific product is, the more likely it is to be used by smokers. It is encouraging that the public dialogue that the FDA will initiate on flavors in tobacco products will include the role that flavors play in encouraging cigarette users to switch to harm reduction products.

During the year Swedish Match has continued to launch new products appealing to cigarette consumers. In addition to our expanded efforts on ZYN we have launched a range of all white snus products under the G.4 brand in Norway with the aim of reaching cigarette consumers who have previously rejected snus. Just like for ZYN, the three unwanted constituents regulated for snus under the Swedish Food Act are below detection level in the G.4 products.

In Scandinavia, Swedish Match defines success of product attractiveness by tracking the share decline of daily smokers among total daily tobacco users. In Sweden the share of daily cigarettes smokers among daily tobacco users has dropped dramatically over the years and was 45 percent in 2016<sup>1)</sup> (at the release of this report, the official statistics have not been published for 2017). In Norway the share of daily cigarette users dropped to 48 percent in 2017<sup>2)</sup> (55 percent in 2016). In North America, snus is still a very small product category compared to other tobacco categories and Swedish Match defines success as volume growth of its snus and nicotine containing pouch products.

<sup>1)</sup> Source: The Public Health Agency of Sweden (Folkhälsomyndigheten).  
<sup>2)</sup> Source: Statistics Norway (Statistisk Sentralbyrå).



### ABOUT ZYN

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

ZYN is an all-white pouch product and Swedish Match's first nicotine product without tobacco.

The distribution of ZYN has been expanded in the US and the product has also become more widely available to Swedish consumers. Production in Sweden has been expanded to meet demand and a significant investment in production capacity for ZYN in Owensboro, Kentucky has been initiated.

## Openness and transparency

A majority of smokers are unaware of the wide differences in risk profiles among various tobacco and nicotine containing products. The consequence is that smokers are left only with the option “quit or die”, and far too many of them will die prematurely.

Consumers are seeking and have a right to factual information about product options available to them. That implies that manufacturers, including Swedish Match, must be open and transparent about what we know of our products including scientific findings regarding health impact. We should communicate this to consumers where we are legally allowed to do so. We should also encourage authorities to give factual and unbiased information about the relative harm of different tobacco products and encourage regulators to regulate tobacco products differently based on their risk profile. During 2017, we have continued with our efforts to receive Modified Risk Tobacco Product status for snus in the US. If such status is granted, we would be allowed to make approved claims about the relative risk between snus and cigarettes which would better educate US smokers.

Already in 2001, Swedish Match decided to make its GOTHIA TEK® standard available to its consumers and other relevant stakeholders. Levels of unwanted constituents in finished products are disclosed. Although Swedish Match does not conduct scientific studies on its own, monitoring and compilation of scientific advancements are done continuously and in a systematic manner. A summary of relevant scientific evidence on snus is also available on our Company website.

Swedish Match defines the success of our openness and transparency efforts by annually assessing consumer understanding of relative risk between snus and cigarettes in our core markets. In 2017 our consumer surveys show that in the general population in Norway and Sweden only 66 percent and 62 percent respectively have identified snus as posing a lower risk to health compared to cigarettes. In the US, this number is 11 percent which highlights the scale of public misconception of relative risk.

## Protecting vulnerable consumer groups

All products are not for everyone and some consumer groups should not use certain products. This is particularly true for tobacco products which are intended for adult use only. Certain other consumer groups are also deemed vulnerable.

Swedish Match has an *Under 18 No Nicotine* policy which firmly states that all tobacco (and nicotine-containing) products shall only be sold to adults of legal tobacco age in each market, and who are 18 years of age or older. This means that we shall not direct any marketing, advertising or promotion of tobacco or nicotine containing products to persons under the age of 18 or if any higher age restriction applies locally. To prevent the use of tobacco and nicotine by underage persons, we are committed to educating, informing and cooperating on an ongoing basis with retailers, distributors and public officials.

A total abstinence from all forms of nicotine is advised to pregnant women for the entirety of gestation as nicotine may impact pregnancy outcomes including lower birth weights.

Product attractiveness among adult users of tobacco	2017	2016	2015
Share of daily cigarette smokers among daily tobacco users in Sweden <sup>1)</sup> , %	45	45	48
Share of daily cigarette smokers among daily tobacco users in Norway <sup>2)</sup> , %	48	55	57
Volume growth of snus and nicotine pouches without tobacco in North America, %	65	24	21

<sup>1)</sup> Based on a survey done every other year (latest in 2016).

Source: The Public Health Agency of Sweden (Folkhälsomyndigheten).

<sup>2)</sup> Source: Statistics Norway (Statistisk Sentralbyrå).

Consumer understanding of relative risk between snus and cigarettes <sup>1)</sup>	The US	Sweden	Norway
Snus presents less health risks than cigarettes, %	11	66	62
Snus presents equal or higher health risks than cigarettes, %	67	28	29
Don't know, %	22	6	9

<sup>1)</sup> Swedish Match consumer perception study.

## Increased understanding of harm reduction

We see an increased understanding in many countries of the role that harm reduction products can play in reducing cigarette consumption around the world. This is particularly evident in the UK and the US.

“Envisioning a world where cigarettes would no longer create or sustain addiction, and where adults who still need or want nicotine could get it from alternative and less harmful sources, needs to be the cornerstone of our efforts – and we believe it's vital that we pursue this common ground.”

**Dr. Scott Gottlieb, Commissioner of the US Food and Drug Administration (Announcement of FDA's plan for tobacco and nicotine, July 2017)**



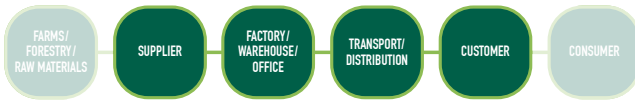


## ENSURE ETHICAL BUSINESS PRACTICES

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

### TARGETS

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



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

### Our commitment

Swedish Match is committed to sound business ethics in all our business activities and relations with stakeholders, both within our own operations and with regard to outside parties. We build relationships through honesty and integrity and we respect the laws and regulations in the countries in which we operate. We believe that business relationships, when built on common values, mutual respect and trust, become valuable and dynamic. We perform annual risk assessments in which issues related to ethical business practices are an integral part. We have procedures and processes in place to ensure that the potential risks within this area are properly addressed.

### Our Code of Conduct

Our policies on practices regarding employment and labor, ethical business, the environment and workplace are based on the principles of UN Global Compact. Our policies are outlined in our Code of Conduct (the Code) and underpinned by Group principles/procedures and local policies. Our Code represents the commitment of Swedish Match and of all of its employees to conduct business activities in a responsible manner, consistent with applicable laws and regulations. It applies to all employees within the Swedish Match Group, regardless of location or role. Our Code forms the foundation for our sustainability approach and efforts. It is reviewed internally and approved by the Swedish Match Board of Directors on an annual basis.

Our Code covers, among other things, our commitment to and guidance on respect for human rights and internationally proclaimed human rights conventions and guidelines, including non-discrimination and fair treatment, employment terms, freedom of association, the right to collective bargaining, forced or compulsory labor as well as child labor. The Code includes guidance on anti-corruption and anti-bribery practices, as well as gifts, loans and hospitality, and fair competition. It also includes guidance on eco-efficiency and the importance of following a precautionary principle in environmental management, as well as occupational health and safety, competence development, talent management, and supplier due diligence.

### Communication and training

We keep track of our employees' awareness of the Code, and whether our employees have reviewed or been informed about the Code, through employee opinion surveys. Mandatory training on the Code is done through e-learning to supplement town hall meetings and similar events. In 2017, 95<sup>1)</sup> percent of the workforce has completed the training. Our target is for all employees to have participated in the training on an ongoing basis. Matters addressed in the Code are continuously communicated to employees through, for example, the Company's intranet.



### Corruption and bribery

At Swedish Match we have zero tolerance towards corruption and bribery. Swedish Match shall not participate in, or through third parties, endorse any corrupt practices. This is clearly stated in our Code. During 2017, we have developed and implemented a specific training on anti-corruption and anti-bribery. In 2017, 78<sup>2)</sup> percent of targeted employees have completed the training and activities will continue in 2018.

### Fair competition

It is our belief that healthy competition contributes to increased business opportunities, improvement of economic performance and the reduction of cost for products and services. Competition between competitors shall be conducted in a fair manner and in compliance with competition laws. Our legal departments support the heads of the operating units on compliance with the relevant legislation when entering into agreements with our counterparties and performing market activities. All employees within sales and marketing as well as management teams throughout the Group are continuously trained within fair competition through face-to-face training. E-learning programs and tailor-made compliance manuals are also used to educate personnel within this area and will continue to be used targeting employees within e.g. sales and marketing, procurement as well as research and development. During 2017, additional specific training on fair competition has been developed which will be launched to targeted employees during 2018.

### Raising concerns and the whistleblower function

To further secure sound business ethics within the Company, we encourage all employees to speak up if they become aware of behavior that is not in line with the Code. When raising a concern, employees can always contact their managers, the heads of the operating units, the HR or legal departments. Swedish Match also has a whistleblower function that provides every employee with the opportunity to report suspicion of non-compliance with the Code to the Chairman of the Audit Committee. A concern can be raised anonymously. All raised concerns are treated seriously and investigated, taking into account the integrity of the reporting person. Suitable actions are taken in cases of misconduct. All raised concerns and actions are reported to the Audit Committee. External auditors are also present at the time of these reports.

During 2017, 23 issues have been raised and evaluated. Some of these issues required actions and new routines put in place, while others were found unsubstantiated and required no further actions.

<sup>1)</sup> Relates to individual training for employees with personal e-mail accounts. In addition, group session training has been performed for employees in factories without personal e-mail accounts.  
<sup>2)</sup> Excluding targeted employees in Brazil, that will take the e-learning in Portuguese during 2018.

None of the issues have resulted in the Company bringing criminal charges against any employee.

### Our Supplier Code of Conduct

Our Supplier Code of Conduct reflects Swedish Match's Code of Conduct and specifies what we expect and require from our suppliers in terms of employment and labor practices, workplace practices, ethical business practices and environmental management practices. Requirements are based on and are in compliance with international conventions and guidelines<sup>1)</sup>. The Supplier Code of Conduct forms the basis for our relationship with suppliers and is an integral part of most of our significant business agreements.

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

Swedish Match strives to work with suppliers who have a healthy long term financial position and chooses suppliers who also support Swedish Match's requirements regarding ethical business practices and other sustainability aspects. Swedish Match has about 118 significant suppliers of direct material, accounting for about 1.5 billion SEK in annual spend. During 2017, we have assured confirmation that 96 percent of our significant suppliers of direct material share the same values as Swedish Match by signing our Supplier Code of Conduct or through their own Codes of Conduct and mechanisms to monitor e.g. business integrity and human rights impacts in their supply chain.

We are in increasingly frequent and recurring dialogue with our suppliers on our fundamental values. Activities include communication of requirements in the Supplier Code of Conduct, follow-up on adherence through supplier assessments and audits as well as further dialogue on priority issues to assure continued improvement. The overall aim is to increase proactivity in our further dialogue on sustainability. During 2017, we have continued our work to systemize common approaches on supply chain management for purchased direct materials, for more information, see section *Eliminate child labor*.

### EXAMPLES OF ACHIEVEMENTS IN 2017

- ☑ Continued training on Code of Conduct targeting all employees
- ☑ E-learning on anti-corruption/anti-bribery for targeted employees
- ☑ Confirmed commitment from 96 percent of significant suppliers of direct material that they share the same values

Ethical business practices	2017	2016
Share of employees that have completed training on our Code of Conduct <sup>1)</sup> , %	95	60
Share of targeted employees that have completed anti-corruption/anti-bribery training <sup>2)</sup> , %	78	N/A
Share of significant suppliers of direct material that share the same values as Swedish Match <sup>3)</sup> , %	96	N/A

<sup>1)</sup> Relates to individual training for employees with personal e-mail accounts. In addition, group session training has been performed for employees in factories without personal e-mail accounts.  
<sup>2)</sup> E-learning/training was launched in 2017. 2017 does not include targeted employees in Brazil, who will take the e-learning during 2018.  
<sup>3)</sup> No comparable figures for 2016 can be provided due to changes in methodology.



# 96%

OF SIGNIFICANT SUPPLIERS OF DIRECT MATERIAL HAVE CONFIRMED THAT THEY SHARE THE SAME VALUES AS SWEDISH MATCH



## SUPPORT EQUAL OPPORTUNITY

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

### OBJECTIVES

- No employees should feel that they are, or could be, the subject of discrimination at the workplace
- To have at least 40 percent of each gender in senior management
- To increase diversity in cultural background, initially by tracking and raising awareness



The scope of this focus area is our own operations.

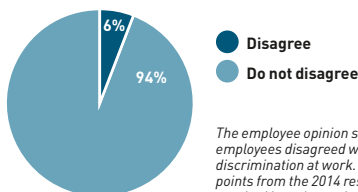
### Our commitment

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

### Zero tolerance for discrimination

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

### EMPLOYEES ON DISCRIMINATION



The employee opinion survey in 2016 shows that 6 percent of our employees disagreed with the statement that they were free from discrimination at work. While this is an improvement of 2 percentage points from the 2014 results, this is still not satisfactory, and has resulted in actions taken for improvement during the year. A new survey will be conducted in 2018 to monitor progress.

### Decentralized functions for Human Resources

At Swedish Match, our businesses are driven locally as is the Human Resources function (HR). We have a decentralized HR organization due to the fact that regulations and societal context vary between countries. Many initiatives are taken each year to ensure that we create and maintain an inclusive work environment. For example, we provide access to ongoing training, gender equality programs, equal pay analyses and equal employment opportunity efforts. Through the HR Council we are creating common ground within the Group. The primary focus is on exchanging ideas and knowledge and understanding the different starting points. We have increased our focus on diversity with particular focus on both gender and cultural background during the past year.

### Cooperating for equal opportunities in a performance based culture

In order to achieve diversity and a truly performance based culture where all employees feel that they have the same possibility to develop to their full potential we have to drive a performance culture where hiring and/or promotion is based on competence, performance and attitude.

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

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

### Promoting opportunities and gender balance

From 2017, all operating units are required to present status and changes in gender balance within their organizations, on both a total unit level and with regard to management. These status updates are reviewed by the Group Management Team, and provide greater awareness and involvement from both the operating units and from senior management.

We believe that gender diversity at all levels of the organization benefits the Company in many ways. Gender balance targets are set

locally striving for greater balance over time, particularly with regard to more senior levels within the organization. As such, we have a Group goal of having at least 40 percent of each gender in senior management<sup>1)</sup>.

### Promoting opportunities for those in protected groups and those from other cultural backgrounds/country of origin

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

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

<sup>1)</sup> Defined as participants in the Group Long Term Incentive Plan, composed of 46 individuals in 2017.

Senior management gender representation <sup>1)</sup>	2017	2016	2015
Total number of senior management	46	56	55
Share of female members in senior management, %	15	14	13
Share of male members in senior management, %	85	86	87

<sup>1)</sup> Defined as participants in the Company's LTI program.

Group management and Board of Directors <sup>1)</sup>	2017	2016	2015
Total number of members in Group management	9	8	7
Share of female members in Group management, %	22	25	29
Total number of members in Board of Directors <sup>1)</sup>	10	11	10
Share of female members in Board of Directors <sup>1)</sup> , %	40	45	40

<sup>1)</sup> Swedish Match AB, including employee representatives.

Employees	2017	2016	2015
Total number of employees <sup>1)2)</sup>	5,240	5,460	4,850
Share of female employees, %	39	35	N/A
Share of female managers <sup>3)</sup> , %	22	22	N/A
Share of female white collar employees, %	32	31	N/A
Share of female blue collar employees, %	45	37	N/A

<sup>1)</sup> The figure for total number of employees represents figures at December 31. Due to differences in methodologies, this figure does not correspond to the figure for average number of employees in *Note 6 Personnel*, page 78.

<sup>2)</sup> Including temporary employees.

<sup>3)</sup> Managers with direct reports.

## INCREASING GENDER EQUALITY

In 2016, a Gender Equality Council, with representation from various parts of Swedish operations was established. The main objective of the council is to monitor the gender equality plan and to have ongoing dialogue as to how we can improve within this area. In 2017, the Gender Equality Council met four times. Actions in 2017 included an updated gender equality plan and methodical awareness raising activities through training and other communications channels, to address for example unconscious bias. Activities also include a gender balanced talent program – with talents representing all parts of the organization. Managers with direct reports are trained on gender equality with the aim to make them aware of the positive potential in emphasizing this area. Our managers inform and discuss the gender equality plan with their employees and actively participate in efforts to achieve its objectives.

## CULTURAL DIVERSITY IN SWEDEN

During 2017, Swedish Match has started up a new program to provide work opportunities for refugees that have recently arrived to Sweden. This program consists of an internship program for 4–6 months with an aim to employ after the period has finished. Within the program the intern is given a mentor that both helps with job-related questions as well as with cultural integration in Sweden.

Employees on discrimination <sup>1)</sup>	2016	2014
Share of employees who agree that they are free from discrimination at work, %	94	92

<sup>1)</sup> The Group employee survey is biannual and no survey was made in 2017.

Employees cultural background 2017	Share of affected group <sup>1)</sup> , %
Sweden	25
The US	17

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

Managers cultural background 2017	Share of affected group <sup>1)</sup> , %
Sweden <sup>2)</sup>	10
The US	10

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

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





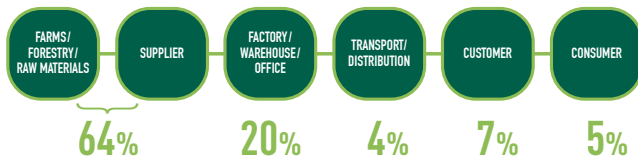
## REDUCE GREENHOUSE GASES

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

### TARGETS

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

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



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

### Our commitment

Our operations are highly dependent on resilient eco systems; we cannot do business without significant input of raw material from nature. The effects of climate change pose a risk to all of us. At Swedish Match, we acknowledge the severity of this issue and we welcome the rising ambitions within the corporate sector at a global scale. We commit to do our part in addressing climate change and to set science-based targets for our business' value chain.

We assess risk related to climate change on a recurring basis for our own operations and for raw material supplies. With a value chain perspective we have good opportunities to contribute in creating a positive impact through collaboration with partners, enhanced assessments and directed mitigation and adaptation actions, in the longer term.

### EXAMPLES OF ACHIEVEMENTS IN 2017

- Committed to set science-based targets
- Established long term reduction targets for GHG emissions
- Identified prioritized areas with high reduction potential
- Developed local action plans to meet set targets and initiated implementation

### Accounting for greenhouse gas emissions in our value chain<sup>1)</sup>

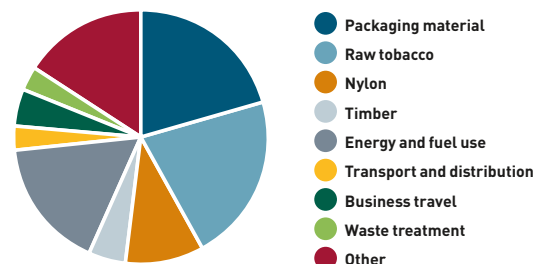
We have assessed and reported greenhouse gas (GHG) emissions for direct emissions (Scope 1), indirect emissions (Scope 2) and part of other indirect emissions not covered in Scope 2 (Scope 3), according to the Greenhouse Gas Protocol<sup>2)</sup>, since 2008. In 2016, we extended our scope for GHG emissions and mapped the full value chain according to the Corporate Value Chain Standard (Scope 3) of the Greenhouse Gas Protocol. In 2017, the accounting was refined and figures for 2016 have subsequently been restated. This is mainly due to the use of more specific emission factors for input materials with large impact on the overall results.

The GHG emissions across the value chain amount to 205,817 tons CO<sub>2</sub>-equivalents (CO<sub>2</sub>e) for the year 2017. Raw material and supplier stages (lifecycle data for purchased goods and services) account for 64 percent of total emissions. Factory/Warehouse/ Office account for 20 percent (Energy and fuel use, waste generated in our own operations as well as business travel<sup>3)</sup>). Transportation between the different stages in the value chain accounts for 4 percent. The customer (chillers for snus in stores) and consumer stages (use of lighters and matches as well as end-of-life treatment of products) account for 7 and 5 percent respectively.

Figure *Main sources of GHG emissions* depicts the distribution of the footprint across main emission sources. Emissions from our own operating units (Scope 1) and emissions from purchased energy used in our own operations (Scope 2) account for 15 percent of the total GHG emissions. The remaining 85 percent include emissions both up-and downstream (Scope 3) in our value chain. The larger part of the Scope 3 emissions stem from the extraction and production of raw materials, e.g. tobacco, timber and nylon, as well as packaging material.

Our GHG accounting includes the full Scope 3 and covers data for all operations controlled by Swedish Match. Generic emission factors have been used to a large extent to calculate emissions<sup>4)</sup>. All six GHGs covered by the Kyoto Protocol<sup>5)</sup> are included in the calculations and assumptions and emission factors have followed a conservative approach.

### MAIN SOURCES OF GHG EMISSIONS



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

<sup>1)</sup> Figures described in this section are based on best available information and are subject to revision. Revised figures will be presented on the Company's website when available.

<sup>2)</sup> International standard for calculating and reporting climate impact from business activities.

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

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

<sup>5)</sup> IPCC Fourth Assessment Report.



### Reducing GHG emissions in a science-based manner

This past year we have developed an emission reduction strategy with science-based targets, based on the revised measurement made in 2016. Science-based targets are in line with the level of decarbonization required to keep the rise in global temperature below 2°C compared to pre-industrial levels<sup>1)</sup>. In this process we have been guided by the methodology of the Sectoral Decarbonization Approach<sup>2)</sup> (Other Industry<sup>3)</sup> pathway) and made use of the associated calculation tool to form a basis for our decision. Our aim is to reduce emissions by 75 percent by 2050, with 2017 as the base year. This would render absolute emission reductions of 4 percent per year, every year, until 2050. Our interim targets are emission reductions of 12 percent by 2020 and of 41 percent by 2030. We have committed to set these targets through the Science Based Targets Initiative (SBTi) and expect validation to be completed in 2018.

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

### Actions

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

accuracy in the GHG accounting, which will help us to find further potential for reduction and to set the right priorities for our actions.

Accounting accuracy may be enhanced by acquiring more specific information on emissions from our suppliers, and preferably their suppliers (e.g. life cycle data) to increasingly replace generic data, as well as re-evaluating general assumptions made. Revisiting procurement practices and replacing resources with alternatives includes addressing GHG criteria/carbon intensity in purchasing and supply chain management processes, as well as investigating possibilities to increase use of recycled or renewable materials and energy. Using resources more efficiently includes, for example, reducing material usage as well as waste generated at our own operations. Engaging with business partners – suppliers and customers – includes, apart from emission data, encouraging them to pursue a science-based approach to emission reductions.

Greenhouse gas emissions (metric tons CO <sub>2</sub> e)	2017	2016 <sup>1)</sup>
Scope 1	9,917	10,860
Scope 2	20,031	20,061
Scope 3	175,865	181,692
<b>Total emissions</b>	<b>205,814</b>	<b>212,614</b>
<b>Total emissions (per MSEK sales)</b>	<b>12.8</b>	<b>13.2</b>
<b>Emission reductions</b>	<b>3%</b>	<b>N/A</b>

<sup>1)</sup> Figures restated following further analysis.

Energy use in our own operations (MWh)	2017	2016 <sup>1)</sup>
Direct energy use	90,045	99,970
Indirect energy use	85,495	84,145
<b>Total energy use</b>	<b>175,540</b>	<b>184,115</b>
<b>Total energy use (per MSEK sales)</b>	<b>10.9</b>	<b>11.4</b>

<sup>1)</sup> Figures restated following further analysis.



During the past year, Swedish Match has taken a number of positive actions in its efforts to reduce greenhouse gas emissions. One example is the installation of solar panels in the lighter manufacturing facility in the Philippines.

<sup>1)</sup> As described by the Intergovernmental Panel on Climate Change (IPCC).

<sup>2)</sup> Sectoral Decarbonization Approach (SDA): A method for setting corporate emission reduction targets in line with climate science. [2015]. [www.sciencebasedtargets.org](http://www.sciencebasedtargets.org).

<sup>3)</sup> The "Other industry" sector includes all industries that cannot be allocated to the industry sectors Iron & steel, Cement, Aluminum, Pulp & paper and Chemicals & petrochemicals, e.g. food, beverage and tobacco processing.



## REDUCE WASTE

Our goal is to reduce waste generated at our own production facilities<sup>1)</sup>.

### TARGETS

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



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

### Our commitment

At Swedish Match we work continuously and systematically to assess risk and reduce the negative impact on the environment. We enhance the effectiveness of our work by a Group-common approach and by sharing best practices.

### Managing environmental performance

The majority of our production facilities (10 of 13) are ISO 14001 certified. Non-certified factories are our match factories in Curitiba and Pirai do Sul, Brazil, as well as the Silkeborg factory for smokeless products in Denmark. As part of our environmental management, we continuously assess risk and work to reduce impact on the environment. Environmental impact from our production facilities mainly constitutes the use of energy, materials, chemicals as well as waste and emissions to air and water from different processing steps. All facilities have action plans to continuously improve their environmental performance. This work has been in focus in our production facilities for a long time, it is directed locally and, to a large extent, in close dialogue with local authorities and other stakeholders.

Total waste (metric tons)	2017	2016 <sup>1)</sup>
Non-hazardous waste	24,116	23,918
Hazardous waste	689	772
Hazardous waste (per unit of production) <sup>2)</sup>	0.10	0.11
<b>Total waste</b>	<b>24,805</b>	<b>24,691</b>
<b>Total waste (per MSEK sales)</b>	<b>1.5</b>	<b>1.6</b>
<b>Total waste (per unit of production)<sup>2)</sup></b>	<b>15.6</b>	<b>15.6</b>

<sup>1)</sup> Restated due to refined data collection.

<sup>2)</sup> Unit of production uses weighted average based on millions of cigars, matches, lighters and cans of snus and thousands of pounds of chewing tobacco.

### Reducing waste

During the year, we have completed a material flow analysis for all our facilities<sup>2)</sup>, including input flows to our systems in terms of materials, chemicals and energy as well as output flows in terms of products, packaging material, waste and emissions to air and water flows. The results of this analysis have led us to conclude that emissions to air and water flows from our facilities are low and within limits of requirements set in our environmental permits. Potential issues that could arise in our regular risk assessments are handled as part of our local environmental management.

The results have also led us to conclude that, as for our Group-wide focus on environmental issues other than greenhouse gases, we focus on reducing waste generated in our own operations. We have set Group-common targets for waste at our own facilities as well as treatment of this waste. One target is to keep total waste volumes constant at the same time as, according to projections, production volumes increase for the majority of our product categories. Other targets aim to push waste up the waste hierarchy, away from landfill and towards recovery and recycling, as well as to reduce hazardous waste.

In addition to set targets, we continue to work to reduce the use of packaging material and other materials associated with our products. We look for alternative materials that are partly renewable and/or recycled, and with lower carbon intensity, and we continue to look into possibilities to increase the recycling rate for packaging material at the end of product life.

### EXAMPLES OF ACHIEVEMENTS IN 2017

- ✓ Enhanced cooperation and exchange on environmental issues within the Group
- ✓ Completed material flow analysis of our facilities and concluded a common target on waste
- ✓ Established local action plans for waste reduction in our operating units

<sup>1)</sup> Initially this focus area also included emissions to air and water flows. Further analysis has determined that these emissions are not material for the Group as a whole, and therefore the focus is now on waste only.

<sup>2)</sup> Excluding the Silkeborg factory acquired on August 31, 2017.

Treatment method (metric tons)	(%)	2017	2016 <sup>1)</sup>
Recovery, including energy recovery	77	18,988	19,248
Landfill	12	2,981	2,458
<i>Landfill (per unit of production)<sup>2)</sup></i>		7	6
Recycling	8	1,933	1,839
Hazardous waste treatment	3	689	772
Composting	1	215	374

<sup>1)</sup> Restated due to refined data collection.

<sup>2)</sup> Unit of production uses weighted average based on millions of cigars, matches, lighters and cans of snus and thousands of pounds of chewing tobacco.

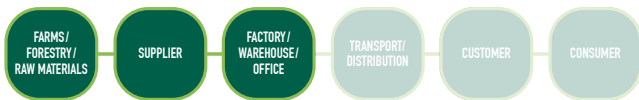


## ELIMINATE CHILD LABOR

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

### OBJECTIVE

- Improve our ability to identify, prevent and mitigate child risks and other sustainability risks in our supply chain



The scope of this focus area is mainly upstream in our value chain.

### Our commitment

At Swedish Match, we have a special focus on child labor and child risks. Swedish Match does not consent to child labor anywhere in our value chain. We are dependent on raw material from agriculture and forestry for our products. According to the ILO<sup>1)</sup>, approximately 152 million children are involved in child labor worldwide; 71 percent of these children are found in agriculture. With tobacco being an agricultural product, there is a significant risk of child labor. The issue of child labor is extensive and complex; it requires commitment from us as well as from farmers, suppliers, governments and other manufacturers.

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

### Assessing risk related to business integrity and human rights

We assigned external expertise to refine our previous assessment of risk related to business integrity and human rights in our value chain in 2016. This risk assessment forms the basis for our efforts to assess and mitigate specific risk in dialogue with prioritized suppliers. The risk landscape in relation to all suppliers of direct material was reassessed based on manufacturing country or origin of raw material, known category and industry risks<sup>2)</sup> as well as annual level of spending. A more in-depth social impact assessment was pursued at industry-level, to identify potential and specific human and labor rights risks for a limited number of higher risk categories of direct material.

Out of our 118 significant suppliers of direct material<sup>3)</sup> a total of 70 suppliers<sup>4)</sup> were classified as high risk based on industry risk or country of origin. The majority of resulting high risk suppliers in this assessment are suppliers of raw tobacco, the remaining part are

suppliers of lighter components or finished products sourced in Asia and Africa. The results confirm our previous focus on suppliers of raw tobacco in our efforts to manage our supply chain more sustainably. The results also confirm our continued focus on child labor and child rights, with child labor and women and child risks rated as the top specific human rights risks, followed by forced labor/debt bondage, hazardous exposure to chemicals and limited access to safe drinking water/sanitation, for the tobacco category.

### Supplier due diligence

In the past few years we have worked to implement systems and procedures to monitor adherence to our Supplier Code of Conduct. The monitoring is most advanced and proactive for the raw tobacco purchases for our snus products. It is more compliance-oriented for the raw tobacco for other smokeless products. The major due diligence tools for the raw tobacco supply chain are the Sustainable Tobacco Programme (STP) and associated procedures. During the year, the monitoring for direct material other than raw tobacco, has been enhanced through a group-common procedure. Our end goal within supply chain management is a proactive dialogue on prioritized sustainability issues with relevant significant suppliers of direct material.

### Raw tobacco

Swedish Match sources raw tobacco from global suppliers (such as Alliance One, ITC and Universal Leaf) and not directly from tobacco farmers. Farms are generally in tier two with some exceptions (in regions where regulations and/or market structures add more complication). The STP is a due diligence program for sustainability aspects in tobacco growing and manufacturing. It was jointly developed by the tobacco industry in 2015; implementation started in 2016 and the first review cycle will be completed at the end of 2018. Through the STP, we assure adherence to the requirements on, for example, human rights, labor practices, health and safety, as well as environmental issues, set forth in our Supplier Code of Conduct. Our suppliers continuously perform risk assessments in relation to these requirements and establish action plans for continuous improvement, for both for our suppliers and the suppliers of our suppliers. Farmers are subject to regular training on relevant aspects of the program with the purpose of improving conditions on the farm, yields and livelihoods.

Swedish Match has 51 suppliers of raw tobacco. At present, the STP primarily covers raw tobacco for the production of snus, moist snuff and chewing tobacco. It covers 53 percent of our purchased raw tobacco volumes and 47 percent of raw tobacco suppliers.

### EXAMPLES OF ACHIEVEMENTS IN 2017

- ✓ Developed and initiated implementation of a group-common procedure to monitor suppliers of direct material other than raw tobacco
- ✓ Developed a plan to include suppliers of raw tobacco for cigars in the Sustainable Tobacco Programme (STP)
- ✓ Drafted a procedure to follow up on STP review results in supplier dialogue

<sup>1)</sup> International Labour Organization.

<sup>2)</sup> Classification of risk has been done based on geographical location and the Corruption Perception Index of Transparency International (CPI), cross-referenced with Maplecroft's Human Rights Index and complemented with specific industry-related risk of human and labor rights violations.

<sup>3)</sup> A significant supplier of direct material is defined as a supplier with which Swedish Match has an annual spend of above 400,000 USD. Suppliers below spend limit that belong to an industry classified as high risk in relation to business integrity and human rights violations have been included regardless of spend, this includes all suppliers of raw tobacco.

<sup>4)</sup> This includes all suppliers of raw tobacco regardless of country of origin.

## ADHERENCE TO THE SUPPLIER CODE OF CONDUCT

			FOLLOW UP ON ADHERENCE TO SUPPLIER CODE OF CONDUCT	DIALOGUE
DIRECT MATERIALS	RAW TOBACCO	Snus	SUSTAINABLE TOBACCO PROGRAMME	PROACTIVE
		Moist snuff & Chewing tobacco		COMPLIANCE ORIENTED
		Cigars	INTERNAL ROUTINES	LESS FORMALIZED
	OTHER DIRECT MATERIALS	All products		

OUR SUPPLIER CODE OF CONDUCT FORMS THE BASIS FOR OUR RELATIONSHIP WITH SUPPLIERS

During 2017, we have developed a plan to also include the sourcing of raw tobacco for cigars into STP. Third-party reviews under the STP are scheduled to take place in 2018.

### Assessing and reviewing supplier sustainability performance

Our tobacco suppliers perform annual self-assessments with regard to adherence to the requirements in the STP, for their own part as well as for the farmers from whom they purchase. This forms the basis for dialogue between our Leaf Operations departments and suppliers, as well as for the third party review. Our suppliers' field technicians train and assist farmers in their daily work to assure compliance with the STP requirements and to optimize crop yield. The field technicians continually monitor farm operations. If matters require immediate attention, actions will be taken to resolve the matter.

On a three-year basis, suppliers are audited and rated by a third-party auditor, AB Sustain. During the past two years 12 reviews have been conducted by AB Sustain. The Leaf Operations department of our Scandinavia Division participated in eight of these reviews to better understand how the STP affects the work and procedures of our suppliers and to build on the review results.

### Child labor and child risks

Several criteria relating to child labor and child risks in the tobacco growing and manufacturing supply chain are under assessment and review through the STP. These include, but are not limited to, employment or recruitment of child labor and performance of dangerous or hazardous tasks within the supplier facilities (tier 1); employment of children on supplying farms (generally tier 2), identification of dangerous and hazardous work on supplying farms, exposure to hazards on supplying farms for persons below the age of 18 years old, and farmer's children helping out with light work on supplying family farms as well as their school attendance along with the identification of prompt action issues and procedures to address them.

The self-assessment results show that, suppliers and farmers are close to a 100 percent compliant with the criteria related to child labor and child risks. In general, there is a large discrepancy between results from supplier self-assessments and third party reviews. This is often related to insufficient evidence available for verification by the third party auditor. For example, 92 percent (11/12) of reviewed suppliers state that they have identified which work would be considered dangerous or hazardous on supplying farms (not to be performed by children below the age of 18 years old). The results of the third party reviews show that this could be verified through evidence for 83 percent of reviewed suppliers (10/12). Bridging the gap and improving the results of the third party reviews versus self-assessments will be in focus in the continued dialogue over the years to come. In 2018, after the completion of a full review cycle, we will have formed a new baseline to continue our efforts from.

### Conducting dialogue with suppliers

Our Leaf Operations departments evaluate risk and tailor the continued dialogue on the basis of self-assessments, third party reviews and resulting action plans for improvement. Suppliers and farmers are visited on a yearly basis to strengthen relationships and to pursue a proactive dialogue, including follow-up on action plans. The proactivity and structure in this dialogue varies between the inflows of raw tobacco to Swedish Match. In 2017, we have worked to systemize, and structure documentation on, this dialogue in a consistent way for raw tobacco covered in STP. We have defined a procedure on how to interpret, take action and follow up on STP results. This will be implemented on a larger scale in 2018.

### ECLT Foundation

Swedish Match is a member of and represented on the board of the ECLT Foundation – Eliminating Child Labour in Tobacco Growing. This involvement provides us with a platform to continuously keep the issue high up on the agenda, exchange experience and knowledge within this field, and follow projects to tackle the issue on the ground. As an ECLT Foundation member, Swedish Match has signed a Pledge of Commitment (the Pledge). The Pledge is a sector-wide agreement to uphold robust policy on child labor, conduct due diligence and provide for remediation consistent with the United Nations Guiding Principles on Business & Human Rights. This action reinforces our policies and practices and aligns with international best practices established by the International Labor Organization (ILO). For more information on ECLT Foundation and the Pledge, see the ECLT Foundation's website, [www.eclt.org](http://www.eclt.org).



### PLAY program

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



## Direct material other than raw tobacco

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

During 2017, we have developed and started implementation of a group-common procedure, including self-assessment and desktop screening, to assess supplier adherence to requirements set forth in our Supplier Code of Conduct. Swedish Match has 67 significant suppliers of direct material other than raw tobacco. A total of 31 suppliers have been assessed, this includes the 19 suppliers associated with the highest risk in the human rights risk assessment as well as nine suppliers that have not signed our Supplier Code of Conduct (in reference to having their own Code of Conduct). Based on the assessment results, individual action plans for improvement, including for example third party review, will be developed and included in the continued dialogue with the suppliers in 2018.

Supply chain management	2017	2016
<b>Total number of significant suppliers of direct material</b>	<b>118</b>	<b>136<sup>1)</sup></b>
<b>Raw tobacco</b>		
Number of raw tobacco suppliers <sup>2)</sup>	51	61
Share of raw tobacco supplies included in STP, %	53	59
Number of self-assessments performed by raw tobacco suppliers	24	26
Number of third party audits performed on raw tobacco suppliers during the 2016–2018 review cycle	12	8
Number of farms visited by Swedish Match Leaf Operations	123	122
<b>Direct materials other than raw tobacco</b>		
Number of high risk suppliers of direct material other than raw tobacco	19	N/A
Number of assessments performed on suppliers of direct material other than raw tobacco	31	N/A

<sup>1)</sup> Restated due to refined data collection.

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

## We do not accept child labor

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

The minimum age for work should be above the age for finishing compulsory schooling, which is generally 15 years of age, or 14 years according to exceptions for developing countries. If relevant national legislation has set a higher age, this age applies. Work that is likely to be hazardous or harmful to the child's health as well as physical, mental, spiritual, moral or social development or that interferes with the child's education shall not be performed by young workers – children between 15 or 18 years of age.

In the case of family farms, children of farmers between the ages of 13 and 15 years or above the minimum age for light work as defined by the country's law, whichever affords greater protection, can do light work on their own family's farm, as long as it does not threaten their health and safety, or hinder their education or vocational orientation and training.

## Integrating cost, sustainability and quality in the purchase of raw tobacco for snus

“ We emphasize honesty and a straight forward dialogue in our relationships with suppliers. We provide clear indications of expected volumes in the upcoming year and clear prerequisites on quality in delivered product. The blender, sustainability expert, and procurer work together in a team to assure progress in sustainable sourcing of raw tobacco.

Being a relatively small (and different) tobacco company on a global scale we may have believed that we have limited resources and leverage upstream in our value chain. But we don't. The fact that we are small allows us to have better control. An integrated approach to procurement alongside the fact that we have put quality in our snus products and the GOTHIA TEK® standard first for nearly two decades, allows us to pursue traceability further up the chain.”

**Martin Olsson, Director of Leaf Operations, Scandinavia Division**

## Auditor's report on the statutory sustainability report

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

### Engagement and responsibility

It is the board of directors who is responsible for the statutory sustainability report for the year 2017-01-01–2017-12-31 on pages 28–45 and that it has been prepared in accordance with the Annual Accounts Act.

### The scope of the audit

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

Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

### Opinion

A statutory sustainability report has been prepared.

Stockholm, March 15, 2018

Deloitte AB

Peter Ekberg  
Authorized Public Accountant



# Employer of choice

**At Swedish Match, we believe that the success of the Company is largely impacted by the success of our employees. We believe that amazing things happen when great people work for a great company, and when those people are developed, retained, engaged and become true ambassadors for Swedish Match. Everything we do in Human Resources and every decision we make is based on those core beliefs.**

## **Human Resources: How HR works**

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

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

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

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

### *Communication*

In order to be effective, communication must go two ways – both to and from the employee. Swedish Match believes that it is crucial to the success of the company that employees be allowed and encouraged to share ideas, observations and suggestions.

Additionally, we conduct confidential employee opinion surveys globally through an outside agency that allows our employees the opportunity to rate their job and company satisfaction on a regular basis. Survey results are utilized by the company to follow up on and improve areas of opportunity within the organization.

### *Feedback and recognition*

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

### *Support*

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

## Recruitment of Talent:

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

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



*Empowerment*

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

*Leadership*

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

*Professional development*

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

*Teamwork*

Swedish Match believes that employees should be able to work in a supportive

environment. At Swedish Match, we remain focused on issues and encourage employees to be proactive problem solvers. To do this, we recognize that employees must feel that it is acceptable to make mistakes with leadership support. We support team efforts and encourage teamwork. No one at Swedish Match works completely independently – from Boards to Management Teams, Departments, Cross-Functional Teams, Committees, and more. We all have the opportunity to not only “learn from” but also to “teach” each other new things every day.

*Compensation and benefits*

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

*Work environment*

Swedish Match works diligently to ensure that all employees work in an inspiring work environment, free from any type of harassment or discrimination. The Company is likewise dedicated to providing ergonomically sound workplaces, free from health and safety hazards. Health and safety committees and structures are in place in all operating units and safety training and wellness programs are in place at the

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

**Pride**

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

# Shareholder communication

## SWEDISH MATCH'S INFORMATION CHANNELS

### COMPANY WEBSITE

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



### FINANCIAL REPORTS

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

Shareholders can subscribe to financial reports via e-mail. New shareholders automatically receive login credentials to access a personal user account with an option to request desired financial information. Modifications to the user account can be made through the subscription service [www.swedishmatch.com/subscribe](http://www.swedishmatch.com/subscribe), or by e-mailing: [investorrelations@swedishmatch.com](mailto:investorrelations@swedishmatch.com).

### IR ACTIVITIES 2017

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

Regular analyst and investor meetings provide ongoing information about the Company, current events and operational changes. Presentations of Swedish Match's

results, operations and activities are made for analysts and investors in conferences, and on roadshows generally after the release of the interim report.

During 2017, in addition to quarterly reporting and telephone conferences, Swedish Match conducted a number of international roadshows, and presented in conferences, reaching a broad range of investors and analysts who want to learn

more about the Company. Presentations and meetings for investors and the financial community were held in, among other cities, Copenhagen, Edinburgh, Frankfurt, Geneva, London, New York, Paris, and Stockholm. Some of the topics that were of particular interest to investors and analysts during 2017 included growth of the US businesses for cigars, snus, and nicotine pouches, the competitive



## CALENDAR

### April 5, 2018:

Record date for Annual General Meeting

### April 11, 2018:

Annual General Meeting

### April 12, 2018:

Ex-dividend date

### April 13, 2018:

Proposed record date for dividend

### April 18, 2018:

Proposed date for dividend payment

### May 4, 2018:

Interim report January–March

### July 19, 2018:

Half year report January–June

### October 26, 2018:

Interim report January–September

### February 13, 2019:

Full year report 2018

### March, 2019:

Annual report for 2018

## CONTACTS

### Investor Relations and Corporate Sustainability

Emmett Harrison

Tel: +46 (0)8-658 01 73

investorrelations@swedishmatch.com

Emmett Harrison is responsible for Investor Relations matters, financial communication to media, shareholders, analysts, and other stakeholders. Emmett Harrison is also responsible for the Corporate Sustainability function.



### External Communications

Djuli Holmgren

Tel: +46 (0)8-658 02 61

contactus@swedishmatch.com

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



[www.swedishmatch.com](http://www.swedishmatch.com)

Visit Swedish Match subscription service:  
[www.swedishmatch.com/subscribe](http://www.swedishmatch.com/subscribe)



## ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of Swedish Match AB (publ) will be held on April 11, 2018, at 3.30 p.m. CET at the Skandia cinema, Drottninggatan 52, in Stockholm, Sweden. Doors to the AGM will open at 2.30 p.m. For more information about the Annual General Meeting 2018, please refer to the Governance Report on page 113.

[www.swedishmatch.com](http://www.swedishmatch.com)

More information is available on the Company website [www.swedishmatch.com/agm](http://www.swedishmatch.com/agm).



## DIVIDEND

The Board of Directors proposes a total dividend of 16.60 SEK per share consisting of an increased ordinary dividend per share of 9.20 SEK (8.50) and a special dividend of 7.40 SEK. The proposed record date for entitlement to receive a cash dividend is April 13, 2018. If the AGM approves the Board's proposal, the dividend will be paid through Euroclear Sweden AB on April 18, 2018.

dynamics for snus – particularly in Sweden and Norway, as well as past and potential regulatory developments in the US, Sweden, the rest of the EU, and Norway.

During 2017, Swedish Match held a number of presentations for non-institutional shareholders organized by the Swedish Shareholders' Association (Aktiespararna), an independent

organization working in the interests of private individuals who invest in stocks, mutual funds and other stock related securities. Founded in 1966, the organization has approximately 70,000 members and is represented throughout Sweden. Swedish Match for example participated in events hosted in Stockholm, Sundsvall, Borlänge, Avesta, and Tranås. The main focus with the

presentations has been on providing a brief overview of the Company, as well as providing more details on certain topics that are of high relevance to shareholders of Swedish Match.

# The share

The Swedish Match share is listed on Nasdaq Stockholm. Total share capital on December 31, 2017 amounted to 390 MSEK, distributed among 181,800,000 shares with a quotient value of 2.1425 SEK each. Each share carries one vote.

## Turnover<sup>1)</sup>

Total turnover in 2017 amounted to 177,863,382 Swedish Match shares on Nasdaq Stockholm, with an average daily volume of 0.9 million shares. The turnover velocity of the share on Nasdaq Stockholm, was 95 percent during the year, compared with the average turnover velocity of 48 percent for Nasdaq Stockholm.

## Trading platforms<sup>2)</sup>

During 2017, 63 percent of total trading volume of Swedish Match was handled through the Nasdaq Stockholm trading platform. The distribution of trade between other exchanges in number of shares traded during the year was: 18 percent for Chi-X, 11 percent for Turquoise and 8 percent for BATS.

## Share price development and market capitalization<sup>1)</sup>

The Company's market capitalization at year-end 2017 amounted to 56.9 billion SEK, an increase of 3.3 billion compared with December 31, 2016.<sup>3)</sup> The share price rose by 12 percent during the year, while the OMXS30 Index rose by 3 percent. The lowest price paid during the year was 271.70

SEK on February, 17 and the highest price paid was 337.20 SEK on December, 7.

## Ownership structure<sup>3) 4)</sup>

At year-end, ownership outside of Sweden corresponded to 72.8 percent of total share capital, a decrease of 0.9 percentage points compared with 2016. Swedish ownership interests, totaling 27.2 percent, were distributed among institutions with 10.1 percent of the share capital, mutual funds with 7.5 percent, and private individuals with 9.6 percent.

## Dividend

The Board of Directors proposes to the Annual General Meeting (AGM) a total dividend of 16.60 SEK per share consisting of an increased ordinary dividend per share of 9.20 SEK (8.50) and a special dividend of 7.40 SEK. The proposed ordinary dividend is in line with Swedish Match's ambition to continually grow dividend per share with a payout ratio normally within 40–60 percent of earnings per share, subject to adjustment for larger one-time items. The proposed ordinary dividend of 9.20 SEK per share represents an increase of 8 percent and equal a payout ratio of 56 percent (59) of the earnings per share for the year, excluding income from STG and larger one-time items. The special dividend of 7.40 SEK is proposed in accordance with Swedish Match's financial policy of returning excess cash to its shareholders and follows the sale

of the remaining shareholding in STG in November 2017. The proposed ordinary and special dividend together amount to 2,920 MSEK based on the 175.9 million shares outstanding at the end of the year. During 2017, the ordinary and special dividends totaled 2,908 MSEK.

## Repurchase of own shares

Swedish Match complements dividends with share repurchases to distribute excess cash to its shareholders. Repurchase of own shares is in principle a reverse new share issue, and provides the opportunity to continuously work to optimize the capital structure. The size and scope of the share buy-backs depend on Swedish Match's financial position, net profit, anticipated future profitability, cash flow, investments, and expansion plans. Other factors that influence buybacks are efficient availability of credit, the Group's interest and tax expenses as well as the earnings available for distribution. For more information about the Swedish Match share repurchase program, please refer to the *Report of the Board of Directors* on page 56.

<sup>1)</sup> Source: Nasdaq Stockholm.

<sup>2)</sup> Source: SIX Financial Information.

<sup>3)</sup> Excluding shares held in treasury by Swedish Match AB, which corresponded to 3.24 percent of the total number of shares as per December 31, 2017.

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

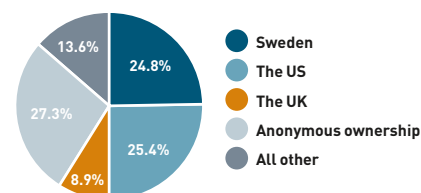
## Largest shareholders

Largest shareholders <sup>1)</sup>	Number of shares	Holding in percent	Votes in percent
BlackRock	9,947,174	5.5	5.7
Standard Life	6,625,629	3.6	3.8
Oppenheimer	6,345,862	3.5	3.6
Första AP-fonden	4,880,456	2.7	2.8
Vanguard	4,841,022	2.7	2.8
SEB Funds	4,572,794	2.5	2.6
Gabelli/GAMCO	4,392,400	2.4	2.5
Nordea Funds	4,141,254	2.3	2.4
Invesco	3,299,025	1.8	1.9
Stichting Pensioenfond ABP	2,485,946	1.4	1.4
<b>Subtotal 10 owners</b>	<b>51,531,562</b>	<b>28.3</b>	<b>29.3</b>
Other	124,378,976	68.4	70.7
<b>Subtotal</b>	<b>175,910,538</b>	<b>96.8</b>	<b>100.0</b>
Shares held by Swedish Match	5,889,462	3.2	0.0
<b>Total</b>	<b>181,800,000</b>	<b>100.0</b>	<b>100.0</b>

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

Source: Monitor by Modular Finance AB, data derived from various sources including Euroclear Sweden AB and Morningstar, as of December 31, 2017. Totals may be affected by rounding.

## OWNERSHIP STRUCTURE – SHARE CAPITAL BY COUNTRY



Source: Monitor by Modular Finance AB, according to Euroclear Sweden AB, as of December 31, 2017. "All other" also includes shareholders with 500 shares or less in the US, UK, and Sweden. Note that shares held by Swedish Match in treasury are excluded.

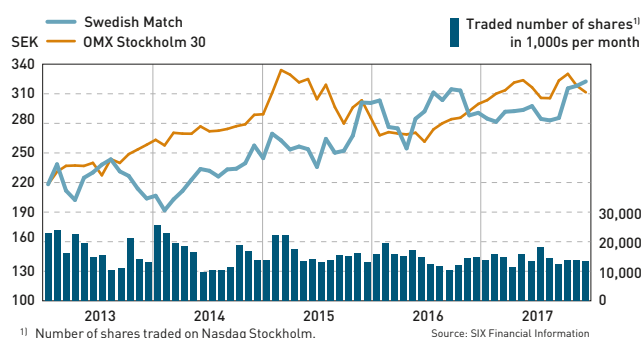
[www.swedishmatch.com](http://www.swedishmatch.com)

More information is available on the Company website [www.swedishmatch.com/investors](http://www.swedishmatch.com/investors).

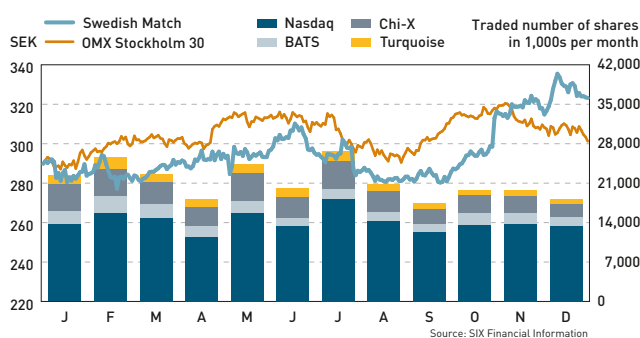




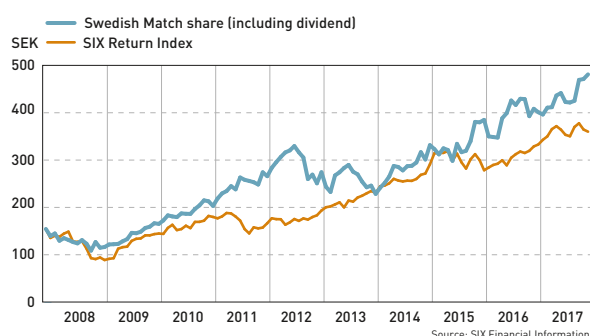
## SHARE PRICE AND TURNOVER 2013–2017



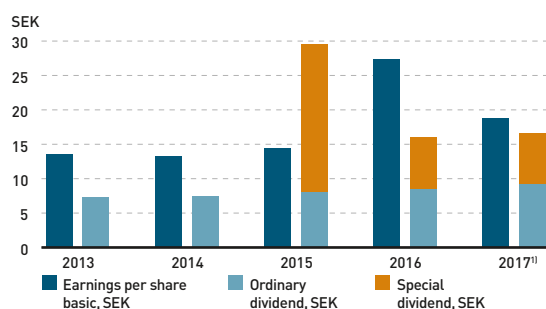
## SHARE PRICE AND TURNOVER 2017



## TOTAL RETURN 2008–2017



## EARNINGS AND DIVIDEND PER SHARE 2013–2017



## Transfer of capital to Swedish Match's shareholders

MSEK	2017	2016	2015	2014	2013	Total
Dividend paid	2,908	5,522	1,464	1,453	1,459	12,807
Repurchase of own shares, net	2,590	1,249	1,854	836	164	6,694
<b>Total</b>	<b>5,498</b>	<b>6,771</b>	<b>3,318</b>	<b>2,289</b>	<b>1,623</b>	<b>19,501</b>

Totals may be affected by rounding. Dividend proposed for calendar year 2017 to be paid in 2018 is 2,920 MSEK, based on the number of shares outstanding at the end of 2017.

Share distribution<sup>1)</sup>

Size of holding	No. of owners	No. of owners, %	No. of shares	Holding, %	Votes, %
1 – 1,000	50,603	92.5	9,018,395	5.0	5.1
1,001 – 5,000	3,386	6.2	6,737,957	3.7	3.8
5,001 – 20,000	424	0.8	3,970,856	2.2	2.3
20,001 – 50,000	106	0.2	3,402,050	1.9	1.9
50,001 – 100,000	45	0.1	3,232,619	1.8	1.8
100,001 – 1,000,000	95	0.2	31,573,264	17.4	17.9
1,000,001 –	22	0.0	69,963,956	38.5	39.8
<b>Subtotal</b>	<b>54,681</b>	<b>100.0</b>	<b>127,899,097</b>	<b>70.4</b>	<b>72.7</b>
Anonymous ownership	–	–	48,011,441	26.4	27.3
Shares held by Swedish Match	1	0.0	5,889,462	3.2	0.0
<b>Total</b>	<b>54,682</b>	<b>100.0</b>	<b>181,800,000</b>	<b>100.0</b>	<b>100.0</b>

<sup>1)</sup> Including shares held by Swedish Match as well as custodial ownership.

Source: Monitor by Modular Finance AB, data derived from Euroclear Sweden AB as of December 31, 2017. Totals may be affected by rounding.

## Share data

	2017	2016	2015	2014	2013
Earnings per share, basic, SEK					
Including larger one-time items <sup>1)</sup>	18.88	27.38	14.48	13.23	13.63
Including larger one-time items and excluding income from STG	18.37	26.44	12.62	11.55	12.03
Excluding larger one-time items and income from STG <sup>2)</sup>	16.39	14.39	12.79	11.55	11.22
Earnings per share, diluted, SEK					
Including larger one-time items <sup>1)</sup>	18.88	27.38	14.48	13.22	13.61
Including larger one-time items and excluding income from STG	18.37	26.44	12.62	11.54	12.01
Excluding larger one-time items and income from STG <sup>2)</sup>	16.39	14.39	12.79	11.54	11.20
Dividend per share, SEK <sup>3)</sup>	16.60	16.00	29.50	7.50	7.30
Dividend yield at year-end, % <sup>3)</sup>	5.14	5.52	9.83	3.06	3.53
Dividend pay-out ratio, excluding larger one-time items, % <sup>3)</sup>	101	104	205	57	57
Market price at year-end, SEK	323.20	289.80	300.20	244.80	206.70
Market capitalization at year-end, billion SEK <sup>4)</sup>	56.9	53.5	56.7	47.9	41.1
P/E ratio <sup>5)</sup>	17.1	10.6	20.7	18.5	15.2
EBIT multiple <sup>6)</sup>	14.2	9.6	16.1	14.8	12.8
Total return, %	17.6	6.9	26.2	22.4	-2.3
Average number of shares, basic	180,096,690	187,116,474	193,506,546	198,475,824	198,930,422
Average number of shares, diluted	180,096,690	187,116,474	193,530,266	198,583,328	199,274,054
Number of shareholders	54,682	54,046	49,806	47,952	49,405

<sup>1)</sup> Full year 2017 includes dividends received from the investment in STG.

<sup>2)</sup> Adjusted for Swedish Match larger one-time items. Larger one-time items 2017 include capital gain from the sale of shares in STG, in two tranches, totaling 197 MSEK (206 MSEK after tax), a capital gain from sale of land of 107 MSEK as well as an income from defined benefit plan amendment of 69 MSEK (43 MSEK after tax).

<sup>3)</sup> Dividend for 2017 is the Board's proposal and includes an ordinary dividend of 9.20 SEK per share and a special dividend of 7.40 SEK per share. 2016 and 2015 includes special dividends of 7.50 SEK per share and 21.50 SEK per share, respectively.

<sup>4)</sup> Excluding shares held by Swedish Match.

<sup>5)</sup> Earnings includes income from STG and larger one-time items.

<sup>6)</sup> Earnings includes larger one-time items and share of net profit in STG until the partial divestment in September 2016.

# Five year summary

Condensed consolidated income statement , MSEK	2017	2016	2015	2014	2013
<b>Sales</b>	<b>16,101</b>	<b>15,551</b>	<b>14,486</b>	<b>13,305</b>	<b>12,610</b>
<b>Gross profit</b>	<b>7,395</b>	<b>7,226</b>	<b>6,789</b>	<b>6,197</b>	<b>5,963</b>
Larger one-time items	373	2,254	-42	-	161
<b>Operating profit</b>	<b>4,591</b>	<b>6,420</b>	<b>4,008</b>	<b>3,780</b>	<b>3,855</b>
Net finance cost	-240	-431	-463	-510	-544
<b>Profit before income tax</b>	<b>4,352</b>	<b>5,988</b>	<b>3,545</b>	<b>3,270</b>	<b>3,310</b>
<b>Profit for the year</b>	<b>3,400</b>	<b>5,123</b>	<b>2,803</b>	<b>2,626</b>	<b>2,711</b>
EBITDA	4,599	4,504	4,368	4,083	3,968

Condensed consolidated balance sheets, MSEK	2017	2016	2015	2014	2013
<b>Assets</b>					
Intangible assets	2,088	1,250	1,048	1,030	973
Property, plant and equipment <sup>1)</sup>	2,558	2,543	2,240	2,074	2,027
Investments in associated companies	22	122	4,845	5,233	4,506
Other non-current financial assets <sup>2)</sup>	1,277	4,473	1,739	1,669	1,165
Current operating assets	3,701	3,584	3,220	4,255	3,038
Other current investments and current financial assets <sup>3)</sup>	-	-	-	-	8
Cash and cash equivalents	3,998	3,364	1,732	2,312	3,164
<b>Total assets</b>	<b>13,643</b>	<b>15,335</b>	<b>14,824</b>	<b>16,573</b>	<b>14,881</b>
<b>Equity and liabilities</b>					
Equity attributable to equity holders of the Parent	-4,179	-1,366	251	277	-786
Non-controlling interests	1	1	1	1	1
Non-current provisions	1,568	1,536	1,223	1,081	1,031
Non-current loans	10,277	8,169	7,613	7,803	9,420
Other non-current financial liabilities <sup>4)</sup>	1,218	1,613	1,882	2,063	1,440
Current provisions	107	116	147	98	103
Current loans	1,253	2,047	653	1,141	920
Other current liabilities <sup>3)</sup>	3,398	3,219	3,054	4,109	2,751
<b>Total equity and liabilities</b>	<b>13,643</b>	<b>15,335</b>	<b>14,824</b>	<b>16,573</b>	<b>14,881</b>

<sup>1)</sup> Includes forest plantations.

<sup>2)</sup> Includes shares in STG recognized as a financial asset in 2016, pension assets and derivatives financial instruments.

<sup>3)</sup> Includes short term derivatives financial instruments.

<sup>4)</sup> Includes pension obligations and derivative financial instruments.

Condensed consolidated cash flow, MSEK	2017	2016	2015	2014	2013
Net cash from operating activities	3,402	2,929	3,768	3,276	2,500
Net cash from/ used in investing activities	1,594	3,408	-513	-274	-240
Net cash transferred to shareholders	-5,498	-6,771	-3,318	-2,290	-1,623
Net cash from/ used in other financing activities	1,215	2,007	-605	-1,798	-289
<b>Net increase in cash and cash equivalents</b>	<b>713</b>	<b>1,573</b>	<b>-669</b>	<b>-1 085</b>	<b>348</b>
Cash and cash equivalents at beginning of the year	3,364	1,732	2,312	3,164	2,824
Effects of exchanges rate fluctuations on cash and cash equivalents	-79	59	90	232	-8
<b>Cash and cash equivalents at end of year</b>	<b>3,998</b>	<b>3,364</b>	<b>1,732</b>	<b>2,312</b>	<b>3,164</b>

Key data <sup>1)</sup>	2017	2016	2015	2014	2013
Net debt, MSEK	8,183	7,941	7,922	8,126	8,388
Investments in property, plant and equipment, MSEK	369	537	491	223	306
Operating margin, %	26.2	26.8	28.0	28.4	29.3
EBITA interest cover	12.6	10.1	8.9	7.6	7.0
Net debt/EBITA	1.9	1.9	1.9	2.1	2.3
<i>Share data</i>					
Share capital, MSEK	390	390	390	390	390
Ordinary dividend per share, SEK	9.20 <sup>2)</sup>	8.50	8.00	7.50	7.30
Special dividend per share, SEK	7.40 <sup>2)</sup>	7.50	21.50	-	-
Earnings per share, basic, SEK					
Including larger one time items	18.88	27.38	14.48	13.23	13.63
Including larger one time items and excluding income from STG	18.37	26.44	12.62	11.55	12.03
Excluding larger one time items and income from STG	16.39	14.39	12.79	11.55	11.22
Earnings per share diluted, SEK					
Including larger one time items	18.88	27.38	14.48	13.22	13.61
Including larger one time items and excluding income from STG	18.37	26.44	12.62	11.54	12.01
Excluding larger one time items and income from STG	16.39	14.39	12.79	11.54	11.20

<sup>1)</sup> All key ratios have been calculated excluding larger one-time items, unless otherwise stated.

<sup>2)</sup> Board proposal.

Sales by product area, MSEK	2017	2016	2015	2014	2013
Snus and moist snuff	5,483	5,277	5,090	5,001	4,868
Other tobacco products	4,634	4,283	3,829	2,832	2,564
Lights	1,291	1,314	1,295	1,295	1,332
Other operations	4,693	4,676	4,272	4,178	3,847
<b>Sales</b>	<b>16,101</b>	<b>15,551</b>	<b>14,486</b>	<b>13,305</b>	<b>12,610</b>

Operating profit/loss by product area, MSEK	2017	2016	2015	2014	2013
Snus and moist snuff	2,357	2,197	2,071	2,207	2,195
Other tobacco products	1,776	1,705	1,554	1,109	1,029
Lights	211	219	190	218	230
Other operations	-126	-132	-124	-88	-80
<b>Operating profit from product areas</b>	<b>4,218</b>	<b>3,990</b>	<b>3,690</b>	<b>3,446</b>	<b>3,375</b>
Share of net profit in STG	-	176	360	334	319
<b>Subtotal</b>	<b>4,218</b>	<b>4,166</b>	<b>4,050</b>	<b>3,780</b>	<b>3,693</b>
<i>Larger one-time items</i>					
Sale of STG shares	197	1,208	-	-	-
Gain on fair value of STG shares	-	902	-	-	-
Sale of distribution facilities	-	145	-	-	-
Income from defined benefit plan amendment	69	-	-	-	-
Costs for relocation of distribution facilities	-	-	-42	-	-
Capital gain from sale of land	107	-	-	-	161
<b>Operating profit</b>	<b>4,591</b>	<b>6,420</b>	<b>4,008</b>	<b>3,780</b>	<b>3,855</b>

Operating margin by product area, %	2017	2016	2015	2014	2013
Snus and moist snuff	43.0	41.6	40.7	44.1	45.1
Other tobacco products	38.3	39.8	40.6	39.2	40.1
Lights	16.4	16.7	14.7	16.8	17.3
<b>Operating margin from product areas</b>	<b>26.2</b>	<b>25.7</b>	<b>25.5</b>	<b>25.9</b>	<b>26.8</b>

# Quarterly data 2016–2017

Condensed consolidated income statements, MSEK	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Sales</b>	<b>4,044</b>	<b>4,069</b>	<b>4,214</b>	<b>3,775</b>	<b>3,957</b>	<b>4,118</b>	<b>3,920</b>	<b>3,557</b>
<b>Gross profit</b>	<b>1,822</b>	<b>1,853</b>	<b>1,940</b>	<b>1,780</b>	<b>1,841</b>	<b>1,896</b>	<b>1,804</b>	<b>1,685</b>
<b>Operating profit</b>	<b>1,179</b>	<b>1,089</b>	<b>1,091</b>	<b>1,232</b>	<b>954</b>	<b>2,694</b>	<b>1,061</b>	<b>1,711</b>
Net financial cost	-44	-91	-24	-80	-85	-149	-90	-107
<b>Profit before income tax</b>	<b>1,135</b>	<b>997</b>	<b>1,067</b>	<b>1,153</b>	<b>868</b>	<b>2,545</b>	<b>971</b>	<b>1,604</b>
<b>Profit for the period</b>	<b>904</b>	<b>753</b>	<b>812</b>	<b>930</b>	<b>662</b>	<b>2,306</b>	<b>752</b>	<b>1,404</b>
<b>EBITDA</b>	<b>1,143</b>	<b>1,185</b>	<b>1,186</b>	<b>1,085</b>	<b>1,045</b>	<b>1,230</b>	<b>1,144</b>	<b>1,085</b>
Key data	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Operating margin, %	25.8	26.8	25.9	26.3	24.1	27.8	27.1	28.3
Investments in property, plant and equipment, MSEK	139	59	89	83	163	148	144	81
Earnings per share, basic SEK	5.10	4.22	4.49	5.06	3.61	12.32	4.01	7.44
Sales by product area, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and moist snuff	1,407	1,377	1,406	1,293	1,356	1,338	1,338	1,245
Other tobacco products	1,120	1,142	1,252	1,120	1,092	1,166	1,031	994
Lights	341	308	302	340	347	346	318	303
Other operations	1,176	1,241	1,253	1,023	1,163	1,267	1,231	1,014
<b>Sales</b>	<b>4,044</b>	<b>4,069</b>	<b>4,214</b>	<b>3,775</b>	<b>3,957</b>	<b>4,118</b>	<b>3,920</b>	<b>3,557</b>
Operating profit/loss by product area, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and moist snuff	613	622	590	531	542	577	557	521
Other tobacco products	417	436	496	427	395	486	425	400
Lights	68	46	37	60	62	61	54	42
Other operations	-53	-16	-32	-24	-45	-34	-29	-24
<b>Operating profit from product areas</b>	<b>1,044</b>	<b>1,089</b>	<b>1,091</b>	<b>994</b>	<b>954</b>	<b>1,089</b>	<b>1,008</b>	<b>939</b>
Share of net profit in STG	-	-	-	-	-	55	53	68
<b>Subtotal</b>	<b>1,044</b>	<b>1,089</b>	<b>1,091</b>	<b>994</b>	<b>954</b>	<b>1,144</b>	<b>1,061</b>	<b>1,007</b>
<i>Larger one-time items</i>								
Income from defined benefit plan amendment	69	-	-	-	-	-	-	-
Sale of STG shares	66	-	-	131	-	648	-	560
Gain on fair value of STG shares	-	-	-	-	-	902	-	-
Sale of distribution facility	-	-	-	-	-	-	-	145
Capital gain from sale of land	-	-	-	107	-	-	-	-
<b>Total larger one-time items</b>	<b>135</b>	<b>-</b>	<b>-</b>	<b>238</b>	<b>-</b>	<b>1,550</b>	<b>-</b>	<b>704</b>
<b>Operating profit</b>	<b>1,179</b>	<b>1,089</b>	<b>1,091</b>	<b>1,232</b>	<b>954</b>	<b>2,694</b>	<b>1,061</b>	<b>1,711</b>
Operating margin by product area, %	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and moist snuff	43.6	45.2	42.0	41.1	40.0	43.1	41.7	41.8
Other tobacco products	37.2	38.2	39.6	38.1	36.2	41.6	41.2	40.2
Lights	19.9	15.1	12.2	17.7	17.9	17.6	17.0	13.8
<b>Operating margin from product areas</b>	<b>25.8</b>	<b>26.8</b>	<b>25.9</b>	<b>26.3</b>	<b>24.1</b>	<b>26.5</b>	<b>25.7</b>	<b>26.4</b>
EBITDA by product area, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and moist snuff	664	675	642	581	592	625	603	563
Other tobacco products	438	457	516	446	411	501	440	415
Lights	78	57	47	71	73	71	64	51
Other operations	-38	-3	-20	-12	-32	-22	-16	-12
<b>EBITDA from product areas</b>	<b>1,143</b>	<b>1,185</b>	<b>1,186</b>	<b>1,085</b>	<b>1,045</b>	<b>1,175</b>	<b>1,091</b>	<b>1,018</b>
EBITDA margin by product area, %	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and moist snuff	47.2	49.0	45.7	44.9	43.7	46.7	45.1	45.2
Other tobacco products	39.1	40.0	41.2	39.8	37.7	43.0	42.6	41.8
Lights	23.0	18.4	15.6	20.9	21.1	20.6	20.1	16.9
<b>EBITDA margin from product areas</b>	<b>28.3</b>	<b>29.1</b>	<b>28.1</b>	<b>28.7</b>	<b>26.4</b>	<b>28.5</b>	<b>27.8</b>	<b>28.6</b>
Depreciation, amortization and impairments, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Property, plant and equipment	85	80	80	77	77	73	69	68
Intangible assets	13	16	15	15	14	14	14	11
<b>Total</b>	<b>98</b>	<b>96</b>	<b>95</b>	<b>91</b>	<b>91</b>	<b>86</b>	<b>83</b>	<b>79</b>

# Definitions

Swedish Match presents several financial measures that are outside IFRS definitions (Alternative performance measures, according to ESMA's guidelines) with the aim of enabling effective evaluation of the company's financial position and performance for investors and for the company'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
<b>DIVIDEND PAY-OUT RATIO (%)</b>	$100 \times \text{Dividend (proposed after year-end)} \div \text{Earnings per share from continuing operations, basic}$	Used as a measure of the percentage of net profits distributed as a dividend to the shareholders.
<b>DIVIDEND YIELD (%)</b>	$100 \times \text{Dividend (proposed after year-end)} \div \text{Year-end share price}$	Used as a measure of cash return to shareholders.
<b>TOTAL RETURN (%)</b>	$100 \times (\text{Share price at year-end} - \text{share price at preceding year-end}) + (\text{dividend paid} + \text{return on reinvested dividend}) \div \text{Share price at preceding year-end}$	Used as a measure of the Company's total value creation for the shareholder, including cash returns and share price appreciation/depreciation.
<b>P/E RATIO</b>	$\text{Share price at year-end} \div \text{Earnings per share}$	Used as a measure of the estimated market value based on net profit generation.
<b>OPERATING PROFIT (EBIT)</b>	Earnings excluding net finance cost and income taxes	Used as a measure of operating performance, excluding the impact of financing and corporate income tax.
<b>OPERATING PROFIT/LOSS (EBIT) FROM PRODUCT AREAS</b>	Earnings from product areas excluding share of profit in STG, net finance cost, income tax and larger one-time items	Used as a measure of operating performance of the ongoing business, excluding the impact of financing and corporate income tax.
<b>OPERATING MARGIN (%)</b>	$100 \times \text{Operating profit} \div \text{Sales}$	Used as a measure of operational profitability.
<b>OPERATING MARGIN FROM PRODUCT AREAS (%)</b>	$100 \times \text{Operating profit from product areas} \div \text{Sales}$	Used as a measure of operational profitability of the ongoing business.
<b>EBIT MULTIPLE</b>	$(\text{Stock market value at year-end} + \text{net debt} + \text{non-controlling interest}) \div \text{Operating profit}$	Used as a measure of company enterprise value in relation to operating profit generation.
<b>LARGER ONE-TIME ITEMS</b>	Larger one-time items are separately disclosed non-recurring income and cost, which usually refer to significant capital gains/loss on divestments, larger restructuring costs and other larger non-recurring income and costs recognized for the period	Used to provide information regarding items which impact comparability between periods.
<b>EBITDA</b>	Earnings excluding net finance cost, income tax, larger one-time items, 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.
<b>EBITDA FROM PRODUCT AREAS</b>	Earnings from product areas, excluding share of profit in STG, net finance cost, income tax, larger one-time items, depreciation, amortization and impairments of tangible and intangible assets	Used as an alternative measure of operating performance for the ongoing business, that is not impacted by historical investments and the related accounting treatment of such investments.
<b>EBITDA MARGIN (%)</b>	$100 \times \text{EBITDA} \div \text{Sales}$	Used as an alternative measure of operating profitability.
<b>EBITDA MARGIN FROM PRODUCT AREAS (%)</b>	$100 \times \text{EBITDA from product areas} \div \text{Sales}$	Used as an alternative measure of operating profitability for the ongoing business.
<b>PROFIT FOR THE PERIOD, EXCLUDING INCOME FROM STG</b>	Profit for the period, excluding the effects of share of profit in STG and dividend from STG	Used as an alternative measure of profit for the period of the ongoing business.
<b>PROFIT FOR THE PERIOD, EXCLUDING INCOME FROM STG AND LARGER ONE-TIME ITEMS</b>	Profit for the period, excluding the effects of share of profit in STG, dividend from STG and 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.
<b>EBITA</b>	Earnings excluding net finance cost, tax, larger one-time items, amortization and impairments of intangible assets	Used as a proxy for the free cash flow available for payment of financial obligations.
<b>EBITA FROM PRODUCT AREAS</b>	Earnings excluding share of profit in STG, net finance cost, income tax, larger one-time items, amortization and impairments of intangible assets	Used as a proxy for the free cash flow from the ongoing business, available for payment of financial obligations.
<b>EBITA INTEREST COVERAGE RATIO (EBITA INTEREST COVER)</b>	$\text{EBITA from product areas} \div (\text{Interest expense} - \text{interest income})$	Used as a measure of the ability to fund interest expenses.
<b>NET DEBT</b>	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 investments	Used as a measure of net financial obligations.
<b>NET DEBT/EBITA FROM PRODUCT AREAS</b>	$\text{NET DEBT} \div \text{EBITA from product areas}$	Used as an indication of the duration (in years) required to fund existing net financial obligations with free cash flows from the ongoing business.

	2017	2016
Net debt, MSEK		
Non-current loans	10,277	8,169
Current loans	1,253	2,047
Components of derivatives (liabilities) <sup>1)</sup>	40	65
Net provision for pensions and similar obligations <sup>2)</sup>	1,146	1,542
Cash and cash equivalents and other short term investments	-3,998	-3,364
Net asset for pensions and similar receivables <sup>3)</sup>	-88	-90
Components of derivatives (assets) <sup>4)</sup>	-446	-428
<b>Net debt</b>	<b>8,183</b>	<b>7,941</b>

<sup>1)</sup> Included in *Other current financial liabilities* in the condensed consolidated balance sheet.

<sup>2)</sup> Included in *Other non-current financial liabilities* in the condensed consolidated balance sheet.

<sup>3)</sup> Included in *Other non-current financial assets and receivables* in the condensed consolidated balance sheet.

<sup>4)</sup> Included in *Other current and non-current financial receivables* and *Other non-current financial liabilities* in the condensed consolidated balance sheet.



# CFO comment



Marlene Forsell  
CFO

2017 was financially strong, with sales increasing by 4 percent and operating profit from product areas by 6 percent. The growth was driven by our two largest product areas, Snus and moist snuff as well as Other tobacco products. Profit after tax, stemming from product areas, converted into 3.4 BSEK in cash flow from operations. The sell downs of STG and proceeds from a sale of a former head office building further benefitted the total profit after tax as well as the free cash flow from operations.

Earnings per share (EPS) for the year reached 18.88 SEK, with a record high EPS excluding larger one-time items and income from STG. Adjusted EPS increased by 14 percent to 16.39 SEK. The strong cash flow from operations and proceeds from the January sell-down of STG enabled us to distribute excess cash to our shareholders of 5,498 MSEK. Total ordinary and special dividends amounted to 2,908 MSEK and we repurchased shares for 2,590 MSEK. Another special dividend is now proposed to this year's Annual General Meeting to distribute the proceeds from the sale of our final stake in STG.

During the year we continued to expand into new markets with novel products. Volume growth of snus and nicotine pouches outside Scandinavia accelerated, aided by the success of ZYN in the US. The improvement in the result from this initiative of almost 60 MSEK was almost entirely driven by higher gross profit and brought

an improved operating margin for the Snus and moist snuff product area. The acquisition of V2 Tobacco was strategically important, and their product range including chew bags, helps us to develop in new markets. V2 Tobacco has financially had a good start at Swedish Match.

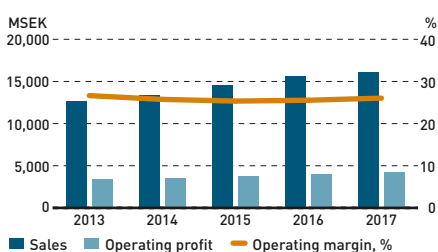
We continuously work to improve our efficiency in operations. Manufacturing programs have been initiated in the match operations to manage volume development. In Scandinavia, changes were made to the organization to better support operational plans. We have been successful in keeping overall operating expenses under control.

To manage financial risk, we strive to spread bond maturities evenly over the years. In 2016, we secured the refinancing of bonds falling due in November 2017. Following the acquisition of V2 Tobacco, we again decided to issue public bonds, and we broke new ground with our 200 MEUR issuance, a lower amount than is normally issued in the EURO-market. Having paid down the November maturities which had a 5 percent coupon, our average interest rate on the bond portfolio has been lowered to 2.6 percent.

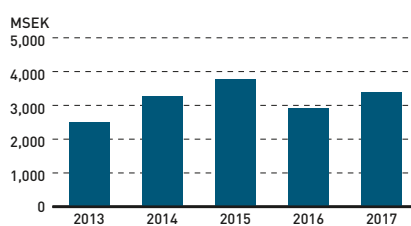
Going into 2018, the enacted tax reform in the US was generally positive for Swedish Match, the most meaningful impact being the lowering of the federal corporate income tax rate. The possibility to immediately deduct capital investments will also benefit Swedish Match as we invest to set up ZYN production in the US during coming years. Considering that larger US post-employment contributions were made in 2016 and in 2017, the negative one-time effect from reassessment of deferred tax assets following the change in tax rate, was partly mitigated. Also going into 2018, I welcome the changed accounting of sales of Other operations that will follow with the implementation of IFRS 15. With the new reporting, Group operating margin and growth in sales will be more reflective of our core businesses.

On a personal note, I am proud to have had the opportunity to be a part of Swedish Match over the past 15 years, and having served as the CFO since 2013. I have continually been amazed by the dynamism and dedication of our employees, and of their passion and strive for continuous improvement. I also have taken great pleasure in meeting with so many of our shareholders, and in better understanding their interests in Swedish Match. Having decided to resign for family reasons, I continue to look forward to following this great company, and its journey forward.

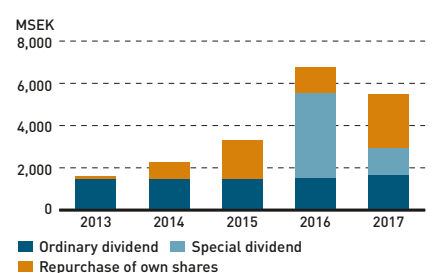
SALES AND OPERATING PROFIT  
2013-2017



NET CASH FROM OPERATING ACTIVITIES  
2013-2017



CASH TRANSFERRED TO SHAREHOLDERS  
2013-2017



## Content

Report of the Board of Directors .....	56
Proposed distribution of earnings .....	63

### Consolidated financial statements

Consolidated income statement .....	64
Consolidated statement of comprehensive income .....	64
Consolidated balance sheet .....	65
Consolidated statement of changes in equity .....	66
Consolidated cash flow statement .....	67
Notes for the Group .....	68
Note 1 Accounting principles .....	68
Note 2 Critical estimates and judgements .....	75
Note 3 Segment information .....	75
Note 4 Business combinations .....	77
Note 5 Other operating income and expenses .....	77
Note 6 Personnel .....	78
Note 7 Audit fees .....	80
Note 8 Operating expenses classified by nature .....	80
Note 9 Net finance cost .....	81
Note 10 Income tax .....	81
Note 11 Earnings per share .....	82
Note 12 Intangible assets .....	82
Note 13 Property, plant and equipment .....	83
Note 14 Forest plantations .....	84
Note 15 Investments in associated companies .....	84
Note 16 Other non-current financial assets .....	85
Note 17 Other non-current receivables and other current receivables .....	85
Note 18 Inventories .....	85
Note 19 Trade receivables .....	86
Note 20 Cash and cash equivalents .....	86
Note 21 Equity .....	86
Note 22 Interest bearing liabilities .....	87
Note 23 Employee benefits .....	87
Note 24 Provisions .....	91
Note 25 Other liabilities .....	91
Note 26 Accrued expenses and deferred income .....	91
Note 27 Financial instruments and financial risks .....	92
Note 28 Operating lease agreements .....	95
Note 29 Pledged assets .....	95
Note 30 Commitments and contingent liabilities and assets .....	95
Note 31 Group companies .....	95
Note 32 Supplementary information to cash flow statement .....	96
Note 33 Related parties .....	96
Note 34 Subsequent events .....	96
Note 35 Information about the Parent Company .....	96

### Parent Company financial statements

Parent Company income statement .....	97
Parent Company statement of comprehensive income .....	97
Parent Company balance sheet .....	98
Statement of changes in Parent Company equity .....	99
Cash flow statement for the Parent Company .....	100
Notes for the Parent Company .....	101
Note 1 Sales .....	101
Note 2 Audit fees .....	101
Note 3 Other operating income and expense .....	101
Note 4 Financial items .....	101
Note 5 Appropriations .....	101
Note 6 Income tax .....	101
Note 7 Tangible assets .....	102
Note 8 Group companies .....	102
Note 9 Other non-current receivables .....	103
Note 10 Other receivables .....	103
Note 11 Prepaid expenses and accrued income .....	103
Note 12 Equity .....	103
Note 13 Untaxed reserves .....	103
Note 14 Other provisions .....	104
Note 15 Bond loans .....	104
Note 16 Other liabilities .....	104
Note 17 Accrued expenses and deferred income .....	104
Note 18 Carrying value and fair value of financial instruments ...	105
Note 19 Derivatives under netting agreements .....	106
Note 20 Operating lease agreements .....	106
Note 21 Pledged assets and contingent liabilities .....	106
Note 22 Distribution of earnings .....	106
Note 23 Related parties .....	106
Note 24 Supplementary information to cash flow statement .....	106
Note 25 Employee benefits .....	107
Note 26 Subsequent events .....	107
Auditor's report .....	108

# Report of the Board of Directors

Swedish Match develops, manufactures and sells quality products with market-leading brands in the product areas *Snus and moist snuff*, *Other tobacco products* and *Lights*. The Group sells products across the globe, with production units in seven countries. The Swedish Match share is listed on the Nasdaq Stockholm (SWMA).

Swedish Match's performance in 2017 showed a year of solid growth, with higher sales and operating profit from product areas. Sales for the full year were 16,101 MSEK (15,551) and increased by 3 percent in local currencies,

The Group's full year operating profit, including larger one-time items, amounted to 4,591 MSEK (6,420) and profit for the period amounted to 3,400 MSEK (5,123).

## Sales from product areas

For the year, sales of *Snus and moist snuff* increased to 5,483 MSEK (5,277). In Scandinavia, sales increased on higher volumes and higher average price. Swedish Match estimates that its underlying volumes on the Scandinavian market increased by more than 1 percent and that the total market grew by approximately 4 percent in volume terms. In the US, sales in local currency for moist snuff declined on lower volumes partly compensated by higher average price, while sales for snus and nicotine pouches outside Scandinavia increased.

For *Other tobacco products*, total sales for the year amounted to 4,634 MSEK (4,283). In local currencies, sales for Other tobacco products were up by 8 percent compared to previous year. Cigar volumes increased by 11 percent, with growth from both natural leaf and HTL varieties, and sales in US dollars increased in line with volumes.

For chewing tobacco, sales were on par with prior year. For US chewing tobacco, volumes were down by close to 6 percent and sales declined as increased average price only partly mitigated the effect

from the lower volumes. Chew bags, including the addition of V2 Tobacco, contributed positively to sales and helped to compensate for the lower sales in US chewing tobacco.

For *Lights* sales for the year amounted to 1,291 MSEK (1,314). Sales declined by 2 percent for the product area but increased for both complementary products and matches. Lighter sales declined on lower volumes, while sales for matches increased somewhat as lower volumes were compensated by positive pricing, mix and currency effects. For complementary products sales increased compared to previous year.

Sales in *Other operations* amounted to 4,693 MSEK (4,676). Other operations consists of corporate functions providing services to the Swedish Match operating divisions. Services provided include, among other, regulatory affairs, legal and financial services as well as a distribution function. The distribution function provides services to Swedish Match in Sweden and Norway as well as to other manufacturers within the Swedish distribution network. Following the implementation of IFRS 15, Other operations will no longer qualify as a reportable segment, as the recognized sales will be substantially lower. See Notes 1 and 3 for more information.

## Operating profit from product areas

Operating profit from product areas for the full year increased by 6 percent to 4,218 MSEK (3,990). Operating profit increased for all product areas except Lights. In local currencies, the operating profit from product areas increased by 5 percent. FDA user fees for our cigar business burdened operating profit for all of 2017 but only the fourth quarter of the prior year and had a negative effect on operating profit from product areas of close to 2 percent.

Operating profit for *Snus and moist snuff* amounted to 2,357 MSEK (2,197). Operating profit increased by 7 percent and included

## Sales and operating profit/loss by product area

MSEK	Sales		Operating profit/loss	
	2017	2016	2017	2016
Snus and moist snuff	5,483	5,277	2,357	2,197
Other tobacco products	4,634	4,283	1,776	1,705
Lights	1,291	1,314	211	219
Other operations	4,693	4,676	-126	-132
<b>Sales and operating profit from product areas</b>	<b>16,101</b>	<b>15,551</b>	<b>4,218</b>	<b>3,990</b>
Share of net profit in STG	-	-	-	176
<b>Total</b>	<b>16,101</b>	<b>15,551</b>	<b>4,218</b>	<b>4,166</b>
<i>Larger one-time items:</i>				
Income from defined benefit plan amendment			69	-
Capital gain from sale of land			107	-
Sale of STG shares			197	1,208
Gain on fair value of STG shares			-	902
Sale of distribution facility			-	145
<b>Total larger one-time items</b>			<b>373</b>	<b>2,254</b>
<b>Total</b>			<b>4,591</b>	<b>6,420</b>

## Summary of consolidated income statement

MSEK	2017	2016
Sales	16,101	15,551
Operating profit	4,591	6,420
Net finance cost	-240	-431
Income tax expense	-952	-865
<b>Profit for the year</b>	<b>3,400</b>	<b>5,123</b>
<i>Attributable to:</i>		
Equity holders of the Parent	3,400	5,123
Non-controlling interest	0	0
<b>Profit for the year</b>	<b>3,400</b>	<b>5,123</b>
Earnings per share, basic and diluted, (SEK)	18.88	27.38

net operating result for snus and nicotine pouches outside Scandinavia of negative 167 MSEK (negative 232). The improved operating profit was driven by growth in Scandinavia and reduced operating losses from snus and nicotine pouch products outside Scandinavia.

In Scandinavia, the operating profit grew primarily on higher volumes and improved average price. In the US, sales in local currency for moist snuff declined on lower volumes, while operating profit improved on higher average price and favorable production costs. For snus and nicotine pouches outside Scandinavia, the full year operating profit increased compared to previous year.

Operating profit for *Other tobacco products* increased to 1,776 MSEK (1,705). In local currencies, operating profit was up by 4 percent compared to prior year, attributable to strong performance for US cigars. Operating profit and operating margin were negatively impacted by the introduction of FDA user fees for cigars beginning from October 1, 2016. Adjusted for the FDA fees (10.1 MUSD incurred in 2017 and 2.5 MUSD in 2016), the operating profit in local currencies would have increased by 8 percent. Operating profit for cigars was higher compared to the prior year despite the full year effects of FDA user fees. For chewing tobacco, operating profit grew somewhat compared to the prior year as the operating profit for chew bags more than compensated for the reduced operating profit for US chewing tobacco.

Operating profit for *Lights* for the year amounted to 211 MSEK (219). Operating profit declined by 4 percent compared to the previous year, mainly due to lower volumes and higher production costs. Operating profit for complementary products increased on higher sales and favorable costing.

Operating loss for *Other operations* for the year was 126 MSEK (132).

Operating margin from product areas for the year, excluding larger one-time items, was 26.2 percent (25.7). Operating margin, including larger one-time items, was 28.5 percent (41.3).

### Significant events during the year

On January 19, 2017, Swedish Match divested 9 million shares in STG at a price of 118 DKK per share. Swedish Match's proceeds, net of transaction costs, from this divestment amounted to 1,355 MSEK.

On November 8, Swedish Match divested its remaining holding of 9,069,906 shares in STG at a price of 109.13 DKK per share. Swedish Match's proceeds, net of transaction costs, from this divestment

amounted to 1,200 MSEK. Swedish Match's total proceeds during 2017, net of transaction costs, from the two divestments amounted to 2,554 MSEK.

At the end of August, Swedish Match acquired V2 Tobacco A/S, a Danish manufacturer company of both chew bags and snus. The total consideration paid, less acquired liquid funds, amounted to 929 MSEK.

During the fourth quarter of 2017, Swedish Match reached an agreement to divest its 40 percent holding in the German cigar company Arnold André GmbH & Co. KG. The holding has been reported as an associated company under the equity method.

In 2017, the Company further expanded the distribution of ZYN, our nicotine pouches without tobacco, and the product continued to demonstrate impressive traction, coming from both store expansion and increased sale per store. During the year, Swedish Match decided to invest over 40 MUSD into US production capacity of ZYN – a project that has now been initiated. In early 2018, Swedish Match made a decision to further increase longer term capacity, and the total investment is now estimated to be more than 60 MUSD – a testament to the very strong reception to ZYN.

### Larger one-time items

The tax exempt capital gain from the divestments of STG amounted in total to 197 MSEK and equaled the difference between the price at divestment and the market value at reclassification in September 2016, less transaction costs, and has been recognized as a larger one-time item.

During the year, an additional payment of 107 MSEK was received from sale of a parcel of land adjacent to the old headquarters building in Stockholm in 2007 because of the final purchase price was subject to approval of a changed city plan. This approval was received during the first quarter of 2017.

Larger one-time items in 2017 also included a gain from a defined benefit plan amendment of 69 MSEK attributable to US post-employment benefits.

The previous full year included larger one-time items of 2,254 MSEK relating to capital gains on sale of shares in STG and an unrealized gain from revaluing Swedish Match's then remaining shareholding in STG to market value as well as a capital gain from the sale of a distribution center.

### Summary of consolidated balance sheet

MSEK	2017	2016
Non-current assets	5,944	8,387
Other current assets	3,701	3,584
Cash and cash equivalents	3,998	3,364
<b>Total assets</b>	<b>13,643</b>	<b>15,335</b>
Equity	-4,178	-1,365
Non-current financial liabilities and provisions	2,786	3,149
Non-current loans	10,277	8,169
Current liabilities and provisions	3,505	3,334
Current loans	1,253	2,047
<b>Total equity and liabilities</b>	<b>13,643</b>	<b>15,335</b>

### Summary of consolidated cash flow statement

MSEK	2017	2016
Net cash generated from operating activities	3,402	2,929
Net cash from investing activities	1,594	3,408
Net cash transferred to shareholders	-5,498	-6,771
Net cash from other financing activities	1,215	2,007
<b>Net increase in cash and cash equivalents</b>	<b>713</b>	<b>1,573</b>
Cash and cash equivalents at beginning of the year	3,364	1,732
Effects of exchanges rate fluctuations on cash and cash equivalents	-79	59
<b>Cash and cash equivalents at end of year</b>	<b>3,998</b>	<b>3,364</b>



## Net finance cost

Net finance cost for the year decreased to 240 MSEK (431) and included dividends received from STG of 107 MSEK. Net finance cost in 2016 included a cost of 67 MSEK relating to repurchase of bond loans. Adjusting for both the dividend from STG and the cost of 67 MSEK, the net finance cost improved by 18 MSEK. This improvement is mainly related to lower net interest expense on pensions. Interest expenses on the bond portfolio were at a similar level to prior year with the effect of higher average debt being offset by lower interest rates.

## Taxes

The income tax expense amounted to 952 MSEK (865) and the tax rate, excluding associated companies, dividends from STG, and non-taxable larger one-time items was 23.8 percent (24.3). The reassessment of the deferred income tax balances of our US business following the passage of the Tax Cuts and Jobs Act in December 2017 had a small lowering effect on the tax rate for the year but had an adverse effect of negative 96 MSEK on the tax recognized in Other comprehensive income.

## Earnings per share

For the full year, basic and diluted earnings per share amounted to 18.88 SEK (27.38). Adjusted for larger one-time items in both periods as well as dividends from STG in 2017 and share of net profit in STG in 2016, earnings per share increased by 14 percent to 16.39 SEK (14.39).

## Liquid funds

Cash and cash equivalents amounted to 3,998 MSEK at the end of the period, compared to 3,364 MSEK at December 31, 2016. The cash and cash equivalent balance includes the proceeds from the sale of STG shares in November which are proposed to be distributed to the shareholders. As of December 31, 2017, Swedish Match had 1,500 MSEK in unutilized committed credit lines.

## Financing and cash flow

Cash flow from operating activities for the year amounted to 3,402 MSEK (2,929). Adjusted for the dividend received from STG in the prior year, the cash flow from operating activities increased by 665 MSEK to 3,402 MSEK (2,738). The increase in cash flow from operating activities was driven by improved EBITDA from product areas, lower pension contributions and lower income taxes paid. The reduction in income taxes paid related to the 2017 tax benefit, at a 38 percent tax rate, of a large contribution to a US defined benefit plan in late 2016.

During the year, Swedish Match had a positive net cash flow from investing activities. Swedish Match received 2,554 MSEK from the two divestments of shares in STG (first and fourth quarters). In the first quarter, another 107 MSEK of additional purchase price payments relating to a parcel of land sold in 2007 was received, and during the fourth quarter 106 MSEK was received following the divestment of shares in Arnold André. Cash flows from investing activities also include dividends of 107 MSEK from STG received during the second and fourth quarters of 2017 (based on our 9.1 percent ownership interest). The dividend received from STG of 191 MSEK during the second quarter of 2016 (based on our 31.1 percent ownership interest) was recognized as cash flows from operating activities. Investments in property, plant and equipment as well as intangible assets decreased to 378 MSEK (666), with prior year investments reflecting an acquisition of patent rights for a nicotine pouch product without tobacco.

During 2017, new bond loans of 3,293 MSEK were issued, of which a 200 MEUR public bond maturing in 2025 was issued in

November 2017. In total, during the year, repayments of bond loans amounted to 1,988 MSEK, all of which were repaid in November. As of December 31, 2017, Swedish Match had 11,123 MSEK of interest bearing debt excluding retirement benefit obligations compared to 9,854 MSEK at December 31, 2016. During 2018, 1,250 MSEK of this debt falls due for payment. For further detail of the maturity profile of the debt portfolio please see the Company website. Net retirement benefit obligations decreased to 1,058 MSEK as of December 31, 2017, from 1,452 MSEK at December 31, 2016. The decrease is mainly due to positive currency effects and additional defined benefit obligation contributions.

The net debt as of December 31, 2017 amounted to 8,183 MSEK compared to 7,941 MSEK at December 31, 2016.

## Dividend and financial policy

Swedish Match has the ambition to continuously grow dividend per share with a payout ratio normally within 40–60 percent of the earnings per share, subject to adjustments for larger one-time items.

The Board has further determined that the financial policy should be that the Group will strive to maintain a net debt that does not exceed 3 times EBITA.

The Board continually reviews the financial position of the Company, and the actual level of net debt will be assessed against anticipated future profitability and cash flow, investment and expansion plans, acquisition opportunities as well as the development of interest rates and credit markets. The Board is committed to maintain an investment grade credit rating similar to S&P's BBB or Moody's Baa2 long term ratings.

The Board of Directors proposes a total dividend of 16.60 SEK per share consisting of an increased ordinary dividend per share of 9.20 SEK (8.50) and a special dividend of 7.40 SEK.

The proposed increased ordinary dividend of SEK 9.20 (8.50) is equivalent to 56 percent (59) of the earnings per share for the year, excluding income from STG and larger one-time items. The special dividend of 7.40 SEK is proposed in accordance with Swedish Match's financial policy of returning excess cash to its shareholders and following the divestment of the remaining shares STG in November 2017. The proposed ordinary and special dividend together amounts to 2,920 MSEK based on the 175.9 million shares outstanding at the end of the year.

## The share

The Annual General Meeting on May 4, 2017 decided to authorize the Board of Directors to decide on the acquisition, on one or more occasions prior to the next Annual General Meeting, of a maximum of as many shares as may be acquired without the Company's holding at any time exceeding 10 percent of all shares in the Company. In addition, in accordance with the resolution at the Annual General Meeting, 7.0 million shares held in treasury have been cancelled. The total number of registered shares in the Company after the cancellation is 181.8 million shares with a quotient value of 2.1425 SEK representing a share capital of 389.5 MSEK. Each share carries one vote.

In line with the financial policy, repurchased 8.8 million shares for 2,590 MSEK at an average price of 295.62 SEK following authorization from the Annual General Meetings held in 2017 and 2016. The purpose of the repurchase was primarily to enable the Company's capital structure to be adjusted. Total shares bought back by Swedish Match since the buyback programs started have been repurchased at an average price of 123.32 SEK. At December 31, 2017 Swedish Match held 5.9 million shares, corresponding to 3.24 percent of the total number of registered shares. The number of shares outstanding, net after repurchases, at December 31, 2017, amounted to 175.9 million.



The Board of Directors will propose to the Annual General Meeting in April 2018 a renewed mandate to repurchase shares up to a total holding in treasury not exceeding 10 percent of the number of registered shares in the Company until the Annual General Meeting in 2019.

In addition, a proposal will be made to cancel up to 9 million shares held in treasury, with a contemporaneous bonus issue without issuing new shares of an amount equivalent to the reduction of share capital through the cancellation of shares.

### Other events

#### *Plain packaging legislation in Norway*

During 2017 Swedish Match initiated court proceedings in Norway to have the plain packaging legislation for snus suspended awaiting a complete evaluation of the legal grounds for the implementation of the legislation. The requirements on standardized packaging for snus is, in Swedish Match's opinion, both disproportional and discriminatory, shows consistent lack of distinction between snus and cigarettes and is based on an inadequate assessment of the health risks of snus. Swedish Match lost the suspension proceedings in second instance in February 2018. Consequently, all snus products as well as all cigarettes must be sold in plain packaging on the Norwegian market as of July 1, 2018.

#### *Tax cases in Sweden*

The Swedish Tax Agency has performed tax audits of a number of Swedish Match's Swedish group companies. After completing the audits, the Swedish Tax Agency has notified Swedish Match deductions of certain costs in two cases have been denied. The Tax Agency is claiming total income tax and penalties of approximately 300 MSEK. Swedish Match does not agree with the Tax Agency's assessment and has appealed the decisions. No provision has been recognized.

#### *"Track and trace" regulation in Sweden*

The 2014 EU directive on tobacco products (Directive 2014/40/EU) stipulated that the EU Commission should determine technical standards for the establishment and operation of a tracking and tracing system for tobacco products. In November, the EU Commission adopted such technical standards and the system is to be implemented in the member states in May 2019 for cigarettes and roll-your-own tobacco and in May 2024 for other tobacco products. Since the system is not applicable to Swedish Match products until 2024, the most immediate impact on Swedish Match will be on its distribution function in Sweden. The Swedish Public Health Authority (FHM) has not yet proposed how the system should be implemented in Sweden.

### Alternative Performance Measures

Swedish Match frequently presents measures of financial performance which complement measures that are defined or specified in the applicable financial reporting framework. The basis for presenting such measures, referred to as Alternative Performance Measures (APM's) are that they are used by management to evaluate the financial performance and in so believed to give analysts and other stakeholders valuable information. A listing of APM's is presented on page 53 and is also available on the Company's website [www.swedishmatch.com](http://www.swedishmatch.com).

### Average number of Group employees

The average number of employees in the Group for 2017 was 5,413 employees (5,070), whereof 62 percent (62) of the total workforce are men. The increase in the average number of employees primarily relates to the expansion of cigar production in the Dominican Republic.

### Corporate governance report

Swedish Match has decided, in accordance with chapter 6 section 8 in the Swedish Annual Accounts Act, to produce a separate Corporate Governance Report instead of including the report in the Board of Director's report. The Corporate Governance Report is presented on page 112–123 and is also available on the Company's website [www.swedishmatch.com](http://www.swedishmatch.com).

The Corporate Governance Report includes information on risk management and internal control over financial reporting, see further on page 119.

### Sustainability report

Swedish Match has decided, in accordance with chapter 6 section 11 in the Swedish Annual Accounts Act, to produce a separate sustainability report instead of including the report in the Board of Director's report. The sustainability report is presented on page 28–45 and is also available on the Company's website [www.swedishmatch.com](http://www.swedishmatch.com).

Swedish Match's sustainability report includes information on the Company's six focus areas, where the Company devotes most of its strategic sustainability efforts. The six focus areas are *Improve public health*, *Ensure ethical business practices*, *Support equal opportunity*, *Reduce greenhouse gases*, *Reduce waste* and *Eliminate child labor*.

### Permits and obligatory reporting

All plants satisfied the requirements of their permits during 2017. The snus plants in Gothenburg and Kungälv in Sweden are subject to obligatory reporting in accordance with the Swedish Environmental Code. The plant in Vetlanda, Sweden produces match sticks and boxes with striking surface that are used in match production. These operations require a permit in accordance with the Environmental Protection Act. The permit is valid indefinitely. Noise levels, storage of timber and solvent emissions are regulated.

The plant in Tidaholm, Sweden produces matches and fire-starters. These operations require permit according to the Environmental Protection Act. The permit entitles the plant to increase production up to certain levels and specifies limits for wastewater, the dust content in ventilation outflows and noise levels.

For plants in other countries where Swedish Match has production operations, the Group has permits in accordance with the legislation in each country.

### Organization and personnel

The Swedish Match head office, where the CEO and Group staff functions are based, is located in Stockholm in Sweden. The organizational structure is divided among the divisions Scandinavia Division, US Division and Lights Division as well as Corporate functions. The largest number of employees is in the Dominican Republic, Sweden, and the US followed by Brazil and the Philippines.

The Group is dedicated to maintain its employee focus and their development in a performance driven culture. The Company actively works for developing the skills of both leaders and employees in order to strengthen the result oriented culture while contributing to the improvement and growth of the Company.

The human resources organization supports the Group's activities in managing talent, providing clear and consistent documentation of activities, upholding employee practices consistent with the Group's Code of Conduct as well as local laws and regulations, among other tasks. Swedish Match continues to focus on Employer Branding from a multifaceted perspective to ensure that it retains and attracts a strong employee base, and helping to ensure that Swedish Match is an attractive employer.

The human resource organization regularly coordinates and conducts a global employee survey to identify common improvement

areas. The latest survey measured levels of employee engagement, satisfaction, and employer attractiveness. It also evaluated communication effectiveness and other areas critical to the performance of the Company, such as leadership, gender equality and management capabilities. The results from the surveys are shared with all employees and following the presentation of the results, employees and managers develop action plans together based on the survey results.

### **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. In order to be 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, Norway and EMU member countries. Consequently, changes in import duties as well as in exchange rates of the euro, Norwegian 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, corporate income and other taxes, as well as to the marketing, sale and consumption of tobacco products, in the countries where the Group is operating may have an adverse effect on Swedish Match results of operations.

The Group is involved in legal and regulatory proceedings including pending lawsuits related to alleged injuries caused by tobacco products. There can be no assurance that the Company's defenses will be successful in trial and substantial costs may be incurred in defending lawsuits. Although management cannot in any meaningful way estimate the damages that might be awarded, if any, from ongoing or anticipated disputes, such lawsuits individually or in the aggregate, could have an adverse effect on the Groups results of operations.

Swedish Match applies a cautious and conservative policy towards exposures in financial risks, which is updated yearly by Swedish Match Board of Directors.

Refinancing risk is the risk of not being able to meet the need for future funding. To avoid this risk, all maturing loans shall be able to be repaid by operating cash flows. Furthermore, there shall be a liquidity reserve consisting of available cash and cash equivalents as well as unutilized committed credit facilities. The aim of the Group is to have an even maturity structure of the debt portfolio and the objective for interest rate fixing periods is to achieve an even and low cost of interest. Since the part of loans with variable interest rates is approximately 5 percent of the total debt portfolio, the cash-flow interest rate risk is considered to be low. Interest rate swaps and currency swaps are used mainly to convert the Group's borrowing into SEK and fixed interest rates and hedge accounting is applied in accordance with the description in *Note 1 Accounting principles*. Swedish Match aims to limit credit risks through transactions only to be made for derivative instruments with counterparties having

high credit ratings. Swedish Match exposure to credit risks in customer related receivables is low considering the diverse customer portfolio.

Currency transaction exposures are limited and therefore currency hedging is only done case-by-case. Swedish Match does not have any trading activities, i.e. take specific positions to gain on market fluctuations, in any financial instruments. For a more detailed description of the Group's financial risk management and holdings of financial instruments, see *Note 27 Financial instruments and financial risks*.

### **Change of control clauses**

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

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

### **Events following the close of the reporting period**

*Swedish proposition on extended regulation on tobacco and similar products*

The Swedish Government has announced that it intends to propose new legislation on tobacco and similar products to the Parliament on February 20, 2018. The announced proposal is scheduled to take effect from January 1, 2019 and includes a number of proposed measures including a ban on consumer self-service for all tobacco products at point of sale, a ban on tobacco advertising at point of sale other than in specialty tobacco shops and for snus a minimum of 20 pouches per can. The announced proposal also includes the EU mandated track and trace system for tobacco products but detailed instructions for such implementation will be announced at a later date.

*The European Court of Justice's hearings on the legality of the EU ban on snus and the definition of chewing tobacco*

In the European Court of Justice (ECJ) an oral hearing regarding the ban on the sale and distribution of snus within the European Union was held in January, 2018. A ruling by the court is expected earliest in the second quarter of 2018. The ECJ is also expected to hear a case referred by a court in Germany regarding the definition of chewing tobacco during the third quarter of 2018. The court's conclusions in this respect will be relevant for whether chew bags shall be defined as chewing tobacco and thereby allowed within the European Union. A negative ruling could impact Swedish Match's sale of chew bags on certain European markets.

### **Proposal to the Annual General Meeting for principles of remuneration to management**

The Board of Directors proposes that the following principles for remuneration and other terms of employment for the President

and other members of the Group management be adopted by the Annual General Meeting 2018. The members of the Group management are referred to below as the "Group Management Team" or "GMT".

The objective of these principles is to ensure that the Company is able to recruit and retain employees with appropriate skills and qualifications for their respective duties.

The remuneration structures shall encourage employees to do their utmost to safeguard shareholders' interests. Swedish Match takes into account both global remuneration practice and the practice of the country of residence of each member of the GMT. The principles apply in relation to members of the GMT appointed after the adoption of the principles, and, in other cases, to the extent permitted under existing agreements. *Note 6 Personnel* in the 2017 annual report sets out details of the remuneration and benefits of the GMT during 2017.

The total remuneration paid to GMT consists of fixed salary, variable components in the form of annual short term variable remuneration and long term variable remuneration, pension, other benefits and terms related to termination of employment.

#### 1. Fixed salary

The fixed salary for the GMT shall correspond to market rates and shall be based on each member's competence, country of residence, responsibility and performance.

#### 2. Variable salary

The members of the GMT may be entitled to a variable salary in addition to the fixed salary. The variable salary may include both an annual short term program to be paid out in the beginning of the subsequent year depending on the outcome of the program, and a long term program with a performance period which shall not be shorter than three years. The variable salary shall primarily be based on specific, clear, predetermined and measurable financial or operational criteria set by the Board of Directors in relation to the President and by the Compensation Committee in relation to the GMT. The variable salary shall be capped in relation to the fixed salary and reflect the market practice in the country of residence.

The Company shall have the right to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.

#### 3. Profit Sharing System

All employees in Sweden are participating in Swedish Match profit sharing system ("PSS"). For 2018 the maximum total accruals for GMT members is estimated to 0.3 MSEK.

#### 4. Insurable benefits

Old age pension, disability and sickness benefits, medical benefits and life insurance benefits shall be designed to reflect the practices in the country where a member of the GMT is resident. New members of the GMT shall preferably be covered by defined contribution plans.

#### 5. Severance pay, etc

A mutual period of notice of six months shall apply. Fixed salary during notice of termination and severance payment (if any) shall not exceed an amount corresponding to 24 months fixed salary. Members of the GMT residing outside Sweden may however be offered notice periods for termination and severance payment that are competitive in the country where the members are resident.

#### 6. Other benefits

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

#### 7. The Board's right to deviate from the principles

The Board of Directors shall be entitled to deviate from the principles approved by the Annual General Meeting if specific reasons for doing so exist in any individual case.

#### 8. Committee work and decisions

Swedish Match's Board of Directors shall have a Compensation Committee. The Committee has the authority to approve salary and other remuneration and employment terms for members of the GMT, except those regarding the President. The Committee shall prepare and present proposals for the Board's decisions on issues relating to salary and other remuneration and employment terms for the President. The Committee is authorized to decide and in relation to the President to propose to the Board of Directors the further details regarding the criteria and targets on which the variable salary is based for the GMT. In addition hereto the Committee is authorized to decide to what extent such criteria and targets have been met both for the GMT and the President.

#### 9. Previous undertakings not yet due

The Company has no previous undertakings not yet due besides what is evident from the annual report 2017.

### Application of principles on variable salary for 2018

In order to ensure alignment with long term shareholder interests, to strengthen the retention element of the variable salary and to promote company shareholding among the Group Management Team ("GMT") the variable salary includes a short term cash incentive and a long term cash incentive program where the short term program includes an incentive for the GMT members to purchase and retain shares in the Company while the long term program includes an obligation to purchase and an undertaking to retain such shares. The performance period for the short term and the long term programs will be one year and three years respectively.

#### 1. Short term variable salary

The maximum short term variable salary for the President and other members of the GMT residing in Sweden shall be 70 and 60 percent respectively of their 2018 base salary. To comply with local market standards the maximum short term incentive for members residing outside of Sweden shall be 70 percent of the 2018 base salary. Subject to justified exemptions, a 20-percentage point reduction in maximum variable salary shall apply to any GMT member who does not commit to purchase Company shares for at least 50 percent of the received cash award net of income tax and to retain such shares for a period of not less than three years. The minimum level of performance that must be reached to earn any allocation and the maximum level of performance at which payout is capped shall be defined in the beginning of each year by the Compensation Committee in relation to the GMT members other than the President and by the Board of Directors in relation to the President.

Accruals for short term variable salary objectives for GMT members 2018 are estimated<sup>1)</sup> to range between 0 MSEK and 19 MSEK.

<sup>1)</sup> Estimation made on the assumption that Group Management Team is unchanged and on an assumed exchange rate SEK vs. USD of 8.2080.

## 2. Long term variable salary

The maximum long term variable salary of the President and other members of the GMT (except as set forth below) shall be either 45 percent of the 2018 base salary or 750 000 SEK depending on the remit of the GMT member. Subject to justified exemptions, all members of the GMT will be obliged to purchase company shares for the full cash award net of income tax and shall retain such shares for a period of not less than two years. Members of GMT residing outside Sweden may participate in an additional long term variable salary program capped at 100 percent of the base salary every second year.

The outcome in the long term variable salary program is dependent on two criteria determined at the beginning of 2018, but measured over the full performance period 2018–2020. The majority of the outcome is based on Group Operating profit from product areas 2018–2020 and the remaining part is based on Net sales excluding SMD Logistics AB for 2018–2020. For both measures an improvement compared to the 2017 outcomes is required for the measure to yield an outcome in the program.

Accruals for the GMT long term incentive programs are estimated<sup>1)</sup> to range between 0 MSEK below minimum level and 17 MSEK at maximum level depending on performance outcome. For the principles of remuneration adopted by the Annual General Meeting in May 2017, see *Note 6 Personnel*.

## Outlook

Swedish Match expects that the trend of increased interest from consumers, industry players and regulators in less harmful alternatives to cigarettes will continue. Swedish Match takes pride in paving the way with its vision of a world without cigarettes. By providing products that are recognized as safer alternatives to cigarettes, our ambition is to create value for both shareholders and the society.

For 2018, on a full year basis, Swedish Match expects the Scandinavian snus market to continue to grow and to remain highly competitive. In the US moist snuff market, we expect continued good growth for pouches. Swedish Match also expects the US snus/nicotine pouch market to grow. For US chewing tobacco we expect continued market declines, while for chew bags in Europe we expect continued market growth.

We will continue to invest in growth for snus and nicotine pouches outside Scandinavia. We will also increase the availability of nicotine pouches to Swedish consumers and explore new market opportunities for chew bags. The operating loss for snus and nicotine pouches outside Scandinavia is expected to be noticeably lower in 2018 than in 2017. The decision to invest in ZYN production capacity in the US will predominantly affect capital expenditures in 2018.

For the full year, Swedish Match expects continued growth in the US cigar market. Swedish Match expects the US cigar market to remain highly competitive.

The effective corporate tax rate in 2018, excluding associated companies and any non-taxable larger one-time items, is expected to be around 21.5 percent (23.8). The expected reduction in tax rate is a consequence of the US corporate income tax reform effective January 1, 2018.

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

## Swedish Match AB (publ)

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

Sales in the Parent Company for the full year 2017 amounted to 47 MSEK (52). Profit before income tax amounted to 6,664 MSEK (4,260) and net profit for the year amounted to 6,367 MSEK (4,041). The higher net profit for the year mainly pertains to higher dividends from subsidiaries compared to previous year.

During the year, the Parent Company received dividends amounting to 23,827 MSEK (3,395) as well as net contributions amounting to 2,415 MSEK (2,179). A large part of the dividend received is a result of an internal group loan being settled and creditor distributing the settlement amount to the Parent Company. Due to the subsidiary's reduced equity following the distribution, the Parent Company wrote down shares in subsidiaries by a corresponding amount.

The Parent Company sold a parcel of land adjacent to the former headquarters building in Stockholm in 2007, for which the final purchase price was subject to approval of a changed city plan. This approval was received in the first quarter of 2017 as well as an additional payment of 107 MSEK.

Lower administration costs mainly relate to lower pension costs compared to prior year. Pension costs in the prior year period were high due to lower discount rate assumptions. Pension costs in the current year are affected by a one-time income from surplus assets relating to insurance contracts purchased in previous years to settle certain defined benefit obligations in Sweden.

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. The majority of these loans have fixed interest rates. During the year, repayments of bond loans amounted to 1,988 MSEK and new bond loans of 3,293 MSEK were issued.

A dividend of 2,908 MSEK (5,522) was paid during the year, including a special dividend of 1,363 MSEK (4,016) relating to a partial divestment of shares in STG. During the year, the Parent Company also distributed 2,590 MSEK (1,249) in the form of share repurchases.

No capital expenditures of tangible or intangible fixed assets have been recognized during the year. During 2016, a minor amount was capitalized as tangible fixed asset.

<sup>1)</sup> Estimation made on the assumption that Group Management Team is unchanged and on an assumed exchange rate SEK vs. USD of 8.2080.



## Proposed distribution of earnings

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

Retained earnings including Hedge reserve	SEK	12,465,222,512
Profit for the year	SEK	6,366,742,129
	<b>SEK</b>	<b>18,831,964,641</b>

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

To the shareholders, a dividend of 16.60 SEK per share based on 175,910,538 shares outstanding at the end of 2017	SEK	2,920,114,931
Retained earnings to be carried forward	SEK	15,911,849,710
	<b>SEK</b>	<b>18,831,964,641</b>

The income statements and balance sheets will be presented to the Annual General Meeting on April 11, 2018 for adoption. The Board of Directors also proposes April 13, 2018 as the record date for shareholders listed in the Swedish Securities Register Center, Euroclear Sweden AB.

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

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

Stockholm, March 15, 2018

Conny Karlsson  
Chairman of the Board

Charles A. Blixt  
Board member

Andrew Cripps  
Deputy Chairman

Patrik Engelbrektsson  
Board member

Jacqueline Hoogerbrugge  
Board member

Eva Larsson  
Board member

Pauline Lindwall  
Board member

Dragan Popovic  
Board member

Wenche Rolfsen  
Board member

Joakim Westh  
Board member

Lars Dahlgren  
President and CEO

Our auditor's report was submitted on March 15, 2018

Deloitte AB

Peter Ekberg  
Authorized Public Accountant



## Consolidated income statement

MSEK	Note	2017	2016
Sales, including tobacco tax		28,824	28,482
Less tobacco tax		-12,722	-12,932
<b>Sales</b>	3	<b>16,101</b>	<b>15,551</b>
Cost of goods sold		-8,707	-8,325
<b>Gross profit</b>		<b>7,395</b>	<b>7,226</b>
Selling expenses		-2,315	-2,335
Administrative expenses		-871	-892
Other operating income and expenses	5	-1	-12
Share of profit in associated companies	15	10	180
Income from defined benefit plan amendment		69	-
Capital gain from sale of land		107	-
Sale of STG shares	15, 16	197	1,208
Gain on fair value of STG shares	16	-	902
Sale of distribution facility	32	-	145
<b>Operating profit</b>	3, 6, 7, 8, 23, 28	<b>4,591</b>	<b>6,420</b>
Dividend from STG		107	-
Finance income		49	53
Finance costs		-396	-484
<b>Net finance cost</b>	9	<b>-240</b>	<b>-431</b>
<b>Profit before income tax</b>		<b>4,352</b>	<b>5,988</b>
Income tax expense	10	-952	-865
<b>Profit for the year</b>		<b>3,400</b>	<b>5,123</b>
<i>Attributable to:</i>			
Equity holders of the Parent		3,400	5,123
Non-controlling interests		0	0
<b>Profit for the year</b>		<b>3,400</b>	<b>5,123</b>
Earnings per share, basic and diluted, SEK	11	18.88	27.38

## Consolidated statement of comprehensive income

MSEK	Note	2017	2016
<b>Profit for the year</b>		<b>3,400</b>	<b>5,123</b>
<i>Other comprehensive income that may be reclassified to the income statement</i>			
Translation differences related to foreign operations	21	-301	558
Translation differences included in profit and loss	21	-6	-143
Effective portion of changes in fair value of cash flow hedges	21	-126	-81
Changes in cash flow hedges reclassified to profit and loss	21	22	16
Share of other comprehensive income in associated companies	21	-	-20
Share of other comprehensive income in associated companies included in profit and loss	21	-	-509
Change in fair value of STG shares	21	-80	310
Change in fair value of STG shares included in profit and loss	21	-230	-
Income tax relating to reclassifiable components of other comprehensive income	10	23	14
<b>Subtotal, net of tax for the period</b>		<b>-697</b>	<b>144</b>
<i>Other comprehensive income that will not be reclassified to the income statement</i>			
Actuarial gains/losses attributable to pensions, incl. payroll tax		116	-150
Share of other comprehensive income in associated companies		-	-2
Income tax relating to non-reclassifiable components of other comprehensive income	10	-133	39
<b>Subtotal, net of tax for the period</b>		<b>-17</b>	<b>-113</b>
<b>Other comprehensive income, net of tax for the period</b>		<b>-715</b>	<b>32</b>
<b>Total comprehensive income for the year</b>		<b>2,685</b>	<b>5,155</b>
<i>Attributable to:</i>			
Equity holders of the Parent		2,685	5,155
Non-controlling interests		0	0
<b>Total comprehensive income for the year</b>		<b>2,685</b>	<b>5,155</b>

## Consolidated balance sheet

MSEK	Note	December 31, 2017	December 31, 2016
<b>Assets</b>			
Intangible assets	12	2,088	1,250
Property, plant and equipment	13	2,418	2,392
Forest plantations	14	139	150
Investments in associated companies	15	22	122
Other non-current financial assets	16	-	2,761
Other non-current receivables	17	711	774
Deferred income tax assets	10	566	938
<b>Total non-current assets</b>		<b>5,944</b>	<b>8,387</b>
Inventories	18	1,642	1,541
Trade receivables	19	1,536	1,539
Prepaid expenses and accrued income		81	82
Income tax receivables		248	205
Other current receivables	17	193	216
Cash and cash equivalents	20	3,998	3,364
<b>Total current assets</b>		<b>7,699</b>	<b>6,948</b>
<b>TOTAL ASSETS</b>		<b>13,643</b>	<b>15,335</b>
<b>Equity</b>			
Share capital	21	390	390
Reserves		284	982
Retained earnings		-4,853	-2,737
<b>Equity attributable to equity holders of the Parent</b>		<b>-4,179</b>	<b>-1,366</b>
Non-controlling interests		1	1
<b>TOTAL EQUITY</b>		<b>-4,178</b>	<b>-1,365</b>
<b>Liabilities</b>			
Loans and borrowings	22, 27	10,277	8,169
Other liabilities	25	147	118
Provision for pensions and similar obligations	23	1,146	1,542
Other provisions	24	559	572
Deferred income tax liabilities	10	935	917
<b>Total non-current liabilities</b>		<b>13,063</b>	<b>11,318</b>
Loans and borrowings	22, 27	1,253	2,047
Trade payables		698	686
Income tax liabilities		376	151
Other liabilities	25	1,471	1,527
Accrued expenses and deferred income	26	854	854
Provisions	24	107	116
<b>Total current liabilities</b>		<b>4,758</b>	<b>5,382</b>
<b>TOTAL LIABILITIES</b>		<b>17,821</b>	<b>16,700</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>13,643</b>	<b>15,335</b>

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

## Consolidated statement of changes in equity

		Equity attributable to equity holders of the Parent						
MSEK	Note	Share capital	Reserves	Retained earnings	Total	Non-controlling interest	Total equity	
<b>Equity at beginning of year</b>	21	<b>390</b>	<b>837</b>	<b>-976</b>	<b>251</b>	<b>1</b>	<b>252</b>	
Profit for the year		-	-	5,123	5,123	0	5,123	
Other comprehensive income, net of tax <sup>1)</sup>		-	144	-113	31	0	32	
<b>Total comprehensive income</b>		<b>-</b>	<b>144</b>	<b>5,010</b>	<b>5,155</b>	<b>0</b>	<b>5,155</b>	
Dividend		-	-	-5,522	-5,522	0	-5,523	
Repurchase of own shares		-	-	-1,249	-1,249	-	-1,249	
Cancellation of shares		-15	-	15	-	-	-	
Bonus issue		15	-	-15	-	-	-	
<b>Equity at end of year</b>		<b>390</b>	<b>982</b>	<b>-2,737</b>	<b>-1,366</b>	<b>1</b>	<b>-1,365</b>	

		Equity attributable to equity holders of the Parent						
MSEK	Note	Share capital	Reserves	Retained earnings	Total	Non-controlling interest	Total equity	
<b>Equity at beginning of year</b>	21	<b>390</b>	<b>982</b>	<b>-2,737</b>	<b>-1,366</b>	<b>1</b>	<b>-1,365</b>	
Profit for the year		-	-	3,400	3,400	0	3,400	
Other comprehensive income, net of tax <sup>1)</sup>		-	-697	-17	-715	0	-715	
<b>Total comprehensive income</b>		<b>-</b>	<b>-697</b>	<b>3,382</b>	<b>2,685</b>	<b>0</b>	<b>2,685</b>	
Dividend		-	-	-2,908	-2,908	0	-2,908	
Repurchase of own shares		-	-	-2,590	-2,590	-	-2,590	
Cancellation of shares		-14	-	14	-	-	-	
Bonus issue		14	-	-14	-	-	-	
<b>Equity at end of year</b>		<b>390</b>	<b>284</b>	<b>-4,853</b>	<b>-4,179</b>	<b>1</b>	<b>-4,178</b>	

<sup>1)</sup> Other comprehensive income included in retained earnings consists of actuarial gains and losses attributable to the Group's defined pension plans and the Group's share of actuarial gains and losses in associated companies, net after payroll and income taxes, in an amount of -17 MSEK (-113).

## Consolidated cash flow statement

MSEK	Note	2017	2016
<b>Operating activities</b>	32		
Profit before income tax		4,352	5,988
Share of net profit/loss in associated companies		-10	-180
Dividends received from associated companies		0	192
Other non-cash items and other		-175	-2,338
Income tax paid		-611	-693
<b>Cash flow from operating activities before changes in working capital</b>		<b>3,556</b>	<b>2,969</b>
<b>Changes in working capital</b>			
Increase (-)/ Decrease (+) in inventories		-147	-74
Increase (-)/ Decrease (+) in operating receivables		-33	62
Increase (+)/ Decrease (-) in operating liabilities		26	-28
<b>Net cash generated from operating activities</b>		<b>3,402</b>	<b>2,929</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		-369	-537
Proceeds from sale of property, plant and equipment		7	190
Purchase of intangible assets		-8	-129
Acquisition of subsidiaries		-929	-
Proceeds from sale of land		107	-
Divestments of associated companies		2,660	3,908
Investments in associated companies		-	-5
Dividend from STG		107	-
Changes in financial receivables, etc.		20	-20
<b>Net cash from investing activities</b>		<b>1,594</b>	<b>3,408</b>
<b>Financing activities</b>			
Proceeds from non-current borrowing		3,293	3,364
Repayment of borrowings		-1,988	-1,618
Dividend paid to equity holders of the Parent		-2,908	-5,522
Repurchase of own shares		-2,590	-1,249
Realized exchange gain/losses on financial instruments		-90	259
Other		0	2
<b>Net cash used in financing activities</b>		<b>-4,283</b>	<b>-4,764</b>
<b>Net increase in cash and cash equivalents</b>		<b>713</b>	<b>1,573</b>
Cash and cash equivalents at the beginning of the year		3,364	1,732
Effect of exchange rate fluctuations on cash and cash equivalents		-79	59
<b>Cash and cash equivalent at end of year</b>		<b>3,998</b>	<b>3,364</b>

# Notes for the Group

## 1 Accounting principles

All amounts referred to in the notes of the Group financial statements are in millions of Swedish kronor (MSEK) unless otherwise stated. The amounts within brackets refer to the preceding year, 2016.

### Compliance with standards and legislation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee, approved by the European Commission for application within the EU. In addition, RFR 1 Supplementary Accounting Rules for Groups, issued by the Swedish Financial Reporting Board, has been applied. The Parent Company applies the same accounting principles as the Group, except in those instances described below in the section "Parent Company accounting principles". The annual report and the consolidated financial statements were authorized for issue by the Board of Directors and the Group's CEO on March 15, 2018.

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

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

### Use of the assessments in the financial reports

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

### Significant accounting principles applied

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

### New standards, amendments and interpretations

The new disclosure requirements as set out in *IAS 7 Statement of Cash Flows* have been included in the note to the cash flow statement, please refer to *Note 32*. The new disclosures refer to additional reconciliation of liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, such as unrealized currency translation effects, fair value adjustments, acquisitions and divestments. The purpose with the new disclosures is to enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Other new IFRS standards, amendments and interpretations to existing standards applicable as of January 1, 2017 or later have not had any significant impact on the Group's financial result or position.

### New IFRSs and interpretations which have not yet been applied

A number of new standards, changes in standards and interpretations of standards apply from 2018 or later and have not been applied in these financial

reports. Only *IFRS 15 Revenue* from Contracts with Customers is expected to have material impact on the financial statements of Swedish Match. IFRS 15 supersedes *IAS 18 Revenue* and *IAS 11 Construction Contracts* and the related Interpretations. This new standard will materially affect the revenue recognition of the Swedish distribution function but with no effect on profit. Because of the new standard, the segment reporting will change in 2018.

The main principle of IFRS 15 is that revenue shall be recognized when the control of the promised good or service is transferred to the customer at the expected consideration for such delivery. To apply the standard, an entity needs to understand what has been promised and when the promise is satisfied. In determining the expected consideration, the expected outcome of variable considerations as well as expected reimbursements of goods returned need to be considered.

In determining the nature of the promise IAS 18 applies a "risks and rewards" approach whereas IFRS 15 instead emphasizes the transfer of control. When analyzing the contracts and all facts and circumstances of the Swedish distribution function, Swedish Match concludes that for most of the transaction, the Swedish distribution function is acting as an agent. Under IAS 18 the conclusion has been that the Swedish distribution function is acting as a principal for all its transactions.

The new standard will also have an effect on the timing of revenue recognition from goods returned within the reportable segment Snus and moist snuff. However, this effect is not material. The estimated IFRS 15 transition effect on the Group's retained earnings from the timing of returns amounts to negative -23 MSEK.

### Reclassification from principal to agent as a consequence of IFRS 15

The Swedish distribution function provides logistics services to third party suppliers of tobacco products on the Swedish market. In summary, the services provided include transportation to retail, order taking and invoicing. According to IAS 18, the Swedish distribution function is considered a principal in this set-up based on the fact that the Swedish distribution function takes legal title to the products while arranging for the delivery of the tobacco products to retail and is subject to the credit risk of the gross amount of consideration payable by the retail. IAS 18 specifically points out credit risk as an indicator of an entity being a principal under the "risks and rewards" approach. Under IFRS 15 credit risk is not deemed an indicator of control of the specified products or services. In applying IFRS 15 under a transfer of control perspective, Swedish Match concluded that based on the nature of the services provided and the lack of control of the products delivered to retail, the Swedish distribution function should be considered an agent in its arrangement of these services. The contractual terms with the third party suppliers clearly conveys very limited control of the products to the Swedish distribution function.

The consequences of adopting IFRS 15 will result in a reduction in sales and cost of goods sold attributed to distributed third party tobacco products compared to how Swedish Match reported such sales under IAS 18. Under IFRS 15, for the transactions where the Swedish distribution function is acting as an agent, the revenue recognized will be the amount of the fee received from the principals (the manufacturers of the goods) for arranging for the goods to be delivered to retail. This fee equals the gross profit previously recognized for these transactions under IAS 18, i.e. the net amount retained from the consideration received from the retail after paying the principals. Recognizing the fee instead of the gross invoiced amount will materially reduce the net sales of Swedish Match but not alter the profit.

The balance sheet presentation will follow the agent/principal presentation of the income statement. Under IFRS 15, no inventory relating to the third party tobacco products for which the Swedish distribution function is acting as an agent when arranging for the delivery to retail will be recognized in Swedish Match's balance sheet. The Swedish distribution function has limited control over such inventory and will not recognize it as an asset.

Swedish Match will apply IFRS 15 on its financial statements as of the standard's effective date January 1, 2018. The new standard will be applied retrospectively with the cumulative transition effects recognized as an adjustment to the opening balance of retained earnings of the annual reporting period starting January 1, 2017. No restatement will be made of prior reporting periods for completed customer contracts recognized in accordance with IAS 18 Revenue and related Interpretations. For illustrative purposes, the 2017 financial statements and segment reporting have been restated in tables below reflecting the recognition of sales according to the new standard. The transition effect for the timing of goods returns has not been restated for illustrative purposes.



## NOTE 1 Continued

Condensed consolidated income statement, MSEK	Full year 2017	IFRS 15 transition effects estimated adjustments Reclassification from principal to agent	Restated 2017 IFRS 15
Sales, including tobacco tax	28,824	-13,800	15,024
Less tobacco tax	-12,722	9,449	-3,273
<b>Sales</b>	<b>16,101</b>	<b>-4,351</b>	<b>11,750</b>
Cost of goods sold	-8,707	4,351	-4,356
<b>Gross profit</b>	<b>7,395</b>	<b>-</b>	<b>7,395</b>
Selling and admin. expenses	-3,187	-	-3,187
Share of profit/loss in associated companies	10	-	10
Larger one-time items	373	-	373
<b>Operating profit</b>	<b>4,591</b>	<b>-</b>	<b>4,591</b>
Dividend from STG	107	-	107
Finance income	49	-	49
Finance costs	-396	-	-396
<b>Net finance cost</b>	<b>-240</b>	<b>-</b>	<b>-240</b>
<b>Profit before income tax</b>	<b>4,352</b>	<b>-</b>	<b>4,352</b>
Income tax expense	-952	-	-952
<b>Profit for the period</b>	<b>3,400</b>	<b>-</b>	<b>3,400</b>
<i>Attributable to:</i>			
Equity holders of the Parent	3,400	-	3,400
Non-controlling interests	0	-	0
<b>Profit for the period</b>	<b>3,400</b>	<b>-</b>	<b>3,400</b>
Earnings per share, SEK	18.88	-	18.88

Condensed consolidated balance sheet, MSEK	December 31, 2017	IFRS 15 transition effects estimated adjustments Reclassification from principal to agent	Restated December 31, 2017 IFRS 15
<b>Assets</b>			
Intangible assets	2,088	-	2,088
Property, plant and equipment	2,558	-	2,558
Investments in associated companies	22	-	22
Other non-current assets and operating receivables	22	-	22
Other non-current financial assets and receivables	1,254	-	1,254
<b>Total non-current assets</b>	<b>5,944</b>	<b>-</b>	<b>5,944</b>
Current operating assets and receivables	263	-	263
Current operating assets and receivables	3,438	-267	3,171
Cash and cash equivalents	3,998	-	3,998
<b>Total current assets</b>	<b>7,699</b>	<b>-267</b>	<b>7,432</b>
<b>TOTAL ASSETS</b>	<b>13,643</b>	<b>-267</b>	<b>13,376</b>
<b>Equity attributable to equity holders of the Parent</b>	<b>-4,179</b>	<b>-</b>	<b>-4,179</b>
Non-controlling interests	1	-	1
<b>TOTAL EQUITY</b>	<b>-4,178</b>	<b>-</b>	<b>-4,178</b>
Non-current financial provisions	1,200	-	1,200
Non-current loans	10,277	-	10,277
Other non-current financial liabilities	1,218	-	1,218
Other non-current operating liabilities	368	-	368
<b>Total non-current liabilities</b>	<b>13,063</b>	<b>-</b>	<b>13,063</b>
Current loans	1,253	-	1,253
Other current financial liabilities	541	-	541
Other current operating liabilities	2,965	-267	2,698
<b>Total current liabilities</b>	<b>4,758</b>	<b>-267</b>	<b>4,491</b>
<b>TOTAL LIABILITIES</b>	<b>17,821</b>	<b>-267</b>	<b>17,554</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>13,643</b>	<b>-267</b>	<b>13,376</b>

## Restated segment information

	Full year 2017	Q4/17	Q3/17	Q2/17	Q1/17
Sales from reportable segments and Other operations, MSEK					
Snus and moist snuff	5,483	1,407	1,377	1,406	1,293
Other tobacco products	4,634	1,120	1,142	1,252	1,120
Lights	1,291	341	308	302	340
<b>Sales from reportable segments</b>	<b>11,409</b>	<b>2,868</b>	<b>2,827</b>	<b>2,960</b>	<b>2,753</b>
Other operations	342	84	88	93	77
<b>Sales</b>	<b>11,750</b>	<b>2,952</b>	<b>2,915</b>	<b>3,054</b>	<b>2,830</b>

	Full year 2017	Q4/17	Q3/17	Q2/17	Q1/17
Operating profit from reportable segments and Other operations, MSEK					
Snus and moist snuff	2,357	613	622	590	531
Other tobacco products	1,776	417	436	496	427
Lights	211	68	46	37	60
<b>Operating profit from reportable segments</b>	<b>4,344</b>	<b>1,097</b>	<b>1,105</b>	<b>1,124</b>	<b>1,018</b>
Other operations	-126	-53	-16	-32	-24
Larger one-time items	373	135	-	-	238
<b>Operating profit</b>	<b>4,591</b>	<b>1,179</b>	<b>1,089</b>	<b>1,091</b>	<b>1,232</b>

	Full year 2017	Q4/17	Q3/17	Q2/17	Q1/17
Operating margin from reportable segments, %					
Snus and moist snuff	43.0	43.6	45.2	42.0	41.1
Other tobacco products	38.3	37.2	38.2	39.6	38.1
Lights	16.4	19.9	15.1	12.2	17.7
<b>Operating margin from reportable segments</b>	<b>38.1</b>	<b>38.3</b>	<b>39.1</b>	<b>38.0</b>	<b>37.0</b>

IFRS 9 *Financial Instruments* which is effective beginning 2018 and replaces IAS 39 *Financial Instruments: Recognition and Measurement* brings about new principles regarding classification and measurement of financial assets and liabilities, introduces a new expected credit loss model for calculating impairment on financial assets, and implies new requirements for general hedge accounting aimed at simplifying and aligning with the Group's risk management strategies.

**Classification and measurement of financial asset and liabilities***Financial assets*

Assessment of the new categories of financial assets introduced with IFRS 9, indicates that there will be no material effect on the measurement of the Group's financial assets, including trade receivables, cash and cash equivalents, loans, and derivatives. By basic assumption, the carrying value on the Group's financial assets on the transition to IFRS 9 on January 1, 2018, are therefore assessed to be unaffected.

*Financial liabilities*

The Group assesses that there will be no material effects of the classification of financial liabilities with the transition to IFRS 9 on January 1, 2018.

*Impairment of financial assets*

Under IFRS 9, a new impairment model will be applied to financial assets measured at amortized costs or financial assets measured at fair value through other comprehensive income, excluding investments in debt instruments such as shares and participations, which are measured at fair value through profit and loss. Currently, financial assets measured at amortized cost refer mainly to accounts receivables. The new impairment model will change the recognition of allowances of doubtful accounts, where the "incurred loss model" will be replaced by an "expected credit loss model". Following an analysis of historical actual credit losses on accounts receivable within the Group, which reflects immaterial amounts that have been expensed. Swedish Match expects thereby that the new impairment model for accounts receivable will not have a material effect on the Group's provision for doubtful accounts.

*Hedge accounting*

Hedge accounting under IFRS 9 is guided by the ambition and objective that the accounting shall reflect the effects of the Group's risk management strategy and financial instruments that are used to manage exposures that can affect profit and loss. The Group hedges its bond loans in foreign currency to SEK with fixed interest rates. All critical terms of the hedging instrument and hedged items

match, and are assessed at each reporting date. Changes in fair value are carried in other comprehensive income. This type of hedge relation held by the Group today, meets the requirements of IFRS 9 and align with the Group's risk management strategy and goals.

*Transition*

The impact from IFRS 9 is not expected to have any significant impact on the Group's financial statement, as Swedish Match's classification and measurement policies are consistent with the new standard, credit loss amounts are relatively low, and current hedge accounting transactions are expected to be treated similarly under the new standard.

IFRS 16 *Leases* which will become effective in 2019 and replacing IAS 17 *Leases* and the related Interpretations, prescribes the principles for the recognition, measurement, presentation and disclosure of leases for both lessee and lessor. Under IFRS 16, almost all lease contracts shall be recognized as a right-of-use asset and a lease liability measured at the present value of future lease payments. In the income statement, depreciations of the asset and interest expense on the lease liability will be recognized instead of the lease payments recognized as cost when incurred.

The initial assessment of the effects on the Group's financial statements from lease contracts to be adopted to IFRS 16 are expected not to have a material impact. Lease contracts within the Group mainly pertain to real estate leases, such as office premises, warehouses and storages, which currently are reported as operating leases under the rules of IAS 17. As per December 31, 2017, total future minimum lease payments for non-cancelable operating lease contracts amounts to 253 MSEK (undiscounted value).

Swedish Match plans to apply the modified retrospective transition method, which implies that existing lease contracts with a remaining lease term of more than 12 months at the date of the new standard will be effective, will be recognized as a lease liability measured as the discounted net present value of the remaining future lease payments of the contract, with the corresponding right-of-use assets recognized on the balance sheet. Any cumulative transition effects will be recognized as an adjustment to the opening balance of retained earnings of the annual reporting period starting January 1, 2019. Prior periods will not be restated accordingly.

Other IFRS standards, amendments and interpretations to existing standards applicable as of January 1, 2018 or later are not expected to have any significant impact on the Group's financial result or position.

## NOTE 1 Continued

**Consolidation principles**

The consolidated accounts are prepared in accordance with the Group's accounting principles and include the accounts of the Parent Company and all subsidiaries and associated companies in accordance with the definitions below. Intra-Group receivables and liabilities, revenues and costs and unrealized gains and losses arising from intra-Group transactions are eliminated in their entirety when the consolidated financial statements are prepared. Divested companies are included in the consolidated accounts up through the time of divestment.

*Subsidiaries*

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

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

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

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

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

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

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

*Non-controlling interest*

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

**Discontinued operations**

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

**Classification etc.**

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

**Reporting by segment**

The Group's reportable segments are based on the internal reporting structure. Swedish Match's chief operating decision maker is the Group's President and CEO, who monitors and makes decisions about operating matters based on product areas. The Group's reportable segments are *Snus and moist snuff*, *Other tobacco products*, *Lights* and *Other operations*.

Snus and moist snuff, Other tobacco products and Lights all represent operating divisions producing, marketing and selling Swedish Match products. Other operations represents corporate functions providing services to the Swedish Match operating divisions. Services provided include, among other, regulatory affairs, legal and financial services as well as a distribution function. The distribution function provides services to Swedish Match in Sweden and Norway as well as to other manufacturers within the Swedish distribution network. The producing and selling segments are all profit making whereas Other operations is loss making despite recognizing significant sales.

Reportable segments have been aggregated when there are similarities in the segments' economic characteristics, such as gross profit margins, level of capital investments and impact from variations in the business cycle. Also, similarities in the type of product, manufacturing process, customers, distribution process and regulatory environment have been considered to determine the appropriate aggregation of reportable segments. There are no internal sales between reportable segments and the Group's financial costs as well as taxes are not allocated to reportable segments.

Operating assets are not monitored on a segment basis.

**Foreign currencies***(i) Transactions in foreign currencies*

Transactions in foreign currencies are translated into the functional currency according to the exchange rates applicable on the transaction date. Monetary assets and liabilities in foreign currencies are translated to the functional currency at the exchange rate applicable on the reporting date. Non-monetary assets and liabilities reported at their historical acquisition values are translated at the exchange rate in effect at the transaction date. Non-monetary assets and liabilities reported at their fair value are converted to the functional currency at the applicable rate at the time of the valuation. Exchange rate differences are then reported in the same manner as other changes in value relating to the asset or liability. Exchange rate differences arising from translation are reported in the income statement, with exchange differences on non-monetary assets and liabilities reported as operating income and expenses and exchange differences on monetary assets and liabilities are reported in the net finance cost.

*(ii) Financial reports of foreign operations*

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

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

Country	Currency	Average exchange rate January–December		Exchange rate on December 31	
		2017	2016	2017	2016
USA	USD	8.54	8.56	8.21	9.06
Euro zone	EUR	9.63	9.47	9.84	9.55
Denmark	DKK	1.30	1.27	1.32	1.28
Brazil	BRL	2.68	2.48	2.48	2.78
Norway	NOK	1.03	1.02	1.00	1.05

### Revenues

Revenue from the sale of goods is recognized when an agreement with the customer is in place, the delivery has occurred and all key risks and benefits have been transferred to the customer. Revenue comprises the fair value of the consideration received or receivable for the sale of goods, net of discounts and anticipated returns at the time of sale.

### Financial income and expenses

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

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

### Cash and cash equivalents

Cash and cash equivalents consist of cash and immediately available balances with banks and similar institutions, as well as short-term liquid investments with a maturity of less than three months, which are exposed to only an insignificant risk of value fluctuations.

### Financial instruments

Financial instruments are valued and reported within the Group in accordance with the rules contained in IAS 39.

Financial instruments reported in the balance sheet include, on the asset side, cash and cash equivalents, trade receivables, shares and other equity instruments, loans receivable, and derivatives. Such instruments on the liabilities and equity side are trade payables, issued liability and equity instruments, loans and derivatives. A financial asset or a financial liability is recognized on the balance sheet when the entity becomes a party to the contractual provisions of the instrument.

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

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

Financial instruments are initially reported at their acquisition value, corresponding to the instruments' fair value with additions for transaction costs for all financial instruments except for those that are included in hedge accounting. Reporting thereafter depends on how they are classified in accordance with the criteria below.

Financial instruments, which are measured at fair value and recognized on the balance sheet, have their fair values established using official market quotations that are quoted publicly on the financial markets. If publicly quoted market prices are not available for a particular financial asset or liability, the fair value is established by discounting all future cash flows at the relevant market interest rate for a similar instrument.

IAS 39 classifies financial instruments into categories. The classification depends on the purpose for which the instruments were acquired and is determined when they are first acquired. The categories are as follows:

### Financial assets and liabilities at fair value via the income statement

Financial assets in this category are held for trading and reported as other current receivables, valued at fair value. Financial liabilities in this category are reported as current financial liabilities. These financial instruments include the Group's derivatives that are not used for hedge accounting. Changes in financial assets and liabilities fair value are recognized in the income statement.

### Loans and receivables

Cash and cash equivalents are included in this category, along with loan receivables and trade receivables, which are carried in the balance sheet at amortized cost.

Trade receivables have an anticipated short duration and are reported at the amount expected to be received after deductions for potential bad debt losses, which are assessed individually. The impairment of trade receivables is reported as operating expenses.

The Group assesses at the end of each reporting period financial assets for indications of impairment. Financial assets are impaired if there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that such loss event has an impact on the estimated future cash flows of the financial assets.

### Available for sale financial assets

The financial assets in this category include financial assets that are not classified in any other category or financial assets that the company initially chose to classify in this category. Assets in this category for which fair value can be reliably measured on an active market are valued continuously at their fair value with changes in value reported in other comprehensive income. At the time when the investments are removed from the balance sheet previously recognized gains and losses reported in other comprehensive are reclassified to profit and loss. Assets in this category which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are valued at cost and regularly tested for impairment. Any impairment losses are recognized as operating expenses. The investment in STG was classified as available for sale financial assets after the partial disposal in 2016. Following the disposal of the remaining shareholding in STG during 2017, Swedish Match does not hold any available for sale financial assets measured at fair value as per December 31, 2017.

### Other financial liabilities

Financial liabilities not held for trading include trade payables, loans and borrowings, and accrued interest. Liabilities are classified as other financial liabilities, which means that they are initially reported at the amount received after deductions for transaction costs. After the date of acquisition, loans are valued at amortized cost in accordance with the effective interest method.

### Derivatives used for hedge accounting

All derivatives, including currency exchange differences, are reported at their fair value on the balance sheet. Changes in the fair value of the hedging instruments, when cash flow hedge accounting is applied, are recognized in other comprehensive income. Hedge accounting is described in greater detail below.

### Derivatives and hedge accounting

Derivative instruments such as forward contracts and swaps are utilized to cover the risk of exchange rate differences and exposure to interest rate risks. Changes in fair value affecting derivative instruments are reported in the income statement based on the reason for the holding. If hedge accounting is not applied, increases or decreases in the value of the derivative are reported as a revenue or expense item under net finance cost. When hedge accounting is used, the ineffective portion is reported in the income statement. In those cases in which derivatives were entered into in order to manage interest rate risk, Swedish Match applies hedge accounting as described in IAS 39.

### Cash flow hedges

When derivatives are used in order to convert debt payments in foreign currency into fixed interest payments in SEK, hedge accounting according to the cash flow hedge technique is applied. Fair value changes arising from the revaluation of derivatives that are part of a cash flow hedge relationship and are considered to be effective as described in IAS 39 are recognized in other comprehensive income and are accumulated in the hedge reserve and any ineffective portion is recognized directly in the income statement. Reclassification from the hedge reserve through other comprehensive income into the income statement is made either when the hedged item affects the income statement or when the hedged item has ceased to exist, for instance when issued debt is repurchased.

## NOTE 1 Continued

**Fair value hedges**

In cases where fixed interest rate obligations are converted into floating interest rate obligations, hedge accounting according to the fair value hedge technique is applied. The fair value changes arising from revaluation of derivatives are recognized directly in profit and loss, and the related value change from the hedged item is similarly recognized in profit and loss thus offsetting the effective portion in the hedge relationship. Swedish Match had no fair value hedges at December 31, 2017.

**Derivatives in foreign currency not used for hedge accounting**

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

**Leased assets**

In the case of leased assets, IAS 17 applies. Leasing of fixed assets, whereby the Group is essentially subject to the same risks and benefits as with direct ownership, is classified as financial lease. However, the Group has entered into certain financial leasing agreements related to company cars, photocopiers, etc. that, based on materiality criteria, are reported as operating leases. Leasing of assets where the lessor essentially retains ownership of the assets is classified as operating leases. Lease charges are expensed straight-line over the lease period.

**Intangible assets***(i) Goodwill*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill that has arisen from the acquisition of associated companies is included in the carrying amount for participations in associated companies. For goodwill in acquisitions made before January 1, 2004, the Group has, with the transition to IFRS, not applied IFRS retroactively, but rather the value reported on this date continues to be the Group's acquisition value, subject to impairment testing. Goodwill is valued at acquisition value less any accumulated impairments. Goodwill is allocated to cash-generating units and is tested annually, or upon indication, for impairment. For more information on the Group's goodwill and impairment testing *Note 12 Intangible assets*.

*(ii) Trademarks and other intangible assets*

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

Research costs for obtaining new technical expertise are expensed continuously as they arise. Development costs in the case of which the research or other knowledge are applied in order to achieve new or improved products or processes are reported as an other intangible asset in the balance sheet, provided the product or process is technically and commercially usable. Other costs are reported in the income statement as they arise. Other intangible assets primarily include software, licenses, etc.

*(iii) Amortization*

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

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

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

**Tangible assets**

Tangible assets are reported in the Group at their acquisition value, less accumulated depreciation and impairments, if applicable. The acquisition value includes the purchase price and costs directly attributable to the asset in order to transport it to its place of use in the appropriate condition for being used in accordance with the purpose of the acquisition. Borrowing costs directly pertaining to acquisition, construction or production of an asset that takes a substantial time to complete are included in the acquisition value.

**Depreciation**

Depreciation is applied straight-line over the asset's estimated economic useful life. Land and construction in progress are not depreciated. The estimated useful life periods are normally:

- buildings, owner-occupied properties 12–40 years
- machinery and other technical equipment 5–12 years
- equipment, tools and fixtures 5–10 years
- major components 3–5 years

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

**Forest plantations**

The Group has forest plantations to secure its raw material needs for match manufacturing. Trees under cultivation owned by the Group are regularly measured at its fair value, which is based on estimated market value after deductions for estimated selling expenses. Changes in fair value are included in the Group's earnings for the period during which they arise.

**Inventory**

Inventories are recognized at the lower of cost and net realizable value on the balance sheet date. Cost is calculated using the first-in, first-out (FIFO), or weighted average cost formula. The cost of finished goods and work in progress includes raw material, direct labor, other direct expenses and production-related overheads, based on a normal production level. Expenses arising from the transport of items to their present location and condition are included in the acquisition value of inventories. Interest expenses are not included in measurement of inventories. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and sale of the item.

The acquisition value for cut timber amounts to the fair value with deductions for estimated selling expenses at the time of felling, determined in accordance with the accounting principles for forest plantations.

**Impairment**

The carrying amounts for the Group's assets, with the exception of financial assets, forest plantations, assets held for sale and disposal groups reported in accordance with IFRS 5, inventories, plan assets used for the financing of employee benefits and deferred tax assets, are tested in accordance with IAS 36 on each reporting date to evaluate whether there is an indication of an impairment. Should such an indication exist, the asset's recoverable amount is calculated.

For goodwill and other intangible assets with an indefinite useful life and intangible assets that are not yet ready for use, their recoverable amount is calculated annually, or when an impairment is indicated. The recoverable amounts, defined as the higher of value in use and fair value less cost of disposal, are normally determined on the basis of value in use, applying discounted cash flow calculations. An impairment charge against the income statement is made when the carrying amount exceeds the recoverable amount. For the purpose of impairment testing, goodwill is allocated to the lowest level of groups of cash generating units based on product groups and geographical markets, at which it is monitored by management. For more information on the Group's goodwill and impairment testing see *Note 12 Intangible assets*.

Reversal of an impairment loss recognized in prior periods for assets other than goodwill are recognized when there is an indication that an impairment loss recognized in prior periods no longer exist or may have decreased. An impairment loss recognized for goodwill is not reversed in subsequent periods.

**Provisions**

A provision is reported in the balance sheet when the Group has an existing legal or informal obligation as a result of an event that has occurred, it is probable that expenditure will be required to settle the obligation and that a reliable estimate of the amount can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting



period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

### Share capital

Buybacks of own shares are reported directly in equity.

### Employee benefits

#### *Short term employee benefits*

Short term employee benefits, such as wages, base salaries, vacation leave, profit-sharing, variable salaries, other benefits, that are expected to be settled within twelve months are recognized as expenses in the income statement when the services are received.

Costs for the profit-sharing program and incentive plans (variable salary) are recognized on ongoing basis during the financial year when the compensation is earned based on an estimated outcome. This means that the cost is accrued during the year. In connection with the annual accounts, a final calculation of the year's cost is performed based on the actual outcome for the year. Any adjustments of previously reported costs for incentive programs are also reported on an ongoing basis when updating the estimated outcome for each program.

#### *Long term employee benefits*

A long term incentive program is introduced by the Board of Directors to certain executives, where the executives may, after a three-year performance period, receive a cash bonus based on the established performance targets for the performance period. Costs for the long term incentive plan are expensed during the service year including social security fees applicable for each country where the executives work. Costs for the incentive plan are reported as personnel costs with corresponding amount reported as a long term deferred compensation liability on the balance sheet. The accrual will be subject to review based on actual performance during the performance period with any changes in the estimate taken through the income statement.

Eligible participants in the program have agreed to purchase Swedish Match shares for the full cash award, net of income tax, and shall retain such shares for a period of not less than two years.

#### *Termination benefits*

The Group recognizes termination benefits when there is an event that gives rise to an obligation to an employee when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

#### *Post-employment benefits*

Within the Group there are a number of defined contribution and defined benefit pension plans, some of them with plan assets in special foundations or similar institutions. The pension plans are financed by payments from the Group Company concerned and its employees. Independent actuaries compute the size of the commitments attached to each plan and reevaluate the pension-plan assumptions each year.

Pension fees for defined contribution plans are reported as an expense in the income statement as incurred.

Pension costs for defined benefit plans are calculated according to the Projected Unit Credit Method in a manner that distributes the cost over the employee's remaining active working life. These costs are valued at the present value of the expected future disbursements using a discount rate that corresponds to the interest rate on first-class corporate bonds or government bonds with a remaining maturity that approximates the particular commitments. Service cost, past service cost and any administration costs relating to post-employment defined benefit plans are classified as operating cost. A finance component calculated based on the discount rate on the net liability or net asset is recognized in the net finance cost. The finance component is recognized as interest expense or interest income net by plan.

For the US defined benefit plans Swedish Match determined the obligation effective discount rate based on the single equivalent rate such that the present value of the plan's obligation cash flows using the single rate equals the present value of those cash flows using the corresponding spot rate along the yield curve.

The effective rates for interest on the defined benefit obligation and service cost are the single equivalent rates that result in the same value when applied to the defined benefit obligation and service cost respectively.

For the larger US post-employment defined benefit plans the same process is applied to the plan's service cost cash flows to determine the effective discount rate associated with the service cost.

For the other plans Swedish Match applies a single weighted average discount rate based on the full eligible population to measure the obligations and pension expense.

In the Swedish Match consolidated balance sheet, the pension commitments for funded plans are reported net after deductions for the fair value of plan assets. Funded plans with net assets, that is, assets in excess of obligations, are reported as non-current receivables. When the calculation leads to a net asset and there is no minimum funding requirement, the carrying value of the net asset is limited to the lower of the surplus in the plan and the present value of future service cost to be borne by the Company. Calculating the discounted value of defined benefit obligations and the fair value of plan assets can give rise to remeasurement gains and losses. These arise when actual outcome deviates from projected outcome or when assumptions earlier made are changed. Measurement differences that arise from the revaluation of the post-employment benefit plans are recognized in other comprehensive income as actuarial gains and losses in the period as they occur.

When there is a difference between how pension costs are determined for a legal entity and the Group, a provision or claim pertaining to a special employer's salary tax based on this difference is recorded. The provision or claim for special employer's salary tax is included in the net present value of the net obligation or net asset. Special employer's salary tax pertains to pension plans in Sweden.

In Sweden, the Group has post-employment defined benefit obligations for salaried personnel which are insured by Alecta. Alecta is the largest Swedish life insurance company and safeguards the majority of the private sector's defined benefit pension plans, i.e., the ITP-plan. Alecta is not able to provide specific information for each customer's obligations and fair value of related assets which is necessary information for Swedish Match in order to account for the obligations in accordance with the rules for defined benefit plans. Therefore, all obligations relating to the Swedish ITP-plan are accounted for as defined contribution plans in accordance with the rules for multi-employer plans.

### Taxes

Income taxes consist of current tax and deferred tax. Income tax is reported in the income statement except when the underlying transactions are reported in other comprehensive income, in which case the related tax effect is also reported in other comprehensive income.

Current tax is tax that shall be paid or is received for the current year, with adjustment of tax rates that are enacted on the reporting date. Adjustments of current tax attributable to earlier periods are also reported here.

Deferred tax is computed using the balance sheet method, using temporary differences between reported and taxable values of assets and liabilities as the starting point. The following temporary differences are not taken into account: temporary differences arising during the first reporting of goodwill, the first reporting of assets and liabilities that are not the result of business combinations and which, at the time of the transaction, do not affect either the reported or the taxable earnings, or temporary differences attributable to shares in subsidiaries and associated companies that are not expected to be reversed in the foreseeable future. Valuation of deferred tax is based on how the carrying amounts for assets or liabilities are expected to be realized or regulated. Deferred tax is calculated by applying tax rates or tax regulations that are enacted or substantively enacted on the reporting date.

Deferred tax assets related to deductible temporary differences and tax loss carry-forwards are only reported to the extent that it is likely that they will be utilized. The value of deferred tax assets is reduced when it is no longer deemed likely that they can be utilized.

### Contingent liabilities

A contingent liability is reported when there is a potential commitment that stems from previous events and whose occurrence is confirmed only by one or more uncertain future events or when there is a commitment that is not reported, as a liability or provision, because it is unlikely that an outflow of resources will be required.

### Earnings per share

The computation of earnings per share is based on net profit for the year attributable to the shareholders of the Parent Company and on the weighted number of shares outstanding during the year. There is no potential dilution effects of

## NOTE 1 Continued

shares as the Company has not issue any options to management and key employees.

### Parent Company accounting principles

The annual report of the Parent Company has been prepared in accordance with the Annual Accounts Act (1995:1554) and the rules of RFR 2 Accounting for Legal Entities issued by the Swedish Financial Reporting Board. RFR 2 states that in the annual report for the legal entity, the Parent Company shall apply all IFRS standards and statements approved by the EU as far as this is possible within the framework of the Annual Accounts Act and with respect to the connection between accounting and taxation. The recommendation states which exceptions and additions may be made in relation to IFRS.

Differences in the accounting principles between the Parent Company and the Group are described below.

#### Subsidiaries and associated companies

Shares in subsidiaries and associated companies are valued at cost. This means that transaction costs relating to acquisitions are included in the acquisition value. In the Group's accounts acquisition-related costs of subsidiaries are expensed when incurred.

#### Employee benefits

The Parent Company applies different principles for computing defined benefit plans than those specified in IAS 19. The Parent Company follows the provisions of the Pension Security Act and the regulations of the Swedish Financial Supervisory Authority, since that is a prerequisite for tax deductibility. The key differences compared with the regulations in IAS 19 are how the discount rate is determined, that computation of the defined benefit obligations occurs according to current salary levels without assumptions regarding future wage increases, and that all actuarial gains and losses are reported in the income statement as they are incurred. Another difference, compared with the regulations in IAS 19, is that no asset is recognized if the plan assets, valued at market value, exceed the defined benefit obligations. However, if the value of the plan assets are less than the defined benefit obligations, a provision is recognized.

#### Taxes

In the Parent Company, untaxed reserves are reported including deferred tax liabilities. However, untaxed reserves are divided into deferred tax liabilities and equity in the consolidated accounts.

#### Group and shareholder contributions

Shareholder contributions are transferred directly to the recipient's equity and are capitalized in shares and participations by the donor, to the extent that an impairment loss is not required. Group contributions, received and granted, are reported in the income statement as appropriations in accordance with RFR 2.

## 2 Critical estimates and judgements

The application of accounting principles according to IFRS involves estimates, judgements and the use of assumptions that affect the reported amounts and accordingly actual results could differ from these estimates.

### Intangible assets

According to IFRS, intangible assets are to be defined as having either definite or indefinite lives. Intangible assets with indefinite useful lives are not amortized but instead tested annually for impairment. Goodwill, according to IFRS, has by definition an indefinite useful life and is therefore not amortized. Acquired trademarks with no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group, is regarded as having an indefinite useful life and therefore not amortized. Acquired trademarks deemed with definite useful lives are in general amortized over a period of 10–20 years. Trademarks and intangible assets that are being amortized are tested for impairment when circumstances indicate that the value of an intangible asset is impaired. The impairment tests include significant judgements made by management, such as assumption of projected future cash flows used in the valuation of the assets. Future events could cause management to conclude that impairment indicators exist and that an intangible asset is impaired. Any resulting impairment loss could have a material impact on the financial condition and result of operations. The Group's intangible assets as of December 31, 2017 amounted to 2,088 MSEK and amortization amounted to 59 MSEK. The amount for goodwill, which is included in intangible assets, amounted to 1,242 MSEK. For further information on impairment test of intangible assets see *Note 12 Intangible assets*.

### Legal disputes

The Company is involved in a number of legal proceedings. Although the Group is convinced that it has a strong position in these disputes, an unfavorable outcome cannot be ruled out, and this could have an adverse effect on the Group's earnings. Further details of the Group's legal disputes are explained in *Note 30 Commitments and contingent liabilities and assets*.

### Post employment defined benefits

Costs and liabilities attributable to post-employment defined benefit plans are recognized in the Group's financial statements based on actuarial calculations. Actuarial calculations are based on assumptions on the discount rate, future mortality, rate of compensation increase etc., often for a long time period. The actual outcome could differ from the assumptions made which can lead to an adjustment to the amount recognized in the balance sheet. The benefit obligations of the Group's defined benefit pension plans and post-employment medical benefit plans as of December 31, 2017 were estimated to exceed the fair value of plan assets by 1,058 MSEK. Further details of the Group's defined benefit plans are presented in *Note 23 Employee benefits*.

## 3 Segment information

Swedish Match reportable segments are based on the internal reporting structure. Swedish Match chief operating decision maker is the Group's President and CEO, who monitors and makes decisions about operating matters based on product areas. The Group's reportable segments are Snus and moist snuff, Other tobacco products, Lights, and Other operations. Snus and moist snuff, Other tobacco products and Lights all represent operating divisions producing, marketing and selling Swedish Match products. Other operations represents corporate functions providing services to the Swedish Match operating divisions.

**Snus and moist snuff** are smokeless tobacco products that are primarily sold in Sweden, Norway and the US and production takes place in Sweden, Denmark and the US. Sweden is the world's largest snus market measured by per capita consumption. The Norwegian market is smaller than the Swedish market but has experienced strong volume growth in recent years. The US is the world's largest moist snuff market measured in number of cans and is about four times larger than the Scandinavian snus market. In Sweden and Norway, Swedish Match has a leading position. In the US, the Group is the third largest player in moist snuff, and has a growing position in Swedish snus. In the US and Sweden, Swedish Match also sells nicotine pouches without tobacco. Some of the best known brands include *General*, *Göteborgs Rapé*, *Kaliber*, *Kronan*, *Ettan*, *Grov* and *Catch* in Sweden, *General*, *G.3*, *The Lab* and *Nick & Johnny* in Norway, and *Longhorn*, *Timber Wolf* and *General* as well as ZYN in the US.

**Other tobacco products** represent cigars and chewing tobacco manufactured and sold on the US market as well as chew bags which are manufactured in Denmark and sold in certain European markets. Swedish Match is a major player in the US mass market cigar market, with such well known brands as *Garcia y Vega*, *Game by Garcia y Vega*, *1882*, *White Owl*, and *Jackpot*, which are manufactured in the Dominican Republic and the US. Swedish Match is the leading producer of chewing tobacco in the US where the product is mainly sold in the southern states of the country and the largest brand is *Red Man*. The market for US chewing tobacco shows a declining trend. The Company's brands for chew bags include *Thunder* and *General Cut*.

**Lights** include manufacturing and distribution of matches and lighters as well as distribution of complementary products. Swedish Match is the market leader in a number of markets for matches. The match brands are mostly local, with leading positions in their home countries. Larger brands include *Solstickan*, *Swan Vestas*, *Tres Estrellas*, *Fiat Lux* and *Redheads*. The Group's main brand for disposable lighters is *Cricket*. Swedish Match's largest market for lighters is Russia. Complementary products include externally sourced razors, batteries and high efficiency light bulbs offered within the Brazilian market under the *Fiat Lux* brand.

**Other operations** represents corporate functions providing services to the Swedish Match operating divisions. Services provided include, among other, regulatory affairs, legal and financial services as well as a distribution function. The distribution function provides services to Swedish Match in Sweden and Norway and to other manufacturers of tobacco products and Over The Counter (OTC) products within the Swedish distribution network. The producing and selling segments are all profit making whereas Other operations is loss making despite significant sales. The revenues of Other operations, which are derived from the distribution function, are not seen as an important performance indicator and are not considered for resource allocation within the Group. The revenues from sales of Swedish Match's products on the Swedish and Norwegian market are reported as part of the product area Snus and moist snuff.

NOTE 3 Continued

The distribution function recognizes revenues equaling the gross invoiced amount from the delivery of third party tobacco products on the Swedish market, but provides no marketing and sales activities related to such products. Swedish Match assumes the credit risk of the invoiced amount and risk of the third party products for a short period from delivery to Swedish Match's warehouse until delivery to retail.

As such, under IAS 18, Swedish Match acted as a principal and recognized the revenue from sales of third party products based on the full price to retail of

which an immaterial part is the distribution fee. The result from Other operations consists of the consolidated result for the corporate functions, of which the distribution function is making a profit from the immaterial distribution fee and the other functions are normally making losses.

There are no internal sales between reportable segments and the Group's financial costs as well as taxes are not allocated to reportable segments. Operating assets are not monitored on a segment basis. Segment reporting for internal purposes is prepared in accordance with IFRS.

Reportable segments	Snus and moist snuff		Other tobacco products		Lights		Other operations		Sub total reportable segments		Share of net profit in STG		Swedish Match Group	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
External sales	5,483	5,277	4,634	4,283	1,291	1,314	4,693	4,676	16,101	15,551	-	-	16,101	15,551
Depreciations, amortizations and write-downs <sup>1)</sup>	-205	-186	-81	-63	-42	-40	-53	-50	-381	-339	-	-	-381	-339
Income from associated companies <sup>2)</sup>	-	-	7	2	1	1	2	1	10	4	-	176	10	180
<b>Operating profit</b>	<b>2,357</b>	<b>2,197</b>	<b>1,776</b>	<b>1,705</b>	<b>211</b>	<b>219</b>	<b>-126</b>	<b>-132</b>	<b>4,218</b>	<b>3,990</b>	<b>-</b>	<b>176</b>	<b>4,218</b>	<b>4,166</b>
<i>Larger one-time items</i>														
Income from defined benefit plan amendment	17	-	53	-	-	-	-	-	69	-	-	-	69	-
Capital gain from sale of land	-	-	-	-	-	-	107	-	107	-	-	-	107	-
Sale of STG shares	-	-	-	-	-	-	-	-	-	-	197	1,208	197	1,208
Gain on fair value of STG shares	-	-	-	-	-	-	-	-	-	-	-	902	-	902
Sale of distribution facility	-	-	-	-	-	-	-	145	-	145	-	-	-	145
<b>Operating profit, including larger one-time items</b>	<b>2,374</b>	<b>2,197</b>	<b>1,828</b>	<b>1,705</b>	<b>211</b>	<b>219</b>	<b>-19</b>	<b>13</b>	<b>4,394</b>	<b>4,134</b>	<b>197</b>	<b>2,285</b>	<b>4,591</b>	<b>6,420</b>
Finance income													156	53
Finance costs													-396	-484
<b>Profit before income tax</b>													<b>4,352</b>	<b>5,988</b>

<sup>1)</sup> Write-downs of tangible assets amounted to 1 MSEK (1) for snus and moist snuff and 1 MSEK (0) for other tobacco products. There were no write-downs of intangible assets.

<sup>2)</sup> The full year 2016 only includes Swedish Match's share of STG's net profit until the date of partial divestment in September, thereafter, the shareholding in STG has been reclassified as a financial asset.

Results from sale of fixed assets	Snus and moist snuff		Other tobacco products		Lights		Other operations		Sub total reportable segments		Share of net profit in STG		Swedish Match Group	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Gains/losses from sale of fixed assets	-1	-0	1	0	1	0	-1	-6	0	-6	-	-	0	-6
<b>Investments</b>														
Property, plant and equipment <sup>1)</sup>	211	247	88	191	47	76	24	23	369	537	-	-	369	537
Intangible assets	0	121	-	-	1	4	7	4	8	129	-	-	8	129

<sup>1)</sup> Investments in property, plant and equipment for Lights operations include replantation of forest.

### Geographic information

In the table below, sales to external customers is attributable to the country of the customers' domicile and fixed assets are based on the country of the entities' domicile.

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

Country	Sales to external customers				Fixed assets <sup>1)</sup>			
	2017		2016		2017		2016	
	MSEK	Percent	MSEK	Percent	MSEK	Percent	MSEK	Percent
Sweden	7,839	49	7,763	50	1,975	40	4,788	69
USA	6,056	38	5,679	37	1,238	25	1,324	19
Rest of the world	2,206	14	2,109	14	1,734	35	856	12
<b>Total</b>	<b>16,101</b>	<b>100</b>	<b>15,551</b>	<b>100</b>	<b>4,947</b>	<b>100</b>	<b>6,968</b>	<b>100</b>

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

### Information about major customers

Swedish Match generates its sales from a diverse customer portfolio and the reliance on individual customers is therefore limited. Sales from the Group's largest single external customer constituted 8 percent of the Group's total sales, whereof 4 percent in Snus and moist snuff and 4 percent in Other operations.

## 4 Business combinations

On August 31, 2017, Swedish Match acquired 100 percent of the shares in V2 Holding ApS ("V2 Tobacco"), including its subsidiaries. The consideration amounted to 732 MDKK and was paid in cash. At the date of the acquisition the DKK/SEK currency rate was 1.28.

V2 Tobacco is a Danish smokeless tobacco company, founded in 2006, with modern and flexible production facilities in Silkeborg, Denmark. V2 Tobacco's portfolio consists of brands including Thunder, Offroad, and Phantom. The company is active in more than 25 markets, with the main markets being Denmark, Sweden, Germany, Switzerland and on-line, and a small but growing presence in certain other European markets. The yearly production volumes include close to 20 million cans of chew bags and snus combined.

V2 Tobacco's modern and adaptable production will provide Swedish Match with improved flexibility and expanded opportunities to adapt to changing consumer desires, helping to move further toward our vision of "a world without cigarettes". One of the two founders will remain with the company, which will be operated for the most part independently from other Swedish Match businesses.

Sales attributable to V2 Tobacco from the day of acquisition on August 31, 2017 amounted to 76 MSEK and is included in the Group's net sales. V2 Tobacco also contributed profit after tax of 32 MSEK over the same period. If V2 Tobacco had been consolidated as of January 1, 2017 the Group's net sales would have included sales from V2 Tobacco of 198 MSEK and profit after tax of 74 MSEK.

### Effects of acquisition

The table below presents the acquired assets and liabilities at fair values recognized in the Group's balance sheet at the acquisition date, including goodwill, and the effect from the acquisition on the Group's cash flow:

	Fair value reported in the Group <sup>1)</sup>
Property, plant and equipment	88
Trademarks and software	343
Non-current financial receivables other non-current assets	0
Inventory	44
Trade receivables and other current assets	32
Total liquid funds	8
Long term liabilities	22
Trade liabilities and other current liabilities	42
Deferred tax liability	79
<b>Net identifiable assets and liabilities</b>	<b>372</b>
Group goodwill	565
<b>Total consideration paid</b>	<b>937</b>
Less acquired liquid funds	8
<b>Net effect on Group's liquid funds from the acquisition</b>	<b>929</b>

<sup>1)</sup> The acquired fair values reported as per December 31, 2017 are based on the final acquisition analysis.

### Goodwill

The goodwill associated to the acquisition mainly pertain to the company's well established positions in a number of fast growing niche tobacco markets, its modern and flexible production, skilled sales-force and business processes. Synergy savings are expected to be limited as the company will mostly operate independently from other Swedish Match businesses. No part of the goodwill value is expected to be deductible for tax purposes.

### Acquisition costs

Acquisition costs amounted to 4 MSEK and mainly pertain to consultancy fees relating to the due diligence process. Acquisition costs are recognized in profit and loss as administration costs.

### Acquired receivables

The value of acquired accounts receivables amounted to 31 MSEK, of which all expected to be collected.

### Contingent liabilities

No contingent liabilities arising from the acquisition have been identified.

## 5 Other operating income and expenses

Other operating income and expenses are specified below:

	2017	2016
Foreign exchanges gains	29	29
Foreign exchanges losses	-30	-35
Result from sale of fixed assets	0	-6
<b>Total</b>	<b>-1</b>	<b>-12</b>

## 6 Personnel

The average number of employees, including temporary employees, in the Parent Company during 2017 was 46, and in the Group 5,413. The corresponding numbers in 2016 were 43 and 5,070, respectively. The increase in the average number of employees primarily relates to the expansion of cigar production in the Dominican Republic.

Group employees by country are summarized in the table below:

	2017		2016	
	Average number of employees	(of whom men, %)	Average number of employees	(of whom men, %)
<b>Parent Company</b>				
Sweden	46	48	43	44
<b>Subsidiaries</b>				
Belgium	2	50	3	33
Brazil	617	71	652	67
Denmark	50	67	-	-
Dominican Republic	2,253	54	1,873	55
Netherlands	98	95	99	95
Norway	45	60	45	67
Philippines	208	69	270	57
Sweden	1,084	61	1,073	61
Switzerland	2	50	2	50
Turkey	15	73	15	73
United States	993	70	995	70
Other countries	-	-	-	-
<b>Total</b>	<b>5,413</b>	<b>62</b>	<b>5,070</b>	<b>62</b>

Board and Management by gender<sup>1)</sup>:

	2017		2016	
	At end of period	(of whom men, %)	At end of period	(of whom men, %)
<b>Parent Company</b>				
Board members	10	60	10	50
President and other management	9	78	8	75
<b>Group</b>				
Board members	113	61	97	58
President and other management	43	79	44	86

<sup>1)</sup> Deputy Board members are not included in the table. Presidents who are part of the Board are included in both categories; Board members and President and other management.

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

	2017			2016		
	Wages, salaries and other remunerations	Social costs <sup>1)</sup>	of which, pension costs <sup>2)</sup>	Wages, salaries and other remunerations	Social costs	of which, pension costs <sup>2)</sup>
Parent Company	95	48	16	89	42	13
Subsidiaries	1,551	664	208	1,461	640	198
<b>Total</b>	<b>1,646</b>	<b>712</b>	<b>224</b>	<b>1,550</b>	<b>682</b>	<b>211</b>

<sup>1)</sup> Social costs as well as the pension costs for 2017 is excluding the gain of 69 MSEK from defined benefit plan amendment.

<sup>2)</sup> Defined as service cost for defined benefit pension plans and contributions for defined contribution pension plans (excluding special employer contributions).

The pension costs for the Parent Company include 7 MSEK (7) attributable to the President and other management consisting on average of seven persons during 2017 and seven persons in 2016.

The pension costs for the subsidiaries include 10 MSEK (9) attributable to Presidents and other management consisting on average of 20 persons during 2017 (18 persons in 2016). The defined benefit obligations related to Presidents and other management as of December 31, 2017 amounted to 93 MSEK (96).

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

	2017			2016		
	Board, President and other management <sup>1)</sup>	of which, variable salaries	Other employees	Board, President and other management <sup>1)</sup>	of which, variable salaries	Other employees
<b>Parent Company</b>						
Sweden	49	20	46	49	21	41
<b>Subsidiaries</b>						
Total in subsidiaries	67	30	1,414	64	28	1,396
<b>Total</b>	<b>116</b>	<b>50</b>	<b>1,460</b>	<b>113</b>	<b>49</b>	<b>1,437</b>

<sup>1)</sup> The Board, President and other management employed by the Parent Company consisted on average of 13 persons (14). Presidents and other management employed by the subsidiaries consisted on average of 20 persons (18), whereof three persons were members of the Group Management Team. For further information about remunerations to Group Management Team members see table below "Remuneration and other benefits to Group Management Team".

During 2017, 46 MSEK (50) was charged to the income statement, relating to a profit-sharing foundation on behalf of Group personnel in Sweden.

### Remuneration to Swedish Match AB's Board of Directors

The Annual General Meeting on May 4, 2017 decided, for the period up to and including April 11, 2018 when the next Annual General Meeting is held that the Chairman of the Board shall receive a fee of 1,840,000 SEK, the deputy Chairman shall receive 870,000 SEK, that other members of the Board elected by the General Meeting shall each receive a fee of 735,000 SEK and as compensation for committee work the Chairmen of the Compensation Committee and the Audit Committee shall receive 260,000 SEK respectively and the other members of these committees shall each receive 130,000 SEK. Members of the Board employed by the Group shall not receive any Directors' fees.

There are no variable salaries or other benefits paid to the Board members for Board work during 2017. In 2017 a study fee in the amount of 57,676 SEK was paid to each of the three employee representatives on the Board, and in the amount of 43,169 SEK to each of the three deputy members. The study fees were paid by each employee representative's respective company. The fees to Board members elected by the Annual General Meeting for Board work during 2017 and 2016 are shown in the tables below:



## NOTE 6 Continued

## Fees to Board members

TSEK	2017			Total remuneration for Board work
	Board fee	Compensation Committee	Audit Committee	
Conny Karlsson Board chairman	1,840	260	–	2,100
Andrew Cripps Board member	870	–	130	1,000
Charles Blixt Board member	735	130	–	865
Jacqueline Hoogerbrugge Board member	735	130	–	865
Pauline Lindvall Board member	735	–	–	735
Wenche Rolfsen Board member	735	–	130	865
Joakim Westh Board member	735	–	260	995
<b>Total</b>	<b>6,385</b>	<b>520</b>	<b>520</b>	<b>7,425</b>

TSEK	2016			Total remuneration for Board work
	Board fee	Compensation Committee	Audit Committee	
Conny Karlsson Board chairman	1,750	250	–	2,000
Andrew Cripps Board member	830	–	125	955
Charles Blixt Board member	700	125	–	825
Jacqueline Hoogerbrugge Board member	700	125	–	825
Wenche Rolfsen Board member	700	–	125	825
Meg Tivéus Board member	700	–	250	950
Joakim Westh Board member	700	–	125	825
<b>Total</b>	<b>6,080</b>	<b>500</b>	<b>625</b>	<b>7,205</b>

## Remuneration and other benefits to Group Management Team

The Annual General Meeting on May 4, 2017 adopted the following principles for remuneration and other terms of employment for the President and other members of the Group management. The members of the Group management are referred to below as the "Group Management Team" or "GMT".

The objective of these principles is to ensure that the Company is able to recruit and retain employees with appropriate skills and qualifications for their respective duties. The remuneration structures shall encourage employees to do their utmost to safeguard shareholders' interests. Swedish Match takes into account both global remuneration practice and the practice of the country of residence of each member of the GMT. The principles apply in relation to members of the GMT appointed after the adoption of the principles, and, in other cases, to the extent permitted under existing agreements.

The total remuneration paid to GMT consists of fixed salary, variable components in the form of annual short term variable remuneration and long term variable remuneration, pension, other benefits and terms related to termination of employment.

- Fixed salary:** The fixed salary for the GMT shall correspond to market rates and shall be based on each member's competence, country of residence, responsibility and performance.
- Variable salary:** The members of the GMT may be entitled to a variable salary in addition to the fixed salary. The variable salary may include both an annual short term program to be paid out in the beginning of the subsequent year depending on the outcome of the program, and a long term program with a performance period which shall not be shorter than three years. The variable salary shall primarily be based on specific, clear, predetermined and measurable financial or operational criteria set by the Board of Directors in relation to the President and by the Compensation Committee in relation to the GMT. The variable salary shall be capped in relation to the fixed salary and reflect the market practice in the country of residence.

The Company shall have the right to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.

- Profit Sharing System:** All employees in Sweden are participating in Swedish Match profit sharing system ("PSS").
- Insurable benefits:** Old age pension, disability and sickness benefits, medical benefits and life insurance benefits shall be designed to reflect the practices in the country where a member of the GMT is resident. New members of the GMT shall preferably be covered by defined contribution plans.
- Severance pay, etc:** A mutual period of notice of six months shall apply. Fixed salary during notice of termination and severance payment (if any) shall not exceed an amount corresponding to 24 months fixed salary. Members of the GMT residing outside Sweden may however be offered notice periods for termination and severance payment that are competitive in the country where the members are resident.
- Other benefits:** Other benefits shall be payable in accordance with local custom. The combined value of these benefits shall constitute a limited value in relation to the total remuneration package and shall correspond to market practice.
- The Board's right to deviate from the principles:** The Board of Directors shall be entitled to deviate from the principles approved by the Annual General Meeting if specific reasons for doing so exist in any individual case.
- Committee work and decisions:** Swedish Match Board of Directors shall have a Compensation Committee. The Committee has the authority to approve salary and other remuneration and employment terms for members of the GMT, except those regarding the President. The Committee shall prepare and present proposals for the Board's decisions on issues relating to salary and other remuneration and employment terms for the President. The Committee is authorized to decide and in relation to the President to propose to the Board of Directors the further details regarding the criteria and targets on which the variable salary is based for the GMT. In addition hereto the Committee is authorized to decide to what extent such criteria and targets have been met both for the GMT and the President.

## Application of principles on variable salary for 2017

In order to ensure alignment with long term shareholder interests, to strengthen the retention element of the variable salary and to promote company shareholding among the Group Management Team ("GMT") the variable salary includes a short term cash incentive and a long term cash incentive program where the short term program includes an incentive for the GMT members to purchase and retain shares in the Company while the long term program includes an obligation to purchase and an undertaking to retain such shares. The performance period for the short term and the long term programs will be one year and three years respectively.

**Short term variable salary:** The maximum short term variable salary for the President and other members of the GMT residing in Sweden shall be 70 and 60 percent respectively of their 2017 base salary. To comply with local market standards the maximum short term incentive for one member residing outside of Sweden shall be 70 percent of the 2017 base salary. Subject to justified exemptions, a 20 percentage point reduction in maximum variable salary shall apply to any GMT member who does not commit to purchase Company shares for at least 50 percent of the received cash award net of income tax and to retain such shares for a period of not less than three years. The minimum level of performance that must be reached to earn any allocation and the maximum level of performance at which payout is capped shall be defined in the beginning of each year by the Compensation Committee in relation to the GMT members other than the President and by the Board of Directors in relation to the President.

**Long term variable salary:** The maximum long term variable salary of the President and other members of the GMT (except as set forth below) shall be either 45 percent of the 2017 base salary or 750,000 SEK depending on the remit of the GMT member. Subject to justified exemptions, all members of the GMT will be obliged to purchase company shares for the full cash award net of income tax and shall retain such shares for a period of not less than two years. One member of GMT residing outside Sweden may participate in an additional long term variable salary program capped at 100 percent of the base salary every second year.

The outcome in the long term variable salary program is dependent on two criteria determined at the beginning of 2017, but measured over the full performance period 2017–2019. The majority of the outcome is based on Group operating profit from product areas 2017–2019 and the remaining part is based on net sales excluding SMD Logistics AB for 2017–2019. For both measures an improvement compared to the 2016 outcomes is required for the measure to yield an outcome in the program.

## Remuneration and other benefits to Group Management Team

TSEK		Fixed salary	Variable salary	Other benefits	Pension costs	Total	Defined benefit obligations
<b>President</b>	<b>2017</b>	<b>6,835</b>	<b>6,704</b>	<b>129</b>	<b>2,554</b>	<b>16,222</b>	-
	2016	6,638	7,703	146	2,462	16,950	-
<b>Other members of Group Management Team</b>	<b>2017</b>	<b>19,726</b>	<b>20,305</b>	<b>2,336</b>	<b>6,574</b>	<b>48,941</b>	<b>32,849</b>
	2016	17,667	19,809	1,425	5,895	44,796	23,407
<b>Total</b>	<b>2017</b>	<b>26,561</b>	<b>27,009</b>	<b>2,465</b>	<b>9,128</b>	<b>65,163</b>	<b>32,849</b>
	2016	24,305	27,513	1,571	8,358	61,746	23,407

## Comments to the table

- At the end of 2017, the Group Management Team consisted of nine persons including the President. The President and five other members of the Group Management Team were employed by the Parent Company and three members were employed by a subsidiary.
- At the end of 2016, the Group Management Team consisted of eight persons including the President. The President and six other members of the Group Management Team were employed by the Parent Company and one member was employed by a subsidiary.
- Variable salary pertains to accruals charged to the consolidated income statement during the year for short term and long term incentive programs.
- Other benefits pertain to company cars, medical insurance, dental plan, life insurance, club membership and other benefits.
- Reported pension costs correspond to service costs for defined benefit pension plans and fees relating to defined contribution pension plans (excluding payroll taxes).
- During 2017 and 2016 no earnings-related compensation (tantiem) has been paid to the Group Management Team.
- During 2017 and 2016 no severance has been paid to the Group Management Team.

## Variable salary

In 2017, the Group Management Team ("GMT") participated in short and long term incentive programs (variable salary) described under the presentation of the principles for remuneration and other terms of employment above.

The performance criterion for the CEO, the heads of corporate functions and the majority of the operating unit Presidents, in the short term incentive program for 2017 was Group operating profit from product areas. Two members of the Group Management had partly the same criterion as the CEO and partly incentive criteria linked to the operating unit.

The performance criteria for the CEO and other members of the GMT for the long term program that started in 2015, for which the performance period ended in 2017, was based on the accumulated Group operating profit from product areas. The threshold and target for maximum payout were 10,120 MSEK and 11,296 MSEK respectively for the total performance period. The Compensation Committee established the total performance outcome for the long term program to 100.0 percent.

In the long term program that started in 2017, the performance criteria for the CEO and other members of the Group Management Team is the accumulated Group operating profit from product areas (weight 75%) and the accumulated Group net sales excluding SMD Logistics AB (weight 25%) for the years 2017 to 2019. There will be no pay-out in relation to this criteria unless there is an improvement in relation to the comparable performance of the Group in

2016. The costs for the long term program are expensed during the fiscal year when the compensation is earned based on an estimated outcome. At year end, a final estimate of the year's cost is calculated based on the actual outcome.

Adjustments of previously reported costs for the long term programs are also reported when the estimated outcome is updated for each program during the performance period. As the long term program extends over three years the final result will be established at the end of the three year performance period.

In addition to the programs noted above, GMT members residing in the US also participated in a three-year local program. This local program extends over three years, with a new program starting every second year. Accordingly, this program can generate an outcome every second year. The maximum outcome of this plan corresponds to a fixed annual salary every second year.

## Pensions

## President

The President's retirement age is 62 and he is covered by the Swedish standard retirement plan for white-collar employees (ITP plan) on salary up to 30 times the income base amount. The President's ITP plan shall be fully funded at age 62. In addition, the Company pays a pension premium amounting to 40 percent of fixed salary above 30 times the income base amount to a defined contribution pension plan.

## Other members of Group Management Team

For members of Group Management Team who are residents in Sweden, the retirement age is 62 or 65. All Swedish members are covered by the Swedish standard retirement plan for white-collar employees (ITP plan) on salary up to 30 times the income base amount. In addition, for some of the members, the Company also pays a pension premium amounting to a maximum of 35 percent of fixed salary above 30 times the income base amount. Two members of the Group Management Team, who reside outside of Sweden, are covered by a defined benefit pension plan with a normal retirement age of 65. Annual variable salary is capped at 50 percent of the fixed salary in the calculation of retirement benefits.

## Other employment conditions

## Severance pay etc.

For the Group Management Team including the President, a mutual period of notice of six months applies and a maximum severance payment of 18 months' fixed salary is payable if the Company terminates the employment contract.

The President and three other members of the Group Management Team are entitled to terminate their employment with the right to receive severance pay in accordance with the above terms if a major organizational change should occur that significantly restricts their position.

## 7 Audit fees

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

Audit fees	2017		2016
	Deloitte	KPMG	
Audit services	7	7	
Audit related services	-	0	
Tax services	1	0	
Other services	1	1	
<b>Total</b>	<b>9</b>	<b>9</b>	

At the Company's Annual General Meeting last year, Deloitte was elected as the Group's auditor for 2017, replacing KPMG.

Other services include legal and financial services related to employee benefits.

## 8 Operating expenses classified by nature

Operating expenses	2017	2016
Personnel expenses	2,288	2,232
Depreciation, amortization and write-downs	381	339
Direct material	2,141	2,061
Finished products from third party manufacturers	4,534	4,516
Other operating expenses	2,550	2,417
<b>Total</b>	<b>11,894</b>	<b>11,565</b>

Expenses for research and development are recognized in the income statement as other operating expenses. During 2017, expenses for research and development amounted to 149 MSEK (126).

## 9 Net finance cost

	2017	2016
Financial income		
Dividends received	107	-
Interest income relating to pension receivables	2	2
Interest income relating to loans and receivables	12	17
Interest income relating to financial instruments carried at fair value via the income statement	36	33
<b>Total</b>	<b>156</b>	<b>53</b>
Financial expenses		
Interest expense relating to pension liabilities	-53	-66
Interest expense relating to other financial liabilities measured at amortized cost	-263	-275
Interest expense relating to financial instruments measured at fair value in hedging relationships	-73	-68
Interest expense relating to financial instruments carried at fair value via the income statement	0	0
Realized fair value from repurchase of bonds including hedging derivatives <sup>1)</sup>	-	-62
Net foreign exchange losses	-3	-2
Other financial expenses	-4	-12
<b>Total</b>	<b>-396</b>	<b>-484</b>
<b>Net finance cost</b>	<b>-240</b>	<b>-431</b>

<sup>1)</sup> Prior year includes 16 MSEK transferred from equity.

## 10 Income tax

The major components of income tax expense/income for the years ended December 31, 2017 and 2016 are:

	2017	2016
Income tax expense reported in the income statement		
<i>Current tax:</i>		
Current tax on earnings for the year	-781	-574
Adjustments in respect of prior years	-10	-7
<b>Total current tax</b>	<b>-791</b>	<b>-581</b>
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	-167	-277
Impact of change in tax rate	6	-7
<b>Total deferred tax</b>	<b>-161</b>	<b>-284</b>
<b>Income tax expense</b>	<b>-952</b>	<b>-865</b>
Income tax reported outside of the income statement		
Deferred tax	-110	54
<b>Total</b>	<b>-110</b>	<b>54</b>
<i>This comprises:</i>		
<b>Tax reported in other comprehensive income</b>		
Actuarial net gains/losses attributable to pensions	-133 <sup>1)</sup>	39
Revaluation of cash flow hedges net gain/loss	23	14
<b>Total tax reported in other comprehensive income</b>	<b>-110</b>	<b>54</b>
<b>Total tax reported outside of the income statement</b>	<b>-110</b>	<b>54</b>

<sup>1)</sup> The deferred tax on cumulative actuarial net losses on defined benefit plans in the US has mainly been impacted by the US tax reform, effective as of 2018, higher pension contributions and an income from an amendment in a US post employment benefit plan.

### NOTE 10 Continued

The deductible and taxable temporary differences in the balance sheet for the years ended December 31, 2017 and 2016 are summarized below:

	2017			2016		
	Deferred tax assets	Deferred tax liabilities	Net balance	Deferred tax assets	Deferred tax liabilities	Net balance
Deferred tax assets and deferred tax liabilities						
Tax loss carry forwards	107	-	107	107	-	107
Trade receivables	1	-	1	2	-	2
Pensions and other post-employment benefits	278 <sup>1)</sup>	-7	285	583	20	563
Employment benefits	98	-	98	141	-	141
Intangible assets	3	303	-300	39	321	-281
Tangible assets	9	189	-180	19	215	-196
Tax allocation reserve	-	333	-333	-	281	-281
Inventory	0	32	-32	1	66	-65
Unremitted earnings in foreign subsidiaries	-	87	-87	-	68	-68
Financial assets	55	-	55	33	-	33
Other	15	-2	17	66	1	65
<b>Total</b>	<b>566</b>	<b>935</b>	<b>-369</b>	<b>992</b>	<b>971</b>	<b>21</b>
Netting of assets and liabilities	-	-	-	-54	-54	-
<b>Net deferred tax balances</b>	<b>566</b>	<b>935</b>	<b>-369</b>	<b>938</b>	<b>917</b>	<b>21</b>

<sup>1)</sup> The reduction of the deferred tax asset balance of pensions and other post-employment benefits is mainly due to the US corporate tax cut effective from 1 January 2018, higher pension contributions and an income from an amendment in a US post employment benefit plan.

The net of deferred tax liabilities and assets for the years ended December 31, 2017 and 2016 are summarized below:

	2017	2016
Movement in deferred tax liabilities, net		
Opening balance, net	-21	-263
Deferred tax in the income statement	161	284
Deferred tax in other comprehensive income	110	-54
Translation differences	119	12
<b>Closing balance, net</b>	<b>369</b>	<b>-21</b>

As of December 31, 2017 the Group's non-recognized deductible temporary differences, excluding tax losses, are in total 8 MSEK (8). The table below shows amounts and expiration of the Group's tax losses carried forward:

Year	Amount
2017	-
2018	-
Subsequent years or no time limitation	486 <sup>1)</sup>
<b>Total tax losses carried forward recognized</b>	<b>486</b>
<b>Total tax losses carried forward not recognized</b>	<b>-</b>

<sup>1)</sup> The Swedish Tax Agency has reviewed and subsequently denied the claimed tax loss. Swedish Match does not agree with the assessment and has appealed the decision.

NOTE 10 Continued

A reconciliation between tax expense and the product of accounting profit multiplied by Sweden's statutory tax rate for the years ended December 31, 2017 and 2016 is as follows:

	2017		2016	
	%	MSEK	%	MSEK
Reconciliation of effective tax rate				
<b>Profit before income tax</b>		<b>4,352</b>		<b>5,988</b>
<b>Swedish statutory tax rate</b>	<b>22.0</b>	<b>957</b>	<b>22.0</b>	<b>1,317</b>
Effect of tax rates in foreign jurisdictions	2.6	111	1.9	112
Results from associated companies reported net of tax	0.0	-2	-0.7	-39 <sup>1)</sup>
Income tax in respect of prior years	0.2	10	0.1	5
Income not subject to tax	-2.9	-128 <sup>2)</sup>	-8.7	-520 <sup>1)</sup>
Expenses not deductible for tax purposes	0.2	10	0.1	8
No benefit available for loss	0.0	1	0.0	2
Effect of enacted change of tax rate	-0.1	-6 <sup>3)</sup>	0.0	0
Other items	0.0	-1	-0.4	-21
<b>Reported effective tax</b>	<b>21.9</b>	<b>952</b>	<b>14.4</b>	<b>865</b>

<sup>1)</sup> The unusually low reported tax rate in 2016 is a result of the tax exempt larger one-time items i.e. the income from sales of STG shares, the revaluation to market value of the remaining part of the STG shares and the sale of a distribution center in Sweden as well as the effect of results from associated companies.

<sup>2)</sup> Larger one-time items in 2017 include capital gain from the sale of shares in STG and a tax exempt capital gain from sale of land.

<sup>3)</sup> The US federal tax cut to 21 percent from January 1, 2018, have a net positive impact of 6 MSEK.

## 11 Earnings per share

Basic and diluted	2017	2016
Profit for the year attributable to equity holders of the Parent <sup>1)</sup>	3,400	5,123
Profit for the year attributable to equity holders of the Parent, excluding income from STG	3,309	4,947
Profit for the year attributable to equity holders of the Parent, excluding income from STG and larger one-time items <sup>2)</sup>	2,952	2,693
<b>Weighted average number of shares outstanding, basic and diluted</b>	<b>180,096,690</b>	<b>187,116,474</b>
Earnings per share, basic and diluted, SEK	<b>2017</b>	<b>2016</b>
Earnings per share <sup>1)</sup>	18.88	27.38
Earnings per share, excluding income from STG	18.37	26.44
Earnings per share, excluding income from STG, and larger one-time items <sup>2)</sup>	16.39	14.39

<sup>1)</sup> Profit for the full year 2016 includes Swedish Match's share of STG's net income until the date of partial divestment in September 2016, thereafter, the shareholding in STG has been reclassified as a financial asset. Full year 2017 includes dividends received from the investment in STG.

<sup>2)</sup> Adjusted for Swedish Match larger one-time items. Larger one-time items 2017 include capital gains from the sale of shares in STG, in two tranches, totaling 197 MSEK (206 MSEK after tax, impacted by currency translation losses), a capital gain from sale of land of 107 MSEK as well as an income from defined benefit plan amendment of 69 MSEK (43 MSEK after tax). Larger one-time items for 2016, all of which were tax exempt, include capital gains from the sale of shares in STG totaling 1,208 MSEK and the sale of a distribution facility of 145 MSEK as well as an unrealized gain of 902 MSEK from revaluing the remaining holding in STG to market value.

The Company has no outstanding options and no dilution of shares.

## 12 Intangible assets

Intangible assets at December 31 comprised the following:

	Goodwill		Trademarks		Other intangible assets <sup>1)</sup>		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>Cost at beginning of year</b>	<b>749</b>	<b>710</b>	<b>1,044</b>	<b>1,016</b>	<b>430</b>	<b>220</b>	<b>2,223</b>	<b>1,946</b>
Purchases/investments <sup>2)</sup>	-	-	-	-	15	207	15	207
Acquisitions	565	-	343	-	-	-	908	-
Sales/Disposals	-	-	-	-	-2	-	-2	-
Reclassifications <sup>3)</sup>	-	-	-	-	5	2	5	2
Translation differences, etc.	-32	39	-26	29	0	0	-58	68
<b>Cost at end of year</b>	<b>1,281</b>	<b>749</b>	<b>1,361</b>	<b>1,044</b>	<b>447</b>	<b>430</b>	<b>3,089</b>	<b>2,223</b>
<b>Accumulated amortization and write-down at beginning of year</b>	<b>-39</b>	<b>-39</b>	<b>-781</b>	<b>-742</b>	<b>-153</b>	<b>-116</b>	<b>-973</b>	<b>-898</b>
Amortization for the year	-	-	-18	-16	-42	-37	-59	-53
Sales/Disposals	-	-	-	-	2	-	2	-
Translation differences, etc.	-	-	29	-22	0	0	29	-22
<b>Accumulated amortization and write-down at end of year</b>	<b>-39</b>	<b>-39</b>	<b>-769</b>	<b>-781</b>	<b>-193</b>	<b>-153</b>	<b>-1,001</b>	<b>-973</b>
<b>Net carrying value at end of year</b>	<b>1,242</b>	<b>710</b>	<b>592</b>	<b>264</b>	<b>254</b>	<b>277</b>	<b>2,088</b>	<b>1,250</b>

<sup>1)</sup> Other intangible assets mainly consist of software, licenses and patent rights.

<sup>2)</sup> Purchases/investments in 2017 include non-cash investments related to the acquisition of patent rights for a nicotine pouch product without tobacco.

<sup>3)</sup> During 2017, 5 MSEK was reclassified from property, plant and equipment (construction in progress) to other intangible assets (software).

## NOTE 12 Continued

No borrowing costs have been capitalized during 2017 for intangible assets.

The Group's intangible assets are deemed to have definite useful lives, except for goodwill, and the acquired trademark *Thunder* in V2 Tobacco, which according to the IFRS definition has an indefinite useful life.

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

	Amortization	
	2017	2016
Cost of goods sold	-1	0
Selling expenses	-19	-19
Administrative expenses	-39	-34
<b>Total</b>	<b>-59</b>	<b>-53</b>

**Goodwill**

The Group's goodwill is tested for impairment annually and whenever there is an indication of impairment. For the purpose of impairment testing, goodwill is allocated to the lowest level of groups of cash generating units based on product groups and geographical markets, at which it is monitored by management. The carrying values of these groups of cash generating units are compared to their recoverable amount, determined on the basis of value in use. If the carrying value is higher, the difference is charged to the income statement.

The value in use of a cash generating unit is calculated using a valuation model based on discounted expected future cash flows. The cash flows are explicitly forecasted for the coming five years, after which a terminal growth factor is applied to calculate the terminal value. The cash flows used in the valuation model are projected considering historical performance and forecasts, and are based on what management believes are reasonable assumptions. These assumptions may be subject to adjustments if circumstances change or new facts become known. The key assumptions in the calculation are sales growth, EBITDA margin, working capital and investment needs, discount rate and the

terminal growth rate of free cash flow. The discount rates are calculated by weighting cost of debt and cost of equity with Swedish Match's target debt ratio. The calculation of cost of debt is based on local risk-free interest rates with a country specific risk premium for applicable markets, local tax rates and a Swedish Match specific interest margin. Cost of equity is calculated using the Capital Asset Pricing Model, applying average beta for the industry adjusted for capital structure, local risk-free interest rates, and an equity risk premium. As local interest rates are included in the calculation of discount rates, the value in use calculations are sensitive to changes in market conditions.

When goodwill was tested for impairment in 2017, the value in use exceeded the carrying values for all cash generating units. To calculate the cash flows after the explicit forecasting period, a terminal growth rate of 2 percent (1) is applied for the Other tobacco products operations, 2 percent (2) for Lights operations and 1 percent (1) for the US moist snuff operations. When performing sensitivity analysis by increasing the discount rate by 2 percentage points or decreasing the terminal growth rate by 2 percentage points, the values in use were larger than the carrying values for all cash generating units. Applied changes in key assumptions show no indications of impairment.

Cash generating units	Goodwill and trademarks with indefinite life in cash generating units			
	Pre-tax WACC 2017, % <sup>2)</sup>	2017	Pre-tax WACC 2016, % <sup>2)</sup>	2016
Other tobacco products operations <sup>1)</sup>	8.3	1,317	6.8	462
Lights operations	13.2	170	12.7	170
US moist snuff operations	10.0	78	8.3	78
<b>Total</b>		<b>1,565</b>		<b>710</b>

<sup>1)</sup> 2017 includes trademarks with indefinite useful life of 323 MSEK.  
<sup>2)</sup> The discount rates show the WACC adjusted for cash-flow from tax.

**13 Property, plant and equipment**

Property, plant and equipment at December 31, comprised the following:

	Buildings and land <sup>1)</sup>		Plant and machinery		Equipment, tools and fixtures		Construction in progress		Total <sup>2)</sup>	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<b>Cost at beginning of year</b>	<b>1,309</b>	<b>1,252</b>	<b>3,896</b>	<b>3,507</b>	<b>816</b>	<b>729</b>	<b>263</b>	<b>163</b>	<b>6,283</b>	<b>5,651</b>
Purchases/investments	5	37	103	74	74	100	174	310	355	521
Acquisitions	38	-	49	-	1	-	-	-	88	-
Sales/disposals	-4	-74	-59	-39	-24	-35	0	-1	-87	-150
Reclassifications <sup>3)</sup>	25	37	219	180	1	2	-250	-221	-5	-2
Translation differences, etc.	-45	57	-190	175	-10	20	-11	11	-257	263
<b>Cost at end of year</b>	<b>1,328</b>	<b>1,309</b>	<b>4,017</b>	<b>3,896</b>	<b>857</b>	<b>816</b>	<b>175</b>	<b>263</b>	<b>6,377</b>	<b>6,283</b>
<b>Accumulated depreciation and write-down at beginning of year</b>	<b>-538</b>	<b>-496</b>	<b>-2,860</b>	<b>-2,589</b>	<b>-491</b>	<b>-436</b>	<b>0</b>	<b>-1</b>	<b>-3,891</b>	<b>-3,521</b>
Depreciation for the year	-38	-36	-201	-176	-81	-72	-	-	-320	-285
Write-down for the year	0	-	-1	-1	-1	0	-	-	-2	-1
Sales/disposals	-	19	59	39	22	33	-	-	81	91
Translation differences, etc.	27	-26	137	-133	8	-16	0	0	172	-175
<b>Accumulated depreciation and write-down at end of year</b>	<b>-549</b>	<b>-538</b>	<b>-2,867</b>	<b>-2,860</b>	<b>-543</b>	<b>-491</b>	<b>0</b>	<b>0</b>	<b>-3,959</b>	<b>-3,891</b>
<b>Net carrying value at end of year</b>	<b>779</b>	<b>770</b>	<b>1,150</b>	<b>1,036</b>	<b>315</b>	<b>324</b>	<b>175</b>	<b>262</b>	<b>2,418</b>	<b>2,392</b>

<sup>1)</sup> Buildings and land include land and land improvements at a book value of 99 MSEK (108).

<sup>2)</sup> Total property, plant and equipment exclude forest plantation.

<sup>3)</sup> Reclassifications include property, plant and equipment reclassified from construction in progress. During 2017, 5 MSEK was reclassified from construction in process to software.

Construction in progress primarily relates to investments in production facilities.

No borrowing costs have been capitalized during 2017 for property, plant and equipment.

Depreciation and write-downs for the year totaling 322 MSEK (286) was charged to cost of goods sold in the income statement in an amount of 239 MSEK (210), to administrative expenses of 24 MSEK (25), and to selling expenses of 58 MSEK (51).



## 14 Forest plantations

Forest plantations at December 31 comprised the following:

Forest plantations	2017	2016
<b>Carrying value at beginning of year</b>	<b>150</b>	<b>110</b>
Purchases/investments/new planting	14	16
Transfer to inventories	-8	-8
Translation differences, etc.	-17	33
<b>Carrying value at end of year</b>	<b>139</b>	<b>150</b>

The Group's forest plantations comprise poplar and pine forests in Brazil with a total area of 5,890 hectares at December 31, 2017. The age of the trees varies from newly planted seedlings up to 30 years. The forests are held to ensure the supply of wood for parts in the product area Lights.

Timber felled during 2017 had an estimated value of 8 MSEK at the time of felling, and made up 89,028 cubic meters of wood.

The forest plantations are regularly measured at its fair value of the forest and is based on estimated volumes and prevailing market prices for timber, less estimated point-of-sale costs. Volume estimates for each age category and type of wood are based on measurements of the height and diameter of trees and the number of trees per unit of area, and an assessment of the fair value of the forest is made based on estimated volumes and market prices of comparable timber less cost to sell.

Replanting is required following harvesting of the Group's pine forest. Based on normal annual harvesting, this involves replanting approximately 150 hectares annually. During 2017, 129 hectares (156) pine forest was replanted. At present, there is no corresponding requirement for poplar.

Forest plantations may be damaged by noxious insects, diseases and fire. To reduce these risks, a program for damage and fire prevention is in place.

## 15 Investments in associated companies

The Group's investments in associated companies are accounted for in accordance with the equity method.

### Investments in associated companies

Scandinavian Tobacco Group (STG) is a world leading manufacturer of cigars and pipe tobacco. Through February 9, 2016, Swedish Match owned 49 percent (49 million shares) of STG. On February 10, 2016, STG was listed on Nasdaq Copenhagen and in conjunction with the listing Swedish Match sold 17.9 million shares, and divested another 13 million shares on September 7, 2016. Subsequently during 2017, Swedish Match divested the remaining 18.1 million shares.

Swedish Match's share of net profit in STG was reported on a one quarter lag in 2016. For the full year 2016, Swedish Match's reported share of STG's net profit amounted to 176 MSEK. Following the second partial divestment of STG in September 2016, the shareholding was reclassified to a financial asset such that the third quarter 2016 only included two thirds of Swedish Match's share of STG's net profit for the second quarter. Following the reclassification,

Swedish Match has ceased to recognize its share of net profit in STG in the profit and loss. Changes in the fair value of the investment in STG are recognized as a component of Other comprehensive income until realized. The fourth quarter 2016 and subsequent reporting periods do not include any net profit in STG due to the reclassification to a financial asset. Following the reclassification, dividends received from STG are recognized as a finance income in the Group's income statement. During 2017 total dividends received from STG amounted to 107 MSEK recognized as a financial income. In 2016, Swedish Match received a dividend from STG of 191 MSEK reported in accordance with the equity method in line with the STG investment reported as an associated company in the Group's balance sheet.

During the fourth quarter of 2017, Swedish Match divested its shareholding of 40 percent in Arnold André GmbH & Co. KG, a cigar company in Germany.

Other associated companies of Swedish Match, which are not considered material, are a 32 percent ownership interest in Malaysian Match Co. SDN. BHD. and a 25 percent interest in EB Road Cargo AB. Malaysian Match Co. SDN. BHD. is a Malaysian sales distributor for primarily matches and lighters in the Asia region. EB Road Cargo AB is a Swedish company which through its subsidiaries provides road transportation services with SMD Logistics AB as a major client.

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

Associates	2017	2016
<b>Carrying value at beginning of year</b>	<b>122</b>	<b>4,845</b>
Investments in associated companies	-	5
Share of net profit/loss in associated companies	10	180
Share of other comprehensive income in associated companies	-	-22
Dividends from associated companies	0	-192
Write-down of investment <sup>1)</sup>	-	-5
Divestment of 40 percent ownership in Arnold André	-111	-
Divestment of STG shares	-	-3,024
Reclassification of STG shares to a financial asset	-	-1,796
Translation differences, etc	2	132
<b>Carrying value at end of year</b>	<b>22</b>	<b>122</b>

<sup>1)</sup> Write-down of investment relates to EB Road Cargo AB.

The tables below specify the summary financial position of the associated companies and the corresponding carrying values, with the STG investment reflecting figures up until the date of the partial divestment in September 2016, when the shareholding in STG was reclassified as a financial asset. Operating results of other associated companies are recognized with a time lag of one month, based on the investee's internal financial reporting. Adjustments resulting from annual audits of investee results are thereby reflected in the subsequent reporting periods in Swedish Match consolidated financial statements. The 40 percent shareholding in Arnold André was sold in October 2017 and thereby, only profit and loss up until the third quarter is included in the table below.

## NOTE 15 Continued

	Scandinavian Tobacco Group A/S		Other associated companies		Total	
	2017	2016	2017	2016	2017	2016
Sales	-	5,594	1,141	1,147	1,141	6,741
Operating profit	-	804	34	17	34	821
Net profit	-	574	25	11	25	585
Other comprehensive income	-	-73	-	0	-	-73
<b>Total comprehensive income</b>	-	<b>500</b>	<b>25</b>	<b>11</b>	<b>25</b>	<b>511</b>
Total current assets	-	-	123	584	123	584
Total fixed assets	-	-	73	139	73	139
Total current liabilities	-	-	74	292	74	292
Total non-current liabilities	-	-	68	150	68	150
<b>Equity</b>	-	-	<b>53</b>	<b>281</b>	<b>53</b>	<b>281</b>
<b>Equity interest</b>	-	-	<b>17</b>	<b>117</b>	<b>17</b>	<b>117</b>
Goodwill	-	-	5	5	5	5
<b>Carrying value at end of year</b>	-	-	<b>22</b>	<b>122</b>	<b>22</b>	<b>122</b>

**Transactions with associated companies**

In the normal course of business, Swedish Match conducts various transactions with associated companies. Transactions are conducted at an arms-length basis. Receivables from these companies totaled 13 MSEK (25). Total sales to associated companies amounted to 66 MSEK (142). Payables to these companies totaled 2 MSEK (2). Total purchases from associated companies amounted to 3 MSEK (58).

**16 Other non-current financial assets**

During 2017, the total holding of shares in STG was divested. Non-current financial assets in 2016 pertains to the investment in STG shares. As of December 2016, Swedish Match owned 18,069,906 shares in STG, corresponding to 2,761 MSEK and approximately 18.1 percent of the total number of shares in STG. Following the partial disposal of STG shares in September 2016, Swedish Match had no longer any significant influence in STG, whereby the investment was reclassified from an associated company to a financial asset. At the time of the reclassification, the STG shares were remeasured at fair value, with an unrealized remeasurement gain of 902 MSEK recognized in the consolidated income statement in third quarter of 2016. The total capital gain from the divestments of STG shares amounted to 197 MSEK (1,208). The capital gains including the fair value remeasurement gain have been recognized as larger one-time items in the Group's income statement.

**17 Other non-current receivables and other current receivables**

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

	2017	2016
Non-current receivables		
Non-current financial receivables	613	674
Net pension assets	88	90
Other non-current receivables	10	10
<b>Total</b>	<b>711</b>	<b>774</b>

Non-current financial receivables include foreign exchange derivatives used to hedge the bond loans denominated in foreign currencies amounting 342 MSEK (391). Most of the remaining value of the non-current financial receivables pertains to life insurance policies in a non-Swedish subsidiary.

Other current receivables at December 31 comprised the following items:

	2017	2016
Other current receivables		
Current financial receivables <sup>1)</sup>	13	44
VAT receivables	19	16
Other current receivables	161	157
<b>Total</b>	<b>193</b>	<b>216</b>

<sup>1)</sup> Current financial receivables in prior year included foreign exchange derivatives used to hedge the bond loans denominated in foreign currencies amounted to 33 MSEK.

The credit risk of the Group's non-current and current receivables is deemed to be low.

**18 Inventories**

Inventories at December 31, net of allowances for obsolescence, with separate disclosure of amounts expected to be recovered within twelve months and after more than twelve months, comprised the following items:

	2017			2016		
	Current	Non-current	Total	Current	Non-current	Total
Inventories						
Finished goods	703	-	703	576	-	576
Work in progress	40	-	40	44	-	44
Leaf tobacco	491	126	617	470	147	617
Other input materials and consumables	283	-	283	304	-	304
<b>Total</b>	<b>1,516</b>	<b>126</b>	<b>1,642</b>	<b>1,395</b>	<b>147</b>	<b>1,541</b>

During 2017, 23 MSEK (19) of inventory write-downs have been expensed.

Other input materials and consumables include harvested trees which are reported at fair value less estimated point-of-sale cost. Harvested trees constitute an immaterial part of other input materials.

## 19 Trade receivables

Trade receivables, net, at December 31 comprised the following:

Trade receivables	2017	2016
Trade receivables	1,559	1,563
Less provision for impairment of trade receivables	-24	-24
<b>Net total</b>	<b>1,536</b>	<b>1,539</b>

Movements on the group provision for impairment of trade receivables are as follows:

Trade receivable provision	2017	2016
<b>Carrying value at beginning of year</b>	<b>-24</b>	<b>-21</b>
Provision	-6	-4
Recovery	4	4
Write-off	1	1
Translation differences, other deductions or additions, etc.	2	-4
<b>Carrying value at end of year</b>	<b>-24</b>	<b>-24</b>

As of December 2017, trade receivables of 53 MSEK (67) were past due but not impaired. The aging of these trade receivables is as follows:

Aging of trade receivables	2017	2016
Current	1,483	1,472
Overdue < 31 days	31	46
Overdue 31–60 days	10	8
Overdue > 60 days	11	13
<b>Total</b>	<b>1,536</b>	<b>1,539</b>

Swedish Match does not generally hold collateral against trade receivables. The ten largest customers represent 38 percent (38) of total net sales. Trade receivables are generally held in domestic currencies, which have an insignificant impact on the foreign currency risk. The provision for account receivables mainly pertain to doubtful customer account receivables that have the potential risk for not being collected. The credit risk of the Group's trade receivables are deemed to be low. For more information see *Note 27 Financial instruments and financial risks*.

## 20 Cash and cash equivalents

Cash and cash equivalents	2017	2016
Cash and bank	1,069	731
Other current investments	2,930	2,633
<b>Total</b>	<b>3,998</b>	<b>3,364</b>

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

## 21 Equity

### Objectives, policies and processes for managing capital

The Board of Directors of Swedish Match has concluded that in view of the good and stable prospects for the business the financial policy is that the Group will strive to maintain a net debt that does not exceed three times EBITA. Excess funds shall be returned to shareholders through dividends and share repurchases. Swedish Match has the ambition to continuously grow dividend per share with a payout ratio normally within 40–60 percent, subject to adjustment for larger one-time items. The Board of Directors proposes a total dividend of 16.60 SEK per share consisting of an increased ordinary dividend per share of 9.20 SEK and a special dividend per share of 7.40 SEK. The proposed ordinary dividend of 9.20 SEK per share is equivalent to 56 percent of the earnings per share for the year, excluding income from STG and larger one-time items. The special dividend of 7.40 SEK per share is proposed in accordance with Swedish Match's financial policy of returning excess cash to its shareholders and follows the sale of the remaining shareholding in STG in November 2017. The proposed ordinary and special dividend together amounts to 2,920 MSEK based on the 175.9 million shares outstanding at the end of the year. Dividend for 2016, paid in 2017, amounted to 2,908 MSEK, consisting of an ordinary dividend of 1,545 MSEK corresponding to 8.50 SEK per share, which is equivalent to 59 percent of the earnings per share for 2016, excluding income from STG and larger one-time items. In conjunction with the ordinary dividend a special dividend of 7.50 SEK per share was paid out in 2017 of 1,363 MSEK following the partial divestment of STG in January.

Number of shares held in treasury and cumulative repurchases of own shares included in retained earnings are detailed below:

	Number of shares (thousands)		Cumulative effect on equity (MSEK)	
	2017	2016	2017	2016
<b>Balance at beginning of year</b>	<b>4,077</b>	<b>7,584</b>	<b>-26,338</b>	<b>-25,089</b>
Repurchase of own shares during the year	8,762	4,243	-2,590	-1,249
Allocated to retained earnings by cancellation of treasury shares	-6,950	-7,750	14	15
Bonus issue	-	-	-14	-15
<b>Balance at end of year</b>	<b>5,889</b>	<b>4,077</b>	<b>-28,928</b>	<b>-26,338</b>

Since the buyback programs started in June 2000 the total number of share repurchased amounts to 242.7 million shares and the total number of cancellation of shares amounts to 222.1 million shares.

The Annual General Meeting on May 4, 2017 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 7 million shares held in treasury. The total number of outstanding shares of the Company, including treasury shares, after the cancellations, is 181.8 million shares.

During the year 8.8 million shares were repurchased for 2,590 MSEK at an average price of 295.62 SEK. As at December 31, 2017 Swedish Match held 5.9 million shares in treasury, corresponding to 3.24 percent of the total number of shares. The number of shares outstanding, net after repurchase as per year end amounted to 175.9 million.

## NOTE 21 Continued

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

2016	Hedge reserve	Translation reserve	Fair value reserve	Non-controlling interest
<b>Balance at beginning of year</b>	<b>-89</b>	<b>926</b>	<b>-</b>	<b>1</b>
Profit for the year pertaining to non-controlling interest	-	-	-	0
Translation differences related to foreign operations for the year	-	558	-	0
Translation differences included in profit and loss	-	-143	-	-
Effective portion of changes in fair value cash flow hedges	-81	-	-	-
Changes in fair value cash flow hedges included in profit and loss	16	-	-	-
Share of reserves in associated companies, net of taxes <sup>1)</sup>	-7	-14	-	-
Available-for-sale financial assets-net change in fair value	-	-	310	-
Share of reserves in associated companies, net of taxes, included in profit and loss <sup>1)</sup>	-	-509	-	-
Income tax relating to components of other comprehensive income <sup>2)</sup>	14	-	-	-
<b>Balance at end of year</b>	<b>-147</b>	<b>819</b>	<b>310</b>	<b>1</b>

2017	Hedge reserve	Translation reserve	Fair value reserve	Non-controlling interest
<b>Balance at beginning of year</b>	<b>-147</b>	<b>819</b>	<b>310</b>	<b>1</b>
Profit for the year pertaining to non-controlling interest	-	-	-	0
Translation differences related to foreign operations for the year	-	-301	-	0
Translation differences included in profit and loss	-	-6	-	-
Effective portion of changes in fair value cash flow hedges	-126	-	-	-
Changes in fair value cash flow hedges included in profit and loss	22	-	-	-
Available-for-sale financial assets-net change in fair value	-	-	-80	-
Available-for-sale financial assets included in profit and loss	-	-	-230	-
Income tax relating to components of other comprehensive income <sup>2)</sup>	23	-	-	-
<b>Balance at end of year</b>	<b>-228</b>	<b>512</b>	<b>0</b>	<b>1</b>

<sup>1)</sup> Share of reserves in associates includes Swedish Match share of other comprehensive income reported in the consolidated financial reports of associated companies, such as fair value adjustments on financial instruments and related income taxes and translation effects that arise from the transaction of the financial reports of foreign subsidiaries that have prepared their financial statements in a different currency from the Parent company in the associates of Swedish Match.

<sup>2)</sup> For further details on tax components relating to the various other comprehensive income items, see Note 10, Income tax.

**Hedge reserve**

The hedge reserve includes the accumulated effective portion of changes in fair value of cashflow hedges attributable to interest rate hedges.

**Translation reserve**

The translation reserve includes all exchange rate differences that arise in translation of the financial reports of foreign operations that have prepared their financial statements in a different currency from that which is used to present the consolidated financial reports. The Parent Company and the Group present their reports in Swedish krona (SEK).

**Fair value reserve**

The fair value reserve includes the cumulative net change in the fair value of available-for-sale financial assets until the assets are derecognised or impaired.

**22 Interest bearing liabilities**

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

Year	2017	2016
2018	-	1,249
2019	1,183	1,154
2020	799	799
2021	498	497
2022	1,394	287
2023 and later	6,402	4,184
<b>Total</b>	<b>10,277</b>	<b>8,169</b>

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

	2017	2016
Current interest-bearing liabilities		
Current portion of non-current loans	1,248	2,042
Bank overdraft facilities utilized	4	5
<b>Total</b>	<b>1,253</b>	<b>2,047</b>

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

**23 Employee benefits****Post-employment employee benefits**

The Group has defined benefit pension plans in a number of subsidiaries, through which the employees are entitled to post-employment benefits based on their pensionable income and the number of service years.

Obligations related to post-employment employee benefits as of December 31 are reported in the balance sheet under the following balance sheet items:

	2017	2016
Post-employment defined benefits		
Defined benefit plans, net liabilities	267	412
Post-employment medical benefits, net liabilities	870	1,121
Other long term employee benefits, net liabilities	9	9
<b>Provision for pensions and similar obligations</b>	<b>1,146</b>	<b>1,542</b>
Defined benefit plans, net assets	-88	-90
<b>Included in Other non-current receivables</b>	<b>-88</b>	<b>-90</b>
<b>Net post-employment liability</b>	<b>1,058</b>	<b>1,452</b>

The net defined pension and benefit liability decreased during the year, mainly as a result of higher pension contributions, an income from an amendment in an US plan and net positive actuarial remeasurements with higher return on plan assets partly offset by negative remeasurement effects on lower discount rates. In addition the net pension benefit obligation was also affected by positive currency effects.

During 2017, additional contributions of 37 MSEK and another 141 MSEK were made to the US pension plan and to the US post medical plan, respectively. During the year, the US post medical plans were also affected by a plan amendment resulting in an income of 69 MSEK due to reduced aggregated benefits under the amended terms.

**Overview of the Group's post-employment defined benefit plans**

Post-employment defined benefit plans in US, together with the pension plan in UK, represents more than 90 percent of the Group's total defined benefit obligation.

In the US, Swedish Match provides two qualified pension plans, a post-retirement medical plan, a supplemental pension plan covering certain executives, and a long term disability plan. The qualified pension plans are funded, where benefit payments are made from a trustee-administered fund. The other plans are generally unfunded, where the Company pays benefits as they come due, although the Company did establish two Voluntary Employee Beneficiary Association (VEBA) trusts for certain of its obligations under the US post retirement medical plan in 2017.

The largest qualified pension plan covers non-collectively bargained US employees and was closed for new entrants beginning in 2008. The plan is a final average pay pension plan, which provides benefits to members in the form

of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement.

The second qualified pension plan covers collectively bargained US employees and is open for new entrants. The plan is a dollars times service pension plan, which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and dollar multipliers specified by the plan. Normal retirement age for the US qualified pensions is 65 years and beneficiaries do not receive inflationary increases. Plan assets are held in trusts and there are pension plan fiduciaries as required under US pension law. The fiduciaries, jointly with Swedish Match, are responsible for the governance of the plans.

Plan assets are invested in accordance with the plans' Statement of Investment Guidelines. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The asset allocation strategy is to gradually move toward a higher fixed income allocation, following an interest rate matching strategy specifically referred to as a Liability Responsive Asset Allocation. As the funded status improves, the allocation to liability-oriented long duration bonds, or hedging assets, will increase, with a corresponding decrease to return-seeking assets, including equities, real estate, and hedge funds.

Actuarial valuations are completed annually for the US plans, and historically contributions have been made to satisfy minimum funding requirements and any additional discretionary amounts to avoid benefit restrictions, and to maintain a funded ratio of at least 80 percent under US pension law.

The US post-retirement medical plan offers heavily subsidized health care coverage for employees and their beneficiaries after retirement. For non-collectively bargained employees, the plan was closed for new entrants beginning in 2008. The plan is still open for collectively bargained new entrants. In addition to retiree medical benefits, retiree life insurance benefits are also provided under the plan.

In the UK, Swedish Match provides a funded pension plan for former employees of Swedish Match UK Limited, providing benefits based on final pay. Over two-thirds of the liabilities relate to retired members already in receipt of pensions, and their dependents, with the balance relating to members with deferred pensions. There are no active members accruing further benefits, and no new members are able to join.

The plan is set up as a separate legal entity, and a separate trustee company, Swedish Match UK Pension Trustee Limited, is responsible for its governance. One-third of the directors of the trustee company are nominated by the membership and two-thirds are nominated by the employer. The strategic asset allocation is determined from time to time by the directors of the trustee company, after consulting with Swedish Match, based on professional advice and having regard to the level of risk.

At the end of 2011, the trustee undertook a significant exercise to reduce risk by purchasing a bulk annuity contract covering all of the liabilities for pensions in payment at that time. The trustee is currently following a largely growth-based strategy for the remaining assets but is actively looking for opportunities to de-risk further as and when the funding position allows.

The other pension plans within the Group are final salary pension plans that provide benefits to members in the form of a guaranteed level of pension payable for life, or in a lump-sum at the date of the retirement. The majority of benefit payments are from trustee-administered funds. Also, there are a number of unfunded plans where the Group meets the benefit payment obligation as it falls due. Plan assets held in trusts are governed by local regulations and practices in each country, as is the nature of relationship between Swedish Match and the trustees (or equivalent) and their composition. Responsibility for governance of the plans, including investment decisions and contribution schedules, lies jointly with Swedish Match and the board of trustees. The board of trustees is composed of representatives of Swedish Match and plan participants in accordance with the plans' regulations.

The table below specifies the net liability for defined benefit post-employment obligations:

	Defined benefit pension plans		Post-employment medical benefits	
	2017	2016	2017	2016
Post-employment defined benefits				
Present value of funded obligations	3,070	3,179	1,006	-
Fair value of plan assets	-3,035	-3,012	-135	-
<b>Deficit(+), net</b>	<b>35</b>	<b>167</b>	<b>870</b>	<b>-</b>
Present value of unfunded obligations	145	155	-	1,121
<b>Net liability(+) in the balance sheet</b>	<b>179</b>	<b>322</b>	<b>-</b>	<b>1,121</b>
<b>Amounts in the balance sheet</b>				
Liabilities	267	412	870	1,121
Assets	-88	-90	-	-
<b>Net liability(+) in the balance sheet</b>	<b>179</b>	<b>322</b>	<b>870</b>	<b>1,121</b>

### Actuarial assumptions

Provisions for the Group's post-employment defined benefit plans are reported based on actuarial valuations. Actuarial valuations are calculated based on actuarial assumptions for determining the discounted net present value of the obligations. Significant actuarial assumptions used are discount rate, future salary growth rate, future pension growth rate, inflation, future mortality experience and medical cost trend rate, as applicable.

The discount rate is set per country with reference to market yield on high quality corporate bonds of appropriate duration or government bonds for countries where a deep market of high quality corporate bonds is not available.

For the US defined benefit plans Swedish Match determined the obligation effective discount rate based on the single equivalent rate such that the present value of the plan's obligation cash flows using the single rate equals the present value of those cash flows using the corresponding spot rate along the yield curve.

The effective rates for interest on the defined benefit obligation and service cost are the single equivalent rates that result in the same value when applied to the defined benefit obligation and service cost respectively.

For the larger US post-employment defined benefit plans the same process is applied to the plan's service cost cash flows to determine the effective discount rate associated with the service cost.

For the other plans Swedish Match applies a single weighted average discount rate based on the full eligible population to measure the obligations and pension expense.

Assumptions regarding future mortality experience are based on advice in accordance with published statistics and experience in each country. The interest income on plan assets is based on the discount rate and is a component of the return on plan assets. Changes in assumptions can give rise to remeasurement differences, i.e., actuarial gains and losses, in the valuation of the Group's defined benefit obligations and the outcome from the performance of plan assets. Actuarial gains and losses are recognized to the full amount as they occur in accordance with the actuarial valuation and reported in other comprehensive income. The full recognition of actuarial gains and losses implies that the Group's net pension liability in the balance sheet includes all cumulative actuarial gains and losses.

### Significant risks associated with the Group's post-employment defined benefit plans

Changes in market yields on corporate and government bonds would impact the plan liabilities. A decrease in market yields will decrease the discount rate assumption which increases plan liabilities for accounting purposes. However, for funded plans, this will be partially offset by an increase in the value of the trusts' bond holdings. As Swedish Match moves along the liability-driven investment glide path, this offset will increase and risk will be further mitigated.

Some pension plan trusts hold equities, whose growth is expected to outpace liabilities over the long term while providing volatility and risk in the short term. Poor equity performance will decrease funded status and will increase both accounting expense and required funding. As discussed above, over time, Swedish Match intends to reduce the level of equity investment risk by investing more in fixed income assets that better match the liabilities per the liability-driven investment glide path set forth in the Statement of Investment Guidelines.



## NOTE 23 Continued

The plans provide benefits for the life of participants (and often their spouses as well). As such, increases in life expectancy will result in an increase in the plans' liabilities.

Other risks to which the plans are exposed include the risk that price inflation will increase, which will result in higher pension payments being due.

The postretirement medical liabilities in the US reflect assumptions of increases in future US health care costs (health care trend). If actual cost increases outpace these assumptions, plan liabilities will increase.

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

Actuarial assumptions	Group			
	Defined benefit pension plans		Post-employment medical benefits	
	2017	2016	2017	2016
Discount rate, %	3.5	3.8	3.8	4.2
Future salary increases, %	3.0	3.0	3.0	3.0
Future pension increases, %	2.4	2.4	-	-
Medical cost trend rate, %	-	-	6.9	7.0

### Sensitivity analysis of significant assumptions

Changes in the discount rate may have a significant effect on the Group defined benefit obligation. An increase in the discount rate of 0.5 percent would decrease the defined benefit obligation with 273 MSEK and a decrease of 0.5 percent in the discount rate would increase the defined benefit obligation with 304 MSEK. The effect from the sensitivity analysis is based on a change in the discount rate assumption while holding all other assumptions constant.

Changes in other actuarial assumptions are calculated not to have a material effect on the Group defined benefit obligation. An increase/decrease in the future salary increases and the inflation rate of 0.5 percent are estimated to have an effect on the defined benefit obligation of less than 1 percent respectively, holding other assumptions constant.

### Change in the defined benefit obligations and plan assets

The movements in the defined benefit obligation over the year were as follows:

Defined benefit obligations	Defined benefit pension plans		Post-employment medical benefits	
	2017	2016	2017	2016
<b>Balance at beginning of year</b>	<b>3,333</b>	<b>2,995</b>	<b>1,121</b>	<b>985</b>
Service cost	62	56	27	27
Interest expense	101	109	37	37
Administrative expense	-	-	-1	-1
Income from amendment	-	-	-69	-
Loss on settlements	-	1	-	-
Employer direct settlements payments	-	-7	-	-
Settlements payments from plan assets	-4	-2	-	-
Contributions by plan participants	-	-	4	3
Benefits paid	-148	-154	-28	-29
Taxes paid	-1	-	-	-
Changes in financial assumptions	160	215	72	31
Changes in demographic assumptions	-30	-16	-62	-11
Experience assumptions	-18	47	12	0
Translation differences	-241	91	-105	80
<b>Balance at end of year</b>	<b>3,214</b>	<b>3,333</b>	<b>1,006</b>	<b>1,121</b>

Profile of plan members of the defined benefit obligation	Defined benefit pension plans		Post-employment medical benefits	
	2017	2016	2017	2016
Active employees	1,020	1,018	556	633
Deferred members	440	463	-	-
Members in retirement	1,755	1,853	450	487
<b>Balance at end of year</b>	<b>3,214</b>	<b>3,333</b>	<b>1,006</b>	<b>1,121</b>
<b>Weighted average duration of defined benefit obligation</b>	<b>14 years</b>	<b>13 years</b>	<b>15 years</b>	<b>14 years</b>

The movements in the fair value of plan assets of the year were as follows:

Plan assets	Defined benefit pension plans		Post-employment medical benefits	
	2017	2016	2017	2016
<b>Fair value at beginning of year</b>	<b>3,012</b>	<b>2,397</b>	<b>0</b>	<b>0</b>
Interest income on plan assets	87	83	-	-
Administrative expense	-5	-14	-1	-1
Settlement payments from plan asset	-4	-2	-	-
Employer direct settlement payments	-	7	-	-
Employer contributions	60	527	166	27
Employee contributions	-	-	4	3
Benefits paid	-148	-154	-28	-29
Settlement payments from employer	-	-7	-	-
Taxes paid	-1	-	-	-
Return on plan assets	245	114	-	-
Translation differences	-210	62	-5	-
<b>Fair value at end of year</b>	<b>3,035</b>	<b>3,012</b>	<b>135</b>	<b>0</b>

The actual return on plan assets in 2017 amounted to 332 MSEK compared to a return in 2016 of 197 MSEK.

Plan assets at December 31 are comprised as follows:

Plan assets	2017	2016
Equity securities <sup>1)</sup>	1,364	1,509
Debt instruments	752	501
Real estate	-	81
Other <sup>2)</sup>	1,055	921
<b>Total</b>	<b>3,171</b>	<b>3,012</b>

<sup>1)</sup> Equity securities consist of quoted securities in all material respect. The Group's plan assets do not hold any own shares.

<sup>2)</sup> A large part pertains to the UK annuity insurance policies.

### Income and expenses relating to post-employment benefit plans recognized in the income statement

The amounts reported in the income statement consist of the following:

Post-employment defined benefits income and expenses	Defined benefit pension plans		Post-employment medical benefits	
	2017	2016	2017	2016
Current service costs	62	56	27	27
Interest expense on obligation	101	109	37	37
Interest income on plan assets	-87	-83	-	-
Administrative expenses	9	15	-	-
Income from amendment	-	-	-69	-
Loss on settlements	-	1	-	-
<b>Net expense(+)/income(-) reported in the income statement</b>	<b>85</b>	<b>98</b>	<b>-6</b>	<b>64</b>

The income/expenses for defined benefit plans are reported under the following headings in the income statement:

Post-employment defined benefits income and expenses	Defined benefit pension plans		Post-employment medical benefits	
	2017	2016	2017	2016
Cost of goods sold	29	26	15	15
Administrative expenses	10	18	-3	-3
Larger one-time items	-	-	-69 <sup>1)</sup>	-
Selling expenses	32	28	15	16
Interest income	-87	-83	-	-
Interest expenses	101	109	37	37
<b>Net expense(+)/income(-) reported in the income statement</b>	<b>85</b>	<b>98</b>	<b>-6</b>	<b>64</b>

<sup>1)</sup> Income from defined benefit plan amendment attributable to US medical post-employment benefits.

### Income and expenses relating to post-employment benefit plans recognized in other comprehensive income

The amounts reported in other comprehensive income consist of the following:

Post-employment defined benefits income and expenses	Defined benefit pension plans		Post-employment medical benefits	
	2017	2016	2017	2016
Actuarial gains and losses on obligations, incl. payroll taxes	112	245	21	19
Return on plan assets, excluding interest income	-248	-115	-	-
<b>Net income(-)/expense(+) reported in other comprehensive income statement</b>	<b>-137</b>	<b>131</b>	<b>21</b>	<b>19</b>

### Post-employment employee benefits per country

Defined benefit pension plans and post-employment medical benefits at December 31 per significant country are comprised as follows:

2017	Present value of obligation	Fair value of plan assets	Net liability/asset in balance sheet
USA	3,269	2,223	1,046
UK	746	707	39
Rest of the world	213	240	-26
<b>Total</b>	<b>4,229</b>	<b>3,171</b>	<b>1,058</b>

2016	Present value of obligation	Fair value of plan assets	Net liability/asset in balance sheet
USA	3,462	2,044	1,419
UK	786	731	55
Rest of the world	216	237	-22
<b>Total</b>	<b>4,463</b>	<b>3,012</b>	<b>1,452</b>

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

Actuarial assumptions	USA				UK		Rest of the world	
	Defined benefit pension plans		Post-employment medical benefits		Defined benefit pension plans		Defined benefit pension plans	
	2017	2016	2017	2016	2017	2016	2017	2016
Discount rate, %	3.7	4.1	3.8	4.2	2.4	2.6	4.6	4.7
Future salary increases, %	3.0	3.0	3.0	3.0	-	-	2.6	2.7
Future pension increases, %	2.2	2.2	-	-	3.4	3.3	1.2	1.1
Medical cost trend rate, %	-	-	6.9	7.0	-	-	-	-

### Expected contribution next year

Expected contributions for post-employment benefit plans for the full year 2018 amounts to 82 MSEK.

### Defined contribution plans

The Group has certain obligations under defined contribution plans. Contributions to these plans are determined by provisions in the respective plan. Costs for defined contribution plans charged to income statement for the year amounts to 133 MSEK (125).

#### Multi-employer insurance plan

In Sweden there is a multi-employer insurance plan for salaried personnel in Alecta. Although this plan is classified as a multi-employer defined benefit plan, it is not possible to get sufficient information to apply defined benefit accounting, to provide specific information for each customer's obligation and

fair value of related assets and therefore it has been accounted for as a defined contribution plan. The contribution to the multi-employer plan Alecta for the year ended December 2017 was 56 MSEK (55). Swedish Match contribution represents 0.22 percent (0.24) of the total contributions paid to Alecta. Swedish Match active members in the multi-employer plan are 0.07 percent (0.08) of all active members in the plan. Alecta has a collective funding ratio as per December 2017 of 154 percent (149). The collective funding ratio is a buffer for Alecta's insurance commitments to protect against fluctuations in investment return and insurance risks. It is a difference between Alecta's assets and the company's insurance commitments to policyholders and insured individuals. The collective solvency is normally allowed to vary between 125 and 155 percent, with the target of 140 percent. If the level of collective solvency is less than 125 percent or exceeds 155 percent, measures are to be taken in order to create conditions for restoring the level of collective solvency to the normal interval.

## 24 Provisions

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

Non-current provisions	2017	2016	Current provisions	2017	2016
Income tax	125	110	Restructurings	7	20
Restructurings	6	4	Other operating provisions	100	96
Other operating provisions	4	4	<b>Total current provisions</b>	<b>107</b>	<b>116</b>
Deferred compensation	283	313	<b>Total provisions</b>	<b>666</b>	<b>687</b>
Other provisions	140	140			
<b>Total non-current provisions</b>	<b>559</b>	<b>572</b>			

Movements in provisions during the year were as follows:

Provisions	Income tax provisions	Restructuring provisions	Other operating provisions	Deferred compensation	Other Provisions	Total
<b>Carrying value at beginning of year</b>	<b>110</b>	<b>23</b>	<b>100</b>	<b>313</b>	<b>140</b>	<b>687</b>
Provisions made during the year	24	17	53	73	-	167
Provisions used during the year	-	-26	-42	-80	-	-148
Provisions reversed during the year and changes in estimates	-3	-	-1	-	-	-3
Reclassifications	-	-1	1	0	-	0
Translation differences, etc.	-7	-	-8	-23	-	-38
<b>Carrying value at end of year</b>	<b>125</b>	<b>14</b>	<b>104</b>	<b>283</b>	<b>140</b>	<b>666</b>

### Income tax provisions

Income tax provisions pertain to tax disputes and other tax contingencies. None of the income tax provisions are at this stage expected to be realized within one year.

### Restructuring provisions

Provisions recognized for restructuring charges are reported as restructuring provisions. The provisions are generally expected to be settled within one year, but a certain portion is expected to be settled within a period up to five years.

### Other operating provisions

Provisions of operating character, and not related to restructuring or deferred compensation, are reported as operating provisions. A large part of the operating provisions are related to provisions for outstanding redemptions of current coupons and future product returns. While provisions related to coupons and returns are expected to be realized within the year, they are replaced within the year, and as such the provisions are classified as current.

### Deferred compensation

The deferred compensation provision represents obligations for earned remuneration to certain employees and accruals for the long term incentive plan. Certain employees may elect to defer a portion of their normal salary and/or bonus awards until a later date, and may elect to defer compensation up until the date of retirement. From retirement, payments may be spread over a period not to exceed 15 years. The deferrals are invested and secured by corporate owned life insurance policies. The deferred amount develops each year by the investment return. Accordingly, the present value of the deferred amount is estimated to equal the initially deferred amount plus accumulated return. The long term incentive plan is the long term portion of the variable salary for certain managers which will be settled within three years.

### Other Provisions

Other provisions represent long term legal obligations. The timing of settlement is expected to be within five years.

For further information about provisions for pensions, see *Note 23 Employee benefits*.

## 25 Other liabilities

Other non-current liabilities at December 31 comprised the following:

Other non-current liabilities	2017	2016
Non-interest bearing non-current liabilities <sup>1)</sup>	74	49
Non-current financial liabilities, derivatives <sup>2)</sup>	72	69
<b>Total</b>	<b>147</b>	<b>118</b>

<sup>1)</sup> Non-interest bearing non-current liabilities mainly pertains to additional obligations related to acquisition of patent rights.

<sup>2)</sup> Non-current financial liabilities, derivatives are measured at fair value and include foreign exchange derivatives used to hedge the bond loans denominated in foreign currencies amounted to -104 MSEK (-4).

Other current liabilities at December 31 comprised the following:

Other current liabilities	2017	2016
Tobacco taxes	1,033	1,112
VAT liabilities	371	324
Current financial liabilities, derivatives	40	65
Other	27	26
<b>Total</b>	<b>1,471</b>	<b>1,527</b>

## 26 Accrued expenses and deferred income

Accrued expenses and deferred income at December 31 comprised the following:

Accrued expenses and deferred income	2017	2016
Accrued wage/salary-related expenses	256	246
Accrued vacation pay	68	65
Accrued social security charges	68	73
Accrued interest	125	105
Other	336	366
<b>Total</b>	<b>854</b>	<b>854</b>

## 27 Financial instruments and financial risks

### Operations

As a result of its international operations, Swedish Match is exposed to financial risks. The term "financial risks" refers to fluctuations in Swedish Match's cash flow caused by changes in foreign exchange rates and interest rates, and to risks associated with refinancing and credit. To manage its financial risks, Swedish Match has a finance policy in place established by the Board of Directors. The Group's finance policy comprises a framework of guidelines and principles governing the management of financial risks and finance operations in general. The central functions consist of Financial Services and Treasury, which are responsible for the Group's borrowing including securing financing needs, cash management including cash pools and handling the liquidity surplus, as well as currency and interest rate management. Treasury serves as an internal bank for the Group's financial transactions. The Group's financial risk management is centralized to capitalize on economies of scale and synergy effects, and to minimize operational risks.

### Financial instruments

Swedish Match uses various types of financial instruments to hedge the Group's financial exposure arising in business operations and as a result of the Group's financing and asset and debt management activities. Currency exchange and derivative instruments are used to reduce Swedish Match's financial exposure. The most frequently used derivative instruments are currency forwards, currency swaps and cross currency interest rate swaps. A table showing all the derivatives that affected the Group's balance sheet and income statement is provided below.

### Outstanding derivatives

	2017			2016		
	Nominal	Assets	Liability	Nominal	Assets	Liability
Currency derivatives	1,653	0	40	2,836	-	65
Interest-rate and currency derivatives*	6,996	274	97	7,053	340	78
<b>Total:</b>	<b>8,649</b>	<b>274</b>	<b>137</b>	<b>9,889</b>	<b>340</b>	<b>143</b>
<b>*Of which hedge accounting</b>						
Cash flow hedges <sup>1)</sup>	6,996	274	97	7,053	340	78

<sup>1)</sup> The instruments are cross currency and interest rate swaps. There are no conditions in these transactions that can cause any significant differences in the hedging relation between these derivatives and their underlying liabilities.

### Currency risks

Exchange rate fluctuations affect Group earnings and shareholders' equity in various ways:

- Earnings – when sales revenues and production costs are denominated in different currencies (transaction exposure).
- Earnings – when the earnings of foreign subsidiaries are translated to SEK (translation exposure).
- Earnings – if loans and deposits are made in other currencies than the unit's functional currency (translation exposure).
- Shareholders' equity – when the net assets of foreign subsidiaries are translated to SEK (translation exposure).

The consolidated income statement includes exchange rate loss of 3 MSEK (-3) in operating profit and loss of 3 MSEK (-2) in net finance cost.

### Transaction exposure

A large part of the Group's inflow and outflow in foreign currencies are matched, which effectively limits the Group's transaction exposure. Transaction exposure arises when certain of the Group's production units in Europe make purchases of raw tobacco in USD, and through the European operations' exports of lighters and matches in USD. The largest exposure is in NOK due to the sales of snus in Norway which is produced in Sweden.

The anticipated commercial net currency flow in the same currencies (transaction exposure) amounts to 1,227 MSEK on an annual basis. It is divided as following; 680 MSEK in NOK (55 percent), 191 MSEK in USD (16 percent), 177 MSEK in EUR (14 percent), 63 MSEK in DKK (5 percent), 49 MSEK in PHP (4 percent) and in other currencies 67 MSEK (5 percent). As Swedish Match's transaction exposures are limited, few hedging transactions are executed. The hedging transactions are, if any, based on risk exposures, current market conditions and other strategic considerations. At December 31, 2017, no transaction exposure for 2018 has been hedged. A general rise of 10 percent in the value of the SEK against all of the Group's transaction currencies is esti-

mated to reduce consolidated earnings before tax by 99 MSEK (70), of which 68 MSEK in NOK, 19 MSEK in USD, 18 MSEK in EUR and other currencies will net increase earnings by 6 MSEK.

### Translation exposure

The most significant effect of currency movements on consolidated earnings arises from the translation of subsidiaries' earnings. Earnings in Group companies are translated at average exchange rates. Effects mainly pertain to USD, EUR and BRL. The single most important currency is the USD.

When the net assets of foreign subsidiaries are translated to SEK, translation differences arise that are recognized directly in equity. The exposures of net investment are 6,307 MSEK in USD (90 percent), 277 MSEK in EUR (4 percent), 240 MSEK in BRL (3 percent) and in other currencies 205 MSEK (3 percent). The Group does not, as a general rule, hedge the net investments in foreign subsidiaries. If the SEK weakened by 10 percent against all the currencies in which Swedish Match has foreign net assets, the effect on shareholders' equity would be negative in an amount of approximately 621 MSEK, mainly in USD, based on the exposure at December 31, 2017.

### Interest-rate risk

The Swedish Match Group's sources of financing mainly comprise shareholders' equity, cash-flow from current operations, and borrowing. Interest-bearing loans and pension liabilities expose the Group to interest-rate risk. Changes in interest rates have a direct impact on Swedish Match's net interest expense. Swedish Match policy is that the average interest maturity should be less than 5 years. The speed with which a permanent change of interest rate impacts net interest expense depends on the interest maturity periods of the loans. The Group's objective for interest rate fixing is to achieve an even and low cost of interest. Cross currency interest rate swaps are used mainly to convert our borrowing in foreign currencies into SEK and fixed interest rates. At December 31, 2017, the average interest maturity period for Group loans was 4.7 years (4.2 years), taking into account cross currency interest rate swaps. The interest maturity structure on December 31, 2017 was as follows:

Year	Loans		Loans and effects from derivatives	
	Fixed	Variable	Fixed	Variable
2018	901	352	901	352
2019	984	200	984	200
2020	799	-	799	-
2021	498	-	498	-
2022	1,394	-	1,394	-
2023-	6,152	250	6,152	250
<b>Total</b>	<b>10,728</b>	<b>801</b>	<b>10,728</b>	<b>801</b>

At December 31, 2017, a general rise of 1 percent (100bp) in short term interest rates of debt with variable interest rates and cash surplus was estimated to increase consolidated earnings before tax by approximately 4 MSEK (2) on an annual basis. The net interest-bearing debt (including net pension obligations) at the same date amounted to 8,183 MSEK (7,941).

If interest rates were to rise with 1 percent (100bp), there would be an immaterial effect on equity due to cash flow hedges.

### Refinancing risk and liquidity

Refinancing risk is defined as the risk that funds become scarce and thus more expensive than expected, and liquidity risk is defined as not being able to make regular payments as a consequence of inadequate liquidity or difficulty in raising external loans. Swedish Match applies a centralized approach to the Group's financing, whereby as much external borrowing as possible is conducted centrally. Subsidiary borrowing can, however, take place in countries where regulations and taxes make central financing impossible or uneconomical. Swedish Match tries to limit its refinancing risk by having a good distribution and length on its gross borrowing, and not being dependent on individual sources of financing.

Swedish Match has a syndicated bank credit facility of guaranteed 1,500 MSEK, which matures in December 2021. This was unutilized at year-end and contained no financial covenants. It is defined as a reserve facility. At year-end 2017, available cash funds and committed credit facilities amounted to 5,498 MSEK. Of this amount, confirmed credit lines amounted to 1,500 MSEK and cash and cash equivalents making up the remaining 3,998 MSEK. All cash and cash equivalents are available for use, none of this is pledged or similar.

Most of Swedish Match's financing consists of a global medium-term note program (MTN) with a limit amount of 1,500 MEUR. The program is an

## NOTE 27 Continued

uncommitted borrowing program and the availability could be limited by the Group's creditworthiness and prevailing market conditions. In case of market stress, if this program cannot be efficiently used, the syndicated bank credit facility of 1,500 MSEK will be utilized if necessary. At December 31, 2017, a total of 11,553 MSEK of the global medium-term note program was outstanding. The average maturity of the Group's bond borrowing at December 31, 2017 was 4.9 years.

Swedish Match's undiscounted cash flows regarding sources of loans, including interest payments, negative derivatives (derivatives with positive market values are excluded), accrued interest, trade payables and their maturity profiles are distributed as follows:

Year	Other financial liabilities incl. interest	Negative derivatives	Trade payables	Total value	Total booked value
2018	1,563	65	698	2,326	2,002
2019	1,348	53	-	1,401	1,193
2020	937	53	-	990	809
2021	626	54	-	680	508
2022	1,511	54	-	1,565	1,405
2023-	6,644	45	-	6,689	6,425
<b>Total</b>	<b>12,629</b>	<b>324</b>	<b>698</b>	<b>13,651</b>	<b>12,342</b>

Under the global MTN program, Swedish Match has issued bonds in SEK, EUR, USD and CHF. Borrowing in EUR, USD and CHF is hedged into SEK by cross currency interest rate swaps. The average interest cost for outstanding bonds (including derivative instruments) on December 31, 2017 was 2.6 percent (3.4).

Liquidity within Swedish Match is handled centrally through local cash pools. Group companies are required to deposit liquid funds in cash pool accounts or, if these are not available, with the Group's treasury unit. Exceptions are only allowed when regulations prohibit cash pools or internal deposits.

#### Cash flow and fair value hedges

##### Cash flow hedges

The table below shows the yearly change of market value, from opening balance, recognized in other comprehensive income and the amounts that are reclassified in profit and loss during the year, previously recognized in other comprehensive income. There was no ineffectiveness in cash flow hedge accounting during 2017.

	2017			
	Jan 1	Change of market value	Allocated to earnings	Dec 31
Hedging instruments, derivatives	-141	-104	-	-245
<b>Total</b>	<b>-141</b>	<b>-104</b>	<b>-</b>	<b>-245</b>

	2016			
	Jan 1	Change of market value	Allocated to earnings	Dec 31
Hedging instruments, derivatives	-75	-81	15	-141
<b>Total</b>	<b>-75</b>	<b>-81</b>	<b>15</b>	<b>-141</b>

Maturity profile of interest payments taking part in a cash-flow hedge are shown in the table below.

	2018	2019	2020	2021	2022	2023-
Fixed rate interest on payments	-200	-199	-160	-160	-160	-366

##### Fair value hedges

At year end there were no fair value hedges outstanding.

#### Liquidity risks and credit risks

To limit liquidity and credit risks, investments and transactions in derivative instruments may be made only in instruments with high liquidity and with counterparties having high credit ratings. In addition to bank accounts, Swedish Match invests surplus funds in banks and institutions. At December 31, 2017, the average interest maturity for the Group's current investments was less than 1 month.

The Group's finance policy regulates the maximum credit exposure to various counterparties. The aim is that counterparties to Swedish Match in financial transactions should have a credit rating of at least category A from Standard & Poor's or equivalent from Moody's.

To reduce the credit risk in receivables from banks arising via derivative instruments, Swedish Match has entered into netting agreements, known as ISDA Master Agreements, with all of its counterparties. These agreements grant rights to net market valuations on assets and liabilities if the counterparty is in an event of default, as with suspended payments. The following table shows the netted exposures per December 31, 2017. No collateral has been received or pledged. The majority of the derivatives are related to the Group's central funding.

#### Financial instruments under master netting agreements

2017	Gross amount for financial instruments	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	Net
Derivatives - assets	274	-95	179
Derivatives - liabilities	137	-95	43
2016	Gross amount for financial instruments	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	Net
Derivatives - assets	340	-87	252
Derivatives - liabilities	143	-87	56

At December 31, 2017, credit exposure in derivative instruments amounted to 179 MSEK, and credit exposure in cash and deposits at banks amounted to 1,098 MSEK. Swedish Match reduces the risk of its customers failing to fulfill their undertakings with the result that payment is not received for accounts receivable as they are divided among many different customers. At the reporting date, there was no significant concentration of credit risk in the Group's accounts receivable. The total amount of the Group's trade receivables was 1,536 MSEK (1,539). For more information see Note 19 Trade receivables.

#### Credit ratings

At December 31, 2017, Swedish Match had the following credit ratings from Standard & Poor's and Moody's Investor Service:

	Standard & Poor's	Moody's
Long term rating	BBB	Baa2
Outlook	Stable	Stable



**Carrying value and fair value**

Swedish Match applies IFRS 13 for financial instruments measured at fair value on the balance sheet which implies using a fair value hierarchy that reflects the significance of input used according to the following levels:

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

The following table shows carrying value (including accrued interest) and fair value for each category of financial instruments, including their levels in the fair value hierarchy, at December 31, 2017. Items carried at fair value via the income statement consist of derivatives, for which hedge accounting is not applied. Derivatives attributable to cash flow hedges are carried at fair value via

other comprehensive income in level 2 of the fair value hierarchy. In assessing the fair values of these derivatives, the Group uses a variety of methods and makes assumptions based on market conditions at each reporting date. Quoted market prices or dealer quotes for identical or similar instruments are used. Financial assets which are classified as available for sale are carried at fair value via other comprehensive income in level 1 of the fair value hierarchy. All other items, except loans and borrowings, have a short duration and are considered non- interest bearing, and therefore, the total carrying value of the financial instruments corresponds to the estimated fair value. The carrying amount for loans and borrowings differ from their fair value as a consequence of changes in the market interest rates, determined by using current official market quotations for our outstanding bonds or similar instruments and discounting future cash flows. The values presented are indicative and may not necessarily be realized.

Carrying amounts and fair values for financial assets and liabilities per December 31, 2017.

	Items carried at fair value via the income statement	Loans and receivables	Other financial liabilities	Cash flow hedges	Non- financial instruments	Total carrying value	Estimated fair value
<b>2017</b>							
Trade receivables	-	1,536	-	-	-	1,536	1,536
Other non-current financial receivables	-	-	-	273	438	711	711
Other current financial receivables	0	-	-	-	193	193	193
Prepaid expenses and accrued income <sup>1)</sup>	-	-	-	1	80	81	81
Cash and cash equivalents	-	3,998	-	-	-	3,998	3,998
<b>Total assets</b>	<b>0</b>	<b>5,534</b>	<b>-</b>	<b>274</b>	<b>711</b>	<b>6,519</b>	<b>6,519</b>
Loans and borrowings	-	-	11,530	-	-	11,530	11,705
Other non-current financial liabilities	-	-	-	72	74	147	147
Other current financial liabilities	40	-	-	-	1,431	1,471	1,471
Accrued expenses and deferred income <sup>1)</sup>	-	-	100	25	729	854	854
Trade payables	-	-	698	-	-	698	698
<b>Total liabilities</b>	<b>40</b>	<b>-</b>	<b>12,328</b>	<b>97</b>	<b>2,234</b>	<b>14,700</b>	<b>14,875</b>

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

Fair value measurement by level	Level 1	Level 2	Level 3	Total
Derivative financial assets	-	274	-	274
Derivative financial liabilities	-	137	-	137

The following tables show carrying amounts and fair value for financial assets and liabilities per December 31, 2016.

	Items carried at fair value via the income statement	Loans and receivables	Available for sale financial assets	Other financial liabilities	Cash flow hedges	Non- financial instruments	Total carrying value	Estimated fair value
<b>2016</b>								
Trade receivables	-	1,539	-	-	-	-	1,539	1,539
Other non-current financial assets	-	-	2,761 <sup>2)</sup>	-	-	-	2,761	2,761
Other non-current financial receivables	-	-	-	-	328	447	774	774
Other current financial receivables	-	-	-	-	10	206	216	216
Prepaid expenses and accrued income <sup>1)</sup>	-	-	-	-	2	80	82	82
Cash and cash equivalents	-	3,364	-	-	-	-	3,364	3,364
<b>Total assets</b>	<b>-</b>	<b>4,903</b>	<b>2,761</b>	<b>-</b>	<b>340</b>	<b>733</b>	<b>8,736</b>	<b>8,736</b>
Loans and borrowings	-	-	-	10,216	-	-	10,216	10,545
Other non-current financial liabilities	-	-	-	-	69	49	118	118
Other current financial liabilities	65	-	-	-	-	1,462	1,527	1,527
Accrued expenses and deferred income <sup>1)</sup>	-	-	-	96	9	749	854	854
Trade payables	-	-	-	686	-	-	686	686
<b>Total liabilities</b>	<b>65</b>	<b>-</b>	<b>-</b>	<b>10,998</b>	<b>78</b>	<b>2,260</b>	<b>13,401</b>	<b>13,730</b>

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

<sup>2)</sup> Available for sale financial assets consist of shares in STG, recognized as a financial asset.

Fair value measurement by level	Level 1	Level 2	Level 3	Total
Other non-current financial assets	2,761	-	-	2,761
Derivative financial assets	-	340	-	340
Derivative financial liabilities	-	143	-	143

## 28 Operating lease agreements

The Group's leasing expenses for operating lease agreements for 2017 amounted to 60 MSEK (57).

Future annual minimum lease payments for the continuing operations under the terms of non-cancellable operating lease agreements with remaining terms of one year or more fall due as follows:

Minimum lease payments	2017	2016
Within one year	54	51
Between 1–5 years	148	155
Later than 5 years	51	43
<b>Total</b>	<b>253</b>	<b>250</b>

The operating lease agreements are mainly attributable to the rental of real estate.

## 29 Pledged assets

### Pledged assets

As per December 31, 2017 the Group had 87 MSEK (63) in assets pledged, pertaining to endowment insurance policies pledged as security for certain defined contribution obligations. In accordance with IAS 19, endowment insurance policies pledged as security for certain defined contribution obligations of 80 MSEK (63) have been netted against the deferred compensation obligations in non-current provisions as of December 31, 2017. As per December 31, 2017 the Group had 7 MSEK (–) in assets pledged, pertaining to a (floating charge) pledge on 7 MSEK of current operating capital assets.

## 30 Commitments and contingent liabilities and assets

### Contingent liabilities

Guarantees on behalf of subsidiaries pertain to undertakings on behalf of the companies over and above the amounts utilized and recognized as liabilities by the companies. Other guarantees and contingent liabilities pertain to contractual commitments with tobacco growers for future purchases of leaf tobacco, guarantees made to government authorities for Group companies fulfillment of undertakings in connection with imports and payment of tobacco taxes.

Contingent liabilities	2017	2016
Guarantees on behalf of subsidiaries	52	51
Other guarantees and contingent liabilities	181	179
<b>Total</b>	<b>233</b>	<b>230</b>

### Legal disputes

The Company is involved in a number of legal proceedings. Although the outcomes of these proceedings cannot be predicted with any certainty, and accordingly, no guarantees can be made, management is of the opinion that obligations attributable to these disputes, if any, should not have any significant impact on the results of operations or the financial position of Swedish Match.

The Swedish Competition Authority initiated in 2014 legal proceedings against Swedish Match North Europe AB (a subsidiary of Swedish Match AB) and alleged that a standardized labeling system implemented during certain periods in 2012 and 2013 was in breach of the competition rules. Throughout the process, Swedish Match has vigorously contested the claim. On February 8, 2017, the Swedish Patent and Market Court ruled that the uniform labelling system was in breach of competition legislation. The court imposed a fine of approximately 38 MSEK. Swedish Match has appealed the decision to the Patent and Market Court of Appeal, which expects to issue its final decision during 2018.

Pinkerton Tobacco Company (a subsidiary of Swedish Match USA, Inc.) is named as a defendant in some of the more than 1,200 cases against cigarette manufacturers and other tobacco companies that have been brought before state courts in West Virginia. The cases against Pinkerton, however, have been dismissed in the combined process for these cases and it is unclear whether any of the plaintiffs in these cases intend to pursue their claims separately against Pinkerton. Although management cannot in any meaningful way estimate the damages that might be awarded, if any, in any on-going or unasserted disputes of this nature, there are in the opinion of management good defenses against all claims and each claim will be vigorously defended.

The Swedish Tax Agency has performed tax audits of a number of Swedish Match's Swedish group companies. After completing the audits, in November, the Swedish Tax Agency has notified Swedish Match that certain deductions in two cases have been denied. The Tax Agency is claiming total income tax and penalties of approximately 300 MSEK. Swedish Match does not agree with the Tax Agency's assessment and has appealed the decisions.

No provisions for the above legal disputes have been recognized.

### Contingent assets

As per December 31, 2017, the Group had no contingent assets.

## 31 Group companies

Subsidiary holdings <sup>1)</sup>	Subsidiary's domicile, country	Ownership share, %	
		2017	2016
SM Comercio Importacao e Exportacao Ltda	Brazil	100	100
SM da Amazonia S.A.	Brazil	100	100
SM do Brazil S.A.	Brazil	99,7	99,7
SM Brazil Holdings AB	Brazil	100	100
V2 Holding Aps	Denmark	100	–
V2 Tobacco A/S	Denmark	100	–
V2E APS	Denmark	100	–
SM Dominicana, S.A.	Dominican Republic	100	100
SM Deutschland GmbH	Germany	100	100
SM Malaysia Holdings AB	Malaysia	100	100
SM Group BV	Netherlands	100	100
SM Lighters BV	Netherlands	100	100
SM Overseas BV	Netherlands	100	100
SM Distribution A/S	Norway	100	100
SM Norge A/S	Norway	100	100
SM Philippines Inc.	Philippines	100	100
SMINT Holdings Corp	Philippines	100	100
Swedmat Corp	Philippines	100	100
Swedish Match Fósforos Portugal, SA	Portugal	100	100
Road Cargo Sweden Holding AB	Sweden	100	100
Lysstickan AB	Sweden	100	100
SMD Logistics AB	Sweden	100	100
SM Industries AB	Sweden	100	100
SM Industries Fastighets AB <sup>2)</sup>	Sweden	–	100
SM Intellectual Property AB	Sweden	100	100
SM North Europe AB	Sweden	100	100
Svenska Tändsticks AB	Sweden	100	100
Svenska Tändsticksbolaget Försäljningsaktiebolag	Sweden	100	100
SM Holding AB <sup>3)</sup>	Sweden	100	100
Swedish Match US AB	Sweden	100	100
SMD Logistics Holding AB	Sweden	100	100
SMD Logistics Örnäs AB	Sweden	100	100
SM (PM) International AB	Sweden	100	100
Svenska Tobaks AB	Sweden	100	100
Svenskt Snus AB	Sweden	100	100
Nyz AB	Sweden	100	100
V2 Tobacco Distribution AB	Sweden	100	–
SM Treasury Switzerland AG	Switzerland	100	100
SM Kibrit ve Cakmak Endustri A.S.	Turkey	100	100
SM Cigars Holding Inc	USA	100	100
SM Cigars Inc.	USA	100	100
SM USA Inc	USA	100	100
SM Leaf Tobacco Company	USA	100	100
SM North America LLC	USA	100	100
The Pinkerton Tobacco Co. LLC	USA	100	100

<sup>1)</sup> The designation includes both directly and indirectly owned companies. Dormant companies are not included.

<sup>2)</sup> During 2017 SM Industries Fastighets AB was merged with SM Industries AB.

<sup>3)</sup> SM Cigars Holding AB has changed name during 2017 to SM Holding AB.

## 32 Supplementary information to cash flow statement

The definition and composition of cash and cash equivalents is cash and bank and other current investments.

	2017	2016
Interest paid and interest received		
Interest received	48	48
Interest paid	-316	-394
<b>Total</b>	<b>-267</b>	<b>-345</b>

Interest payments and interest receipts are reflected in cash flow from operations.

	2017	2016
Adjustments for non cash items and other		
Depreciation, amortization and write down	381	339
Change in defined benefit plans	152	164
Change in employer contributions of plan assets	-230	-564
Income from defined benefit plan amendment	-69	-
Change in accrued interest	4	53
Change in market value revaluations and unrealized exchange rate differences	-123	217
Realized exchange rate differences, moved to financing activities	150	-284
Capital gain from sale of shares in STG <sup>1)</sup>	-197	-2,109
Capital gain from sale of land	-107	-
Capital gain from sale of distribution facility	-	-145
Dividends from STG, moved to financing activities	-107	-
Other	-28	-8
<b>Total</b>	<b>-175</b>	<b>-2,338</b>

<sup>1)</sup> Capital gain from sale of shares in STG in prior year of 2,109 MSEK includes an unrealized gain from revaluing Swedish Match's remaining holding in STG to fair value amounting to 902 MSEK.

### Reconciliation of liabilities arising from financing activities

	2016	Cash flows	Non-cash changes			2017
			Adj. current portion from non-current	Foreign exchange movement	Fair value changes	
Long term borrowings	8,169	3,293	-1,251	66	-	10,277
Short term borrowings	2,047	-1,988	1,251	-58	-	1,252
Net assets held to hedge long term borrowings	-286	-13	-	-6	104	-202
<b>Total liabilities from financing activities</b>	<b>9,930</b>	<b>1,291</b>	<b>0</b>	<b>3</b>	<b>104</b>	<b>11,328</b>

## 33 Related parties

The Group's related parties include associated companies and key management personnel with significant influence over the Company. Key management personnel with significant influence over the company are Swedish Match Board of Directors and members of the Group Management Team. Related parties transactions are conducted at an arms-length basis. For further information about the Group's transactions with associated companies, see *Note 15 Investments in associated companies*. Information about remuneration to the Board of Directors and Group Management Team, see *Note 6 Personnel*. Besides this, and disregarding intergroup transactions that are eliminated in the consolidated financial statements of the Group, no other related parties transactions have been conducted during the year.

## 34 Subsequent events

The Swedish Government has announced that it intends to propose new legislation on tobacco and similar products to the Parliament on February 20, 2018. The announced proposal is scheduled to take effect from January 1, 2019 and includes a number of proposed measures including a ban on consumer self-service for all tobacco products at point of sale, a ban on tobacco advertising at point of sale other than in specialty tobacco shops and for snus a minimum of 20 pouches per can. The announced proposal also includes the EU mandated track and trace system for tobacco products but detailed instructions for such implementation will be announced at a later date.

### Investments in associated companies and other companies

No investments in associated companies have been made during 2017.

Investments in associated companies during 2016 pertain to the investment of 5 MSEK in EB Road Cargo AB. For further information see *Note 15 Investments in associated companies*.

### Acquisition of subsidiaries

On August 31, 2017, Swedish Match acquired 100 percent of the shares in V2 Holding ApS ("V2 Tobacco"), including its subsidiaries. The total consideration paid, less acquired liquid funds, amounted to 929 MSEK. Acquired net assets amounted to 372 MSEK and were recognized in the Group's balance sheet at fair value at the acquisition date. For more information see *Note 4 Business combination*.

### Divestment of subsidiaries

No divestments of subsidiaries have been made during 2017 and 2016.

In the European Court of Justice (ECJ) an oral hearing regarding the ban on the sale and distribution of snus within the European Union was held in January, 2018. A ruling by the court is expected earliest in the second quarter of 2018. The ECJ is also expected to hear a case referred by a court in Germany regarding the definition of chewing tobacco during the third quarter of 2018. The court's conclusions in this respect will be relevant for whether chew bags shall be defined as chewing tobacco and thereby allowed within the European Union. A negative ruling could impact Swedish Match's sale of chew bags on certain European markets.

## 35 Information about the Parent Company

Swedish Match AB (publ) is a company domiciled in Stockholm and registered in Sweden.

The Parent Company's shares are listed on Nasdaq Stockholm. The address of the head office is Sveavägen 44, postal address: SE-118 85 Stockholm, Sweden.

The consolidated financial statements for 2017 include the Parent Company and its subsidiaries, jointly referred to as "the Group". The Group also comprises the Group's interest in associated companies.

## Parent Company income statement

MSEK	Note	2017	2016
Sales	1	47	52
Administrative expenses	2, 7, 25	-196	-262
Other operating income and expenses	3	30	1
<b>Operating loss</b>		<b>-118</b>	<b>-208</b>
Result from participation in Group companies	4	5,310	3,319
Interest income and similar items	4	1	6
Interest expenses and similar items	4	-609	-715
<b>Profit after financial items</b>		<b>4,584</b>	<b>2,401</b>
Appropriations	5	2,080	1,859
<b>Profit before income tax</b>		<b>6,664</b>	<b>4,260</b>
Income tax expense	6	-298	-218
<b>Profit for the year</b>		<b>6,367</b>	<b>4,041</b>

## Parent Company statement of comprehensive income

MSEK	Note	2017	2016
<b>Profit for the year</b>		<b>6,367</b>	<b>4,041</b>
<i>Other comprehensive income that may be reclassified to the income statement</i>			
Effective portion of changes in fair value of cash flow hedges		-104	-81
Reclassification for gains/losses on cash flow hedges included in profit and loss		-	16
Income tax relating to components of other comprehensive income	6	23	14
<b>Other comprehensive income, net of tax for the year</b>		<b>-81</b>	<b>-51</b>
<b>Total comprehensive income for the year</b>		<b>6,286</b>	<b>3,990</b>

## Parent Company balance sheet

MSEK	Note	December 31, 2017	December 31, 2016
<b>Assets</b>			
Tangible assets	7	1	2
<b>Non-current financial assets</b>			
Participations in Group companies	8	31,654	49,344
Other non-current receivables	9	273	328
Deferred income tax assets	6	75	47
<b>Total non-current financial assets</b>		<b>32,002</b>	<b>49,719</b>
<b>Total non-current assets</b>		<b>32,003</b>	<b>49,721</b>
<b>Current assets</b>			
Receivables on Group companies		2,446	2,280
Other receivables	10	32	10
Prepaid expenses and accrued income	11	16	16
<b>Total current assets</b>		<b>2,494</b>	<b>2,307</b>
<b>Other current deposits</b>	24	<b>1,900</b>	<b>1,005</b>
<b>TOTAL ASSETS</b>		<b>36,397</b>	<b>53,032</b>
<b>Equity</b>			
Restricted equity	12		
Share capital		390	390
Unrestricted equity			
Reserve for fair value		-191	-110
Retained earnings		12,656	14,113
Profit for the year		6,367	4,041
<b>TOTAL EQUITY</b>		<b>19,221</b>	<b>18,434</b>
<b>Untaxed reserves</b>	13	<b>1,330</b>	<b>995</b>
Other provisions	14	86	100
<b>Total provisions</b>		<b>86</b>	<b>100</b>
<b>Non-current liabilities</b>			
Bond loans	15	10,277	8,169
Liabilities to Group companies		-	18,100
Other liabilities	16	72	69
<b>Total non-current liabilities</b>		<b>10,349</b>	<b>26,338</b>
<b>Current liabilities</b>			
Bond loans		1,248	2,042
Trade payables		17	15
Liabilities to Group companies		3,890	4,942
Current income tax liabilities	6	77	9
Other liabilities		2	3
Accrued expenses and deferred income	17	175	154
<b>Total current liabilities</b>		<b>5,409</b>	<b>7,165</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>36,397</b>	<b>53,032</b>



## Statement of changes in Parent Company equity

2016	Note	Restricted equity		Unrestricted equity		Total equity
		Share capital	Reserve for fair value <sup>1)</sup>	Retained earnings	Profit for the year	
<b>Equity at beginning of year</b>	12	<b>390</b>	<b>-59</b>	<b>17,270</b>	<b>3,614</b>	<b>21,215</b>
Profit for the year		-	-	-	4,041	4,041
Other comprehensive income, net of tax for the year		-	-51	-	-	-51
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-51</b>	<b>-</b>	<b>4,041</b>	<b>3,990</b>
Allocation of profit		-	-	3,614	-3,614	-
Dividend		-	-	-5,522	-	-5,522
Repurchase of own shares		-	-	-1,249	-	-1,249
Cancellation of shares		-15	-	15	-	-
Bonus issue		15	-	-15	-	-
<b>Equity at end of year</b>		<b>390</b>	<b>-110</b>	<b>14,113</b>	<b>4,041</b>	<b>18,434</b>

<sup>1)</sup> Reserve for fair value consists of a hedge reserve.

2017	Note	Restricted equity		Unrestricted equity		Total equity
		Share capital	Reserve for fair value <sup>1)</sup>	Retained earnings	Profit for the year	
<b>Equity at beginning of year</b>	12	<b>390</b>	<b>-110</b>	<b>14,113</b>	<b>4,041</b>	<b>18,434</b>
Profit for the year		-	-	-	6,367	6,367
Other comprehensive income, net of tax for the year		-	-81	-	-	-81
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-81</b>	<b>-</b>	<b>6,367</b>	<b>6,286</b>
Allocation of profit		-	-	4,041	-4,041	-
Dividend		-	-	-2,908	-	-2,908
Repurchase of own shares		-	-	-2,590	-	-2,590
Cancellation of shares		-14	-	14	-	-
Bonus issue		14	-	-14	-	-
<b>Equity at end of year</b>		<b>390</b>	<b>-191</b>	<b>12,656</b>	<b>6,367</b>	<b>19,221</b>

<sup>1)</sup> Reserve for fair value consists of a hedge reserve.

## Cash flow statement for the Parent Company

MSEK	Note	2017	2016
<b>Operating activities</b>	24		
Profit after financial items		4,584	2,401
Adjustments for non-cash items and other		18,508	-717
Income tax paid		-234	-230
<b>Subtotal</b>		<b>22,858</b>	<b>1,454</b>
Increase (-)/Decrease (+) in operating receivables		-32	18
Increase (+)/Decrease (-) in operating liabilities		9	28
<b>Net cash generated from operating activities</b>		<b>22,835</b>	<b>1,500</b>
<b>Investing activities</b>			
Purchase of tangible assets		-	0
Proceeds from sale of tangible assets		-	0
Proceeds from subsidiaries, net of cash disposed of		107	-
Shareholders contribution		-934	-
<b>Net cash from investing activities</b>		<b>-827</b>	<b>0</b>
<b>Financing activities</b>			
Proceeds from non-current borrowings		3,293	3,364
Repayment of borrowings		-1,988	-1,618
Repurchase of own shares		-2,590	-1,249
Dividend		-2,908	-5,522
Changes in financial receivables/liabilities Group companies		-16,906	4,554
Other		-13	-25
<b>Net cash used in financing activities</b>		<b>-21,112</b>	<b>-495</b>
<b>Net increase in cash and cash equivalents</b>		<b>895</b>	<b>1,005</b>
Cash and cash equivalents at the beginning of the year		1,005	-
<b>Cash and cash equivalents at end of year</b>		<b>1,900</b>	<b>1,005</b>

# Notes for the Parent Company

All amounts referred to in the notes of the Parent Company financial statements are in millions of Swedish kronor (MSEK) unless stated otherwise. The amounts within brackets refer to the preceding year, 2016.

For remuneration and other benefits to Parent Company President and other members of Group management, see *Note 6 Personnel* for the Group on page 78.

## 1 Sales

Sales pertains to services provided to Group companies and associated companies.

## 2 Audit fees

Expenses for auditor's fees are included in the administrative expenses as set out in the table below. At the Annual General Meeting last year, Deloitte was appointed the auditor for 2017 replacing KPMG.

Audit fees	2017		2016
	Deloitte	KPMG	
Audit services	2	3	
Audit related services	-	0	
Tax services	0	0	
Other services	0	1	
<b>Total</b>	<b>3</b>	<b>4</b>	

## 3 Other operating income and expense

Other operating income and expense 2017 mainly relates to an one-time income from a surplus of assets relating to insurance contracts purchased in previous years to settle certain defined benefit obligations. It also includes foreign exchange gains and losses.

## 4 Financial items

	2017	2016
Result from participation in Group companies		
Dividends received	23,827	3,395
Gain on sale of Group companies	107	-
Write-downs of participations in subsidiaries	-18,624	-76
<b>Total</b>	<b>5,310</b>	<b>3,319</b>

A large part of the dividend received is a result of an internal group loan being settled and the settlement amount being distributed to the Parent Company. Due to the subsidiary's reduced equity following the distribution, the Parent Company wrote down shares in a corresponding amount.

Gain on sale of Group companies refer to an additional purchase price of 107 MSEK.

Interest income and similar items	2017	2016
Interest income relating to Group companies	0	4
Interest income relating to loans and receivables	1	1
Net foreign exchange gains	0	-
<b>Total</b>	<b>1</b>	<b>6</b>

Interest expenses and similar items	2017	2016
Interest expense relating to Group companies	-270	-307
Interest expense relating to other financial liabilities measured at amortized cost	-259	-267
Interest expense relating to financial instruments measured at fair value in hedging relationships	-73	-68
Realized fair value from repurchase of bonds including hedging derivatives <sup>1)</sup>	-	-62
Other financial expenses	-7	-10
Net foreign exchange losses	-	-1
<b>Total</b>	<b>-609</b>	<b>-715</b>

<sup>1)</sup> Prior year includes 16 MSEK transferred from equity.

## 5 Appropriations

Appropriations	2017	2016
<b>Difference between reported depreciation and according to plan</b>		
Equipment, tools and fixtures	0	0
<b>Tax allocation reserve</b>		
Appropriation for the year	-450	-320
Reversal appropriation	115	-
<b>Group contributions</b>		
Group contributions received	2,428	2,261
Group contributions granted	-13	-83
<b>Total</b>	<b>2,080</b>	<b>1,859</b>

## 6 Income tax

Income tax reported in income statement	2017	2016
Current tax expense for the period	-302	-220
Deferred tax due to temporary differences	5	1
<b>Total</b>	<b>-298</b>	<b>-218</b>

Income tax reported in other comprehensive income	2017	2016
Effective portion of changes in fair value of cash flow hedges	23	18
Reclassification for gains/losses on cash flow hedges included in profit and loss	-	-3
<b>Total</b>	<b>23</b>	<b>14</b>

	2017		2016	
Reconciliation of effective tax rate	(%)		(%)	
<b>Income before tax</b>		<b>6,664</b>		<b>4,260</b>
<b>Swedish statutory tax rate</b>	<b>22.0</b>	<b>-1,466</b>	<b>22.0</b>	<b>-937</b>
Non-taxable dividends	-78.7	5,242	-17.5	747
Tax exempt income	-0.4	24	-0.0	0
Non-deductible expenses	61.5	-4,096	0.7	-28
Taxes related to prior years	0.0	-2	-0.0	0
Standard interest income, tax allocation reserve	0.0	-1	0.0	-1
<b>Reported effective tax</b>	<b>4.5</b>	<b>-298</b>	<b>5.1</b>	<b>-218</b>

The change to the current tax liability during the period is explained below:

Current income tax liabilities	2017	2016
<b>Carrying value at beginning of year</b>	<b>9</b>	<b>19</b>
Current tax expense	302	220
Paid tax	-234	-230
<b>Carrying value at end of year</b>	<b>77</b>	<b>9</b>

Tax liabilities amounts to 77 MSEK and consists of taxes to be paid on income for the year.

The tax effects of deductible temporary differences that resulted in deferred tax assets at December 31 are summarized below:

Deferred income tax assets	2017	2016
Hedge reserve	54	31
Provision	21	16
<b>Carrying value at end of year</b>	<b>75</b>	<b>47</b>

The following reconciles the deferred tax assets at the beginning of the year to that at the end of the year.

2017	Balance 1 Jan.	Charges to profit for the year	Charges to other comprehensive income	Balance 31 Dec.
Hedge reserve	31	-	23	54
Provision	16	5	-	21
<b>Total</b>	<b>47</b>	<b>5</b>	<b>23</b>	<b>75</b>

2016	Balance 1 Jan.	Charges to profit for the year	Charges to other comprehensive income	Balance 31 Dec.
Hedge reserve	17	-	14	31
Provision	15	1	-	16
<b>Total</b>	<b>32</b>	<b>1</b>	<b>14</b>	<b>47</b>

## 8 Group companies

2017	Balance 1 Jan.	Shareholder's contributions	Liquidation	Impairments	Divestments	Balance 31 Dec.
Cost	55,838	934	-	-	-	<b>56,772</b>
Impairments	-6,494	-	-	-18,624	-	<b>-25,118</b>
<b>Carrying value</b>	<b>49,344</b>	<b>934</b>	<b>-</b>	<b>-18,624</b>	<b>-</b>	<b>31,654</b>

2016	Balance 1 Jan.	Shareholder's contributions	Liquidation	Impairments	Divestments	Balance 31 Dec.
Cost	55,021	8,613	-76	-	-7,720	<b>55,838</b>
Impairments	-6,494	-	76	-76	-	<b>-6,494</b>
<b>Carrying value</b>	<b>48,527</b>	<b>8,613</b>	<b>0</b>	<b>-76</b>	<b>-7,720</b>	<b>49,344</b>

### Shares in subsidiaries, directly owned

Subsidiary	Corp. Reg.no.	Domicile	Number of shares	Ownership, %	2017	Ownership, %	2016
Svenskt Snus AB	556367-1261	Stockholm, Sweden	1,000	100	300	100	18,875
Swedish Match North Europe AB <sup>1)</sup>	556571-6924	Stockholm, Sweden	960	96	16,054	96	15,120
SMD Logistics AB	556571-7039	Stockholm, Sweden	1,000	100	2,350	100	2,350
Svenska Tändsticksbolaget Försäljningsaktiebolag	556012-2730	Stockholm, Sweden	34,403,000	100	8,949	100	8,949
Swedish Match Holding AB <sup>2)</sup>	556367-1253	Stockholm, Sweden	2,000	100	1,130	100	1,130
Swedish Match Industries AB	556005-0253	Tidaholm, Sweden	30,853	100	95	100	95
Swedish Match US AB	556013-4412	Stockholm, Sweden	96,000	100	0	100	49
Svenska Tändsticks AB	556105-2506	Stockholm, Sweden	1,000	100	0	100	0
Svenska Tobaks AB	556680-3028	Stockholm, Sweden	100,000	100	0	100	0
Swedish Match USA, Inc	62-1257378	USA	1,000	100	849	100	849
Swedish Match Cigars Holding Inc	81-0733029	USA	1,000	100	1,739	100	1,739
Swedish Match Dominicana S.A.	05338-2007-STI	Dominican Republic	9,249,907	99.99	171	99.99	171
Swedish Match Group BV	17080059	Netherlands	20,900,000	100	17	100	17
Swedish Match Distribution A/S	930567647	Norway	500	100	1	100	1
SA Allumettiére Causemille <sup>3)</sup>		Algeria	10,000	100	0	100	0
The Burma Match Co Ltd <sup>4)</sup>		Burma	300,000	100	0	100	0
Vulcan Trading Co. Ltd <sup>5)</sup>		Burma	4,000	100	0	100	0
<b>Carrying value at end of year</b>					<b>31,654</b>		<b>49,344</b>

<sup>1)</sup> Remaining shares owned by subsidiary.

<sup>2)</sup> Name changed from Swedish Match Cigars Holding AB.

<sup>3)</sup> Nationalized in 1963.

<sup>4)</sup> Nationalized in 1968.

<sup>5)</sup> Nationalized in 1969.

In addition, shares are owned in Union Allumettiére Marocaine S.A. Ownership is purely formal. Group companies hold all rights and obligations.

## 7 Tangible assets

Equipment, tools and fixtures	2017	2016
<b>Cost at beginning of year</b>	<b>4</b>	<b>4</b>
Purchases/investments	-	0
<b>Cost at end of year</b>	<b>4</b>	<b>4</b>
<b>Accumulated depreciation at beginning of year</b>	<b>-2</b>	<b>-1</b>
Depreciation for the year	-1	-1
<b>Accumulated depreciation at end of year</b>	<b>-3</b>	<b>-2</b>
<b>Net carrying value at end of year</b>	<b>1</b>	<b>2</b>

Depreciation charges on tangible assets are included in administrative expenses in the income statement and amounts to -1 MSEK (-1). No borrowing costs have been capitalized during 2017 nor during 2016.

## 9 Other non-current receivables

Other non-current receivables consists of derivatives including exchange rate differences and fair values of cross currency and interest rate swaps of 273 MSEK (328).

## 10 Other receivables

Other receivables	2017	2016
Derivatives	-	10
Tax account	31	-
VAT receivables	1	-
Other current receivables	0	0
<b>Carrying value at end of year</b>	<b>32</b>	<b>10</b>

## 11 Prepaid expenses and accrued income

Prepaid expenses and accrued income	2017	2016
Accrued interest income	1	2
Prepaid bank charge	4	5
Prepaid rent	4	4
Other prepaid expenses	7	6
<b>Carrying value at end of year</b>	<b>16</b>	<b>16</b>

## 12 Equity

For information regarding the change in Parent Company equity see Statement of changes in Parent Company equity.

Number of registered shares in the Parent Company are detailed below:

Number of registered shares	2017	2016
Issued at beginning of year	188,750,000	196,500,000
Cancellation	-6,950,000	-7,750,000
<b>Total shares outstanding at end of year</b>	<b>181,800,000</b>	<b>188,750,000</b>
Of which held by Swedish Match AB	-5,889,462	-4,077,313
<b>Total shares outstanding, net of shares held by Swedish Match AB</b>	<b>175,910,538</b>	<b>184,672,687</b>
<b>Total outstanding shares quota value</b>	<b>2.1425</b>	<b>2.0637</b>

### Repurchase of own shares

Repurchase of own shares encompass the acquisition cost for treasury shares owned by the Parent Company. At December 31, 2017, the Parent Company's holding of treasury shares amounted to 5,889,462 shares (4,077,313).

Number of shares held in treasury and cumulative repurchases of own shares included in retained earnings are detailed below:

	Number of shares (thousands)		Cumulative effect on equity (MSEK)	
	2017	2016	2017	2016
<b>Balance at beginning of year</b>	<b>4,077</b>	<b>7,584</b>	<b>-26,338</b>	<b>-25,089</b>
Repurchase of own shares during the year	8,762	4,243	-2,590	-1,249
Allocated to retained earnings by cancellation of shares	-6,950	-7,750	14	15
Bonus issue	-	-	-14	-15
<b>Balance at end of year</b>	<b>5,889</b>	<b>4,077</b>	<b>-28,928</b>	<b>-26,338</b>

The Annual General Meeting on May 4, 2017 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 6.9 million shares held in treasury, with a simultaneous bonus issue, without issuing new shares, of an amount equivalent to the amount represented by the cancelled shares or 14.3 MSEK. Furthermore the shareholders approved the proposal that the reduction will be allocated to a fund for use pursuant to a resolution adopted by the Annual General Meeting.

During the year 8.8 million shares were repurchased for 2,590 MSEK at an average price of 295.62 SEK. Total shares bought back since the buyback program started have been repurchased at an average price of 123.32 SEK.

As per December 31, 2017 Swedish Match held 5.9 million shares in its treasury, corresponding to 3.24 percent of the total number of shares. The number of shares outstanding, net, as per December 31, 2017, amounted to 175.9 million.

### Dividend

After the balance sheet date, the Board proposed a dividend for 2017 of 16.60 SEK per share consisting of an increased ordinary dividend per share of 9.20 SEK (8.50) and a special dividend of 7.40 SEK following the final sale of shares in STG. The dividend then amounts to 2,920 MSEK based on the 175.9 million shares outstanding at the end of 2017. The dividend for 2016, paid in 2017, amounted to 2,908 MSEK, consisting of an ordinary dividend of 1,545 MSEK corresponding to 8.50 SEK per share and a special dividend of 7.50 SEK per share amounting to 1,363 MSEK following the partial divestment of STG in January.

### Reserve for fair value

The reserve for fair value consists of a hedge reserve, the change during the year is explained below:

Hedge reserve	2017	2016
<b>Carrying value at beginning of year</b>	<b>-110</b>	<b>-59</b>
Effective portion of changes in fair value of cash flow hedges	-104	-81
Reclassification for gains/losses on cash flow hedges included in profit and loss	-	16
Income tax	23	14
<b>Carrying value at end of year</b>	<b>-191</b>	<b>-110</b>

The hedge reserve includes the accumulated effective portion of changes in fair value of cash flow hedges attributable to interest rate hedges.

## 13 Untaxed reserves

Untaxed reserves	2017	2016
<i>Excess depreciation:</i>		
<b>Tangible assets</b>		
Carrying value at beginning of year	0	0
Excess depreciation for the year	0	0
<b>Total</b>	<b>0</b>	<b>0</b>
<i>Tax allocation reserve:</i>		
Carrying value at beginning of year	995	675
Reversal of appropriation	-115	-
Appropriation current year	450	320
<b>Total</b>	<b>1,330</b>	<b>995</b>
<b>Carrying value at end of year</b>	<b>1,330</b>	<b>995</b>



## 14 Other provisions

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

Other provisions	2017	2016
Pension obligations	58	71
Deferred compensation	26	29
Other operating provisions	2	-
<b>Carrying value at end of year</b>	<b>86</b>	<b>100</b>
Where of total non-current	79	98
Where of total current	7	2

Movements in provisions during the year were as follows:

2017	Pension obligations	Deferred compensation	Other operating provisions	Total
<b>Carrying value at beginning of year</b>	<b>71</b>	<b>29</b>	-	<b>100</b>
Provisions made during the year	3	10	2	15
Provisions used during the year	0	-	-	0
Provisions reversed during the year and changes in estimates	-16	2	-	-14
Provisions reclassified to accrued expenses	-	-15	-	-15
<b>Carrying value at end of year</b>	<b>58</b>	<b>26</b>	<b>2</b>	<b>86</b>

2016	Pension obligations	Deferred compensation	Total	
<b>Carrying value at beginning of year</b>	<b>24</b>	<b>25</b>	<b>48</b>	
Provisions made during the year	2	15	16	
Provisions used during the year	-1	-	-1	
Provisions reversed during the year and changes in estimates		46	3	50
Provisions reclassified to accrued expenses	-	-13	-13	
<b>Carrying value at end of year</b>	<b>71</b>	<b>29</b>	<b>100</b>	

### Pension obligations

Pension obligations pertain to provisions recognized for special income taxes on pension obligations secured in endowment insurances and provisions for post-employment defined benefit obligations. The major part of the pension provisions pertains to a pension trust for former employees in the divested Swedish Match UK Ltd. Due to a change in the assumption of the discount rate the provision for the UK pension obligations has decreased. Payments relating to the pension obligations later than five years after balance sheet date are calculated to an amount of 20 MSEK.

### Deferred compensation

Deferred compensation refers to long term incentive plans for certain managers which will be settled within three years.

### Other operating provisions

Other operating provisions refers to restructuring provisions.

## 15 Bond loans

Liabilities due for payment later than five years after the balance sheet date amount to 6,402 MSEK (4,471).

## 16 Other liabilities

Other liabilities mainly consist of the change in fair value of the derivatives, due to increase or decrease of interest rates and currencies. Derivative liabilities with maturity over five years after the balance sheet date amount to 72 MSEK (69).

## 17 Accrued expenses and deferred income

Accrued expenses and deferred income	2017	2016
Accrued interest expenses	125	105
Accrued incentives including social security charges	38	34
Accrued social security charges	4	7
Accrued vacation pay	2	2
Personnel expenses	0	0
Other accrued expenses	4	3
Deferred income	2	2
<b>Carrying value at end of year</b>	<b>175</b>	<b>154</b>

## 18 Carrying value and fair value of financial instruments

Swedish Match applies IFRS 13 for financial instruments measured at fair value on the balance sheet whereby an entity shall classify fair value measurement using a fair value hierarchy that reflects the significance of input used according to the following levels:

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

The following table shows carrying value (including accrued interest) and fair value for each category of financial instruments, including their levels in the fair value hierarchy, at December 31, 2017. Derivatives attributable to cash flow hedges are carried at fair value via other comprehensive income in level 2 of the fair value hierarchy. In assessing the fair values of these derivatives, the Group uses a variety of methods and makes assumptions based on market conditions at each reporting date. Quoted market prices or dealer quotes for identical or similar instruments are used. All other items, except loans and borrowings, have a short duration and are considered non-interest bearing, and therefore, the total carrying value of the financial instruments corresponds to the estimated fair value. The carrying amount for loan and borrowings differ from their fair value as a consequence of changes in the market interest rates, determined by using current official market quotations for our outstanding bonds or similar instruments and discounting future cash flows. The values presented are indicative and may not necessarily be realized.

For carrying value and fair value of financial instruments appliances, see *Note 27 Financial instruments and financial risks* for the Group on page 92.

2017	Loans and receivables	Other financial liabilities	Cash flow hedges	Non-financial instruments	Total carrying value	Estimated fair value
Other non-current financial receivables	–	–	273	–	273	273
Receivables on Group companies	2,446	–	–	–	2,446	2,446
Other current receivables	–	–	–	32	32	32
Prepaid expenses and accrued income <sup>1)</sup>	–	–	1	15	16	16
Cash & cash equivalents	1,900	–	–	–	1,900	1,900
<b>Total assets</b>	<b>4,346</b>	<b>–</b>	<b>274</b>	<b>47</b>	<b>4,667</b>	<b>4,667</b>
Loans and borrowings	–	11,525	–	–	11,525	11,705
Other liabilities	–	–	72	2	74	74
Liabilities to Group companies (current)	–	3,890	–	–	3,890	3,890
Accrued expenses and deferred income <sup>1)</sup>	–	100	25	50	175	175
Trade payables	–	17	–	–	17	17
<b>Total liabilities</b>	<b>–</b>	<b>15,532</b>	<b>97</b>	<b>52</b>	<b>15,681</b>	<b>15,861</b>

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

Fair value measurement by level	Level 1	Level 2	Level 3	Total
Derivative financial assets	–	274	–	274
Derivative financial liabilities	–	97	–	97

2016	Loans and receivables	Other financial liabilities	Cash flow hedges	Non-financial instruments	Total carrying value	Estimated fair value
Other non-current financial receivables	–	–	328	–	328	328
Receivables on Group companies	2,280	–	–	–	2,280	2,280
Other current receivables	–	–	10	0	10	10
Prepaid expenses and accrued income <sup>1)</sup>	–	–	2	14	16	16
Cash & cash equivalents	1,005	–	–	–	1,005	1,005
<b>Total assets</b>	<b>3,285</b>	<b>–</b>	<b>340</b>	<b>14</b>	<b>3,639</b>	<b>3,639</b>
Loans and borrowings	–	10,211	–	–	10,211	10,540
Liabilities to Group companies (non-current)	–	18,100	–	–	18,100	18,100
Other liabilities	–	–	69	3	72	72
Liabilities to Group companies (current)	–	4,942	–	–	4,942	4,942
Accrued expenses and deferred income <sup>1)</sup>	–	96	9	49	154	154
Trade payables	–	15	–	–	15	15
<b>Total liabilities</b>	<b>–</b>	<b>33,364</b>	<b>78</b>	<b>52</b>	<b>33,494</b>	<b>33,823</b>

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

Fair value measurement by level	Level 1	Level 2	Level 3	Total
Derivative financial assets	–	340	–	340
Derivative financial liabilities	–	78	–	78

## 19 Derivatives under netting agreements

To reduce the credit risk in receivables from banks arising via derivative instruments, Swedish Match has entered into netting agreements, known as ISDA Master Agreements, with all of its counterparties. These agreements grant rights to net market valuations on assets and liabilities if the counterpart is in an event of default, as with suspended payments. The following table shows the netted exposures per December 31. No collateral has been received or pledged. All the derivatives are related to the Group's central funding.

### Financial instruments under master netting agreements

2017	Gross amount for financial instruments	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	Net
Derivatives – Assets	274	-95	179
Derivatives – Liabilities	97	-95	3

2016	Gross amount for financial instruments	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	Net
Derivatives – Assets	340	-78	262
Derivatives – Liabilities	78	-78	0

## 20 Operating lease agreements

Total expense for operating lease agreements for 2017 amounted to 15 MSEK (15). Operating leasing agreements mainly refer to rental of office and storage premises. The contracts are non-cancellable during the agreed leasing period and the agreements include indexation clauses.

Future annual minimum lease payments under the terms of non-cancellable operating lease agreements with initial or remaining terms of one year or more fall due as follows:

Minimum lease payments	2017	2016
Within one year	13	13
Between 1–5 years	29	42
Later than 5 years	–	–
<b>Total</b>	<b>42</b>	<b>55</b>

Certain parts of the leased premises are sub-leased to a Swedish Match AB's subsidiary. Rental income for the year relating to items that are being subleased to a subsidiary amounted to 12 MSEK (12).

## 21 Pledged assets and contingent liabilities

### Pledged assets

Pledged assets pertains to endowment insurance policies pledged as security for pension obligations amounting to 76 MSEK (59).

In accordance with IAS 19, endowment insurance policies pledged as securities for certain defined contribution obligations have been netted against the pension obligation in other provisions.

Contingent liabilities	2017	2016
Guarantees on behalf of subsidiaries	52	51
<b>Total</b>	<b>52</b>	<b>51</b>

## 22 Distribution of earnings

### Proposed distribution of earnings

Dividend (16.60 SEK based on 175,910,538 shares)	SEK	2,920,114,931
Retained earnings to be carried forward	SEK	15,911,849,710
<b>Total amount</b>	<b>SEK</b>	<b>18,831,964,641</b>

## 23 Related parties

Summary of transactions with related parties	Subsidiaries		Associated companies	
	2017	2016	2017	2016
<b>Revenues</b>				
Dividends	23,827	3,395	–	–
Group contribution	2,428	2,261	–	–
Interest income	0	4	–	–
Sale of goods/services	47	52	–	0
Rental income	12	12	–	–
<b>Expenses</b>				
Group contribution	-13	-83	–	–
Interest expenses	-270	-307	–	–
Purchase of goods/services	-18	-14	–	–
<b>Receivables</b>	<b>2,446</b>	<b>2,280</b>	–	–
<b>Liabilities</b>	<b>3,890</b>	<b>23,042</b>	–	–
<b>Contingent liabilities</b>	<b>52</b>	<b>51</b>	–	–

Transactions with related parties are determined at an arms-length basis. For remunerations to key management personnel, see *Note 6 Personnel* for the Group.

In the normal course of business, the Parent company conducts various transactions with subsidiaries. For information about directly owned subsidiaries, see *Note 8 Group companies*.

## 24 Supplementary information to cash flow statement

	2017	2016
Interest paid and received and dividend received		
Dividend received <sup>1)</sup>	23,827	2,539
Interest received, non-Group companies	0	1
Interest paid, non-Group companies	-332	-395
Interest received, Group companies	0	4
Interest paid, Group companies	-270	-307
<b>Total</b>	<b>23,225</b>	<b>1,842</b>

<sup>1)</sup> 2016 excludes a dividend in kind of 856 MSEK.

Interest payments and interest receipts are reflected in cash flow from operations.

## NOTE 24 Continued

	2017	2016
Adjustments for non cash items and other		
Depreciation	1	1
Proceeds from sale of subsidiaries	-107	-
Write-down of subsidiaries	18,624	76
Dividend in kind	-	-856
Change in accrued interest	8	13
Change in pension provision	-17	46
Exchange rate differences	0	3
Other	-	0
<b>Total</b>	<b>18,508</b>	<b>-717</b>

	2017	2016
Cash and cash equivalents		
Cash and bank	-	-
Other current deposits <sup>2)</sup>	1,900	1,005
<b>Total</b>	<b>1,900</b>	<b>1,005</b>

<sup>2)</sup> Other current deposits have been classified as cash and cash equivalents based on that they are readily convertible to known amounts of cash.

## Reconciliation of liabilities arising from financing activities

	2016	Cash flows	Non-cash changes			2017
			Adj. current portion from non-current	Foreign exchange movement	Fair value changes	
Long term borrowings	8,169	3,293	-1,251	66	-	10,277
Short term borrowings	2,042	-1,988	1,251	-57	-	1,248
Net assets held to hedge long term borrowings	-286	-13	-	-6	104	-202
<b>Total liabilities from financing activities</b>	<b>9,925</b>	<b>1,291</b>	<b>-</b>	<b>4</b>	<b>104</b>	<b>11,323</b>

## 25 Employee benefits

### Post-employment employee benefits

Swedish Match AB has post-employment benefit obligations that are insured by Swedish pension trust arrangements. Swedish Match AB also has assumed the role as sponsor and Principal Employer for a pension trust for former employees in the divested Swedish Match UK Ltd.

As per December 31, 2017 the larger Swedish pension trust arrangement shows a net surplus while a small plan reflects a net deficit. The pension plan for former employees in the UK shows a net deficit.

The tables below specify the pension obligations assumed by Swedish Match AB:

	2017	2016
Defined benefit pension plans		
Present value of funded obligations	850	882
Fair value of separately held assets	-898	-916
<b>Surplus, net</b>	<b>-48</b>	<b>-33</b>
Net surplus in pension trust not recognized in balance sheet	88	90
<b>Net pension liability recognized in the balance sheet</b>	<b>40</b>	<b>57</b>

Specification of movements in the net liability recognized in the balance sheet attributable to pension:

	2017	2016
Net pension liability		
<b>Balance at beginning of year</b>	<b>57</b>	<b>11</b>
Benefits paid	8	11
Contribution received from pension trust	-8	-11
Change in pension provision	-17	46
<b>Balance at end of year</b>	<b>40</b>	<b>57</b>

88 MSEK (88) of the total net pension asset is covered by "Tryggandelagen".

## 26 Subsequent events

No significant events has occurred after the balance sheet date.

Specification of expenses and income attributable to pension:

	2017	2016
Defined benefit pension plans		
Difference between contribution received from pension trust and benefits paid	0	3
Interest cost on obligation	-22	-28
Actual return on separately held assets	26	101
Change in pension provision	17	-46
<b>Net income/expense for pension</b>	<b>21</b>	<b>30</b>
<b>Pensions covered by insurance premiums:</b>		
Costs for pension insurance premiums recognized in income statement	-16	-16
Change in surplus in pension trust	-4	-73
<b>Net pension costs recognized in income statement attributable to pension</b>	<b>1</b>	<b>-59</b>

The expenses attributable to pension are recognized in the income statement under administration costs.

The actual return on separately held assets expressed in percentage is 2.8 percent (10.8).

Separately held assets of the pension trusts are comprised as follows:

	2017	2016
Separately held assets		
Debt instruments	70	78
Equity securities	147	134
Other <sup>1)</sup>	682	704
<b>Total</b>	<b>898</b>	<b>916</b>

<sup>1)</sup> Large part pertains to the UK annuity policies at the insurance company Aviva.

### Significant actuarial assumptions at the balance sheet date

The obligations are calculated based on a weighted average discount rate of 2.4 percent (2.6).

A contribution to the UK pension plan is going to be paid during the first quarter of 2018 in an amount of approximately 5 MSEK.

# Auditor's report

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

## Report on the annual accounts and consolidated accounts

### Opinions

We have audited the annual accounts and consolidated accounts of Swedish Match AB (publ) for the financial year 2017-01-01 – 2017-12-31. The annual accounts and consolidated accounts of the company are included on pages 55–107 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their

financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group. Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these

requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Other Matter

The audit of the annual accounts and consolidated accounts for the financial year 2016-01-01–2016-12-31 was performed by another auditor who sub-

mitted an auditor's report dated 16 March 2017, with unmodified opinions in the Report on the annual accounts and consolidated accounts.

### Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in

the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

### Carrying value of goodwill

Swedish Match report goodwill of MSEK 1 242 as of 31 December 2017. For cash generating units ("CGUs") which contain goodwill, the determination of recoverable amount, being the higher of fair value less costs to sell and value in use, requires judgement on the part of management in both identifying and then valuing the relevant CGUs. Management prepared impairment assessments for the goodwill by CGU, as required under accounting standards, which was based on a value in use calculation. Such calculations are based on management's view of variables such as sales growth, EBITDA margin, working capital, investment needs, terminal growth rate of free cash flow, and the most appropriate discount rate.

We focused on the impairment assessments prepared by management as the carrying value of goodwill is material and as the assessment requires judgements and estimates on the part of management.

Our audit procedures included, but were not limited to:

- evaluating the design and implementation of relevant internal controls over the impairment assessment process including indicators of impairment;
- with the support of our valuation specialists, we benchmarked and challenged key assumptions in management's valuation models used to determine recoverable amount against external data, including assumptions of sales growth, EBITDA margin, working capital, investment needs, terminal growth rate, and discount rate;
- testing of the mathematical accuracy of the cash flow models used by management; and
- evaluating the appropriateness of disclosures made in the financial statements.

Disclosures regarding goodwill and other intangible assets are included in note 1 Accounting principles, and note 12 Intangible assets.



### Post-employment defined benefit obligations

Swedish Match has obligations under defined benefit pension plans and post-employment medical benefit plans in a number of subsidiaries. Swedish Match's main defined benefit plans cover employees in the US.

Actuarial valuation of these defined benefit obligations and plan assets require the use of estimates and significant judgements, and a small change in key assumptions can have a significant impact on the financial statements of Swedish Match. Significant actuarial assumptions used are among other future salary growth rate, future pension growth rate, future mortality experience, medical cost trend rate, and discount rate.

Our audit procedures included, but were not limited to:

- evaluating the design and implementation of relevant internal controls over the valuations of obligations and assets;

- involving our actuarial specialist and assess the reasonableness of the actuarial assumptions used including comparing the assumptions with our internally developed benchmarks;
- evaluating the completeness of plan assets by obtaining confirmations from independent fund managers including testing the fair value of the plan assets by reviewing a sample of plan asset valuations.
- evaluating the appropriateness of disclosures made in the financial statements.

Disclosures regarding defined benefit obligations and plan assets are included in note 1 Accounting principles and note 23 Employee benefits.

### Acquisition of V2 Tobacco

On August 31, 2017, Swedish Match acquired 100 percent of the shares in V2 Holding ApS ("V2 Tobacco") and the total consideration paid, less acquired liquid funds, amounted to MSEK 929.

Accounting for business combinations requires significant judgements and estimates by management to determine the fair value of acquired assets and assumed liabilities.

Our audit procedures included, but were not limited to:

- evaluating the applied methodology and assumptions made by management including those related to the allocation of the purchase price;

- assessment of purchase price allocation utilizing our valuation specialists to review fair values assigned to acquired assets and assumed liabilities; and
- assessing disclosures made in the financial statements to be in compliance with IFRS 3 – Business Combinations.

Disclosures regarding subsidiaries are included in note 1 Accounting principles and note 4 Business combinations.

### Impact of new accounting standard

The new accounting standard IFRS 15 Revenue from Contracts with Customers are mandatorily effective for annual periods beginning on or after 1 January 2018. IFRS 15 introduces a new model for revenue recognition (five step model) which is based on when control of a good or service is transferred to the customer. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers, in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Swedish Match has performed a group-wide assessment of the impact of the new standards on the consolidated financial statements.

We focused in this area since assessment of impact from and the following application of IFRS 15 requires significant judgements and certain key estimations on behalf of management. IFRS 15 is expected to have a material impact on the financial statements of Swedish Match.

Our audit procedures included but were not limited to:

- reviewing the assessment made by management including key issues identified and estimated effects;
- together with our IFRS specialists, review existing contracts with customers for understanding of the terms and challenge management's interpretations and judgements made; and
- evaluating impacts from the new accounting standards and adequacy of disclosures.

Details of the new requirements as well as their expected impact on Swedish Match's consolidated financial statements are described in note 1 Accounting principles.

### Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages ii–54. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and

consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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## Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the

company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

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## Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going

concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

## Report on other legal and regulatory requirements

### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Swedish Match AB (publ) for the financial year 2017-01-01 – 2017-12-31 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for

accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things con-

tinuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgement and maintain professional

scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgement with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Deloitte AB, was appointed auditor of Swedish Match AB by the general meeting of the shareholders on the 2017-05-04 and has been the company's auditor since 2017-05-04.

Stockholm, March 15, 2018

Deloitte AB

Peter Ekberg  
Authorized public accountant

# Chairman's comment



This annual report covers our product areas and the financial results, and also highlights some of the directions we are taking in terms of both our products, our markets, and our activities, consistent with our vision of a

world without cigarettes. The report also covers much of the good progress from our focus areas with regard to sustainability efforts. Good governance is essential as a reputable and responsible company. Further details on the activities of the Board of Directors, as well as corporate governance and risk assessment during the year are presented on pages 113–119 in the Governance report.

## Swedish Match has a clear vision, strengthening the Company's position as a strong and reputable company

I am proud to be the chairman of a company with its vision of a world without cigarettes, supported by its focus on smokeless products – not only Scandinavian snus, but also in new product areas, such as chew bags, and nicotine enjoyment products that do not contain tobacco.

Cash returns to shareholders during the year came in the form of not only our ordinary dividend and ongoing share repurchase program, but also from a special dividend resulting from our sell-down of STG shares.

During 2017, the Board of Directors will propose to the Annual General Meeting to increase the ordinary dividend to 9.20 SEK per share as well as a special dividend of 7.40 SEK per share following the sale of our remaining shareholding in STG.

The Board remains actively engaged with Swedish Match's management, and plays an important role in governance. Its efforts are further supported by contributions made by our various board committees.

I admire and I am grateful for the work this past year of both the Board and the CEO and his management team, and am especially proud of the employees of Swedish Match, whose hard work and dedication make Swedish Match such a great company. I would also thank you, our shareholders, for your support of our outstanding organization.”



Conny Karlsson  
Chairman of the Board



# Governance report

**Swedish Match AB (publ) is a public Swedish limited liability company listed on Nasdaq Stockholm. The objective of the Company's operations, as stated in the Company's Articles of Association, is to directly or indirectly conduct business relating to the development and manufacture of and trade in tobacco products, matches, and lighters and to carry out other activities that are related to these businesses.**

Swedish Match is subject to a variety of rules that affect its governance, including the Company's Articles of Association, the Swedish Companies Act, the Rule Book for Issuers on Nasdaq Stockholm, the Swedish Code of Corporate Governance, and other applicable laws and regulations.

Internal regulations and standards that affect Swedish Match's corporate governance include the Company's Articles of Association, the Board's rules of procedure, the Board's instructions to the CEO, the Group's Code of Conduct, and other policy documents issued within the Group. The Articles of Association are adopted by the General Meeting of shareholders.<sup>1)</sup> They do not contain any limitations on the number of votes that a shareholder may cast at a General Meeting or any specific provisions concerning the appointment and dismissal of directors or regarding amendments of the Articles of Association.

Swedish Match applies the Swedish Code of Corporate Governance (the Code).<sup>2)</sup> The Code is based on the "comply or explain" principle, meaning that a company that applies the Code may deviate from regulations of the Code, but must provide explanations for each deviation. The Company is not reporting any deviations from the Code for 2017, except with regard to the Code's regulation that auditors are to review the Company's half year or nine month report. The reason for this deviation

is that the Board of Directors, with reference to the Company's stable operations, is of the opinion that the extra cost that would be incurred by such a review is not warranted and that sufficient control is achieved through the Company's internal reporting and control systems. This Corporate Governance report has been examined by the Company's auditors but does not represent part of the formal annual report.

## Shareholding

The share capital of Swedish Match was 389,515,417.20 SEK distributed over 181,800,000 shares at the end of 2017. Each share carries one vote. On December 31, 2017, no shareholder<sup>3)</sup> had a shareholding in the Company representing one tenth or more of the votes of all shares of the Company. The Swedish Match share is listed on Nasdaq Stockholm. Further information concerning Swedish Match's ownership structure and share performance are presented on pages 48–49 of the 2017 Annual Report.

## Annual General Meeting 2018

Swedish Match's 2018 Annual General Meeting will be held on April 11, in Stockholm, Sweden. All shareholders who have been entered in the share register and have informed the Company of their attendance within the correct time limit stated in the notice are entitled to

participate personally or by proxy at the General Meeting and to vote according to the number of shares held. Notice of the General Meeting is published in Post- och Inrikes Tidningar and on the Company's website. Information that notice to a General Meeting has been issued, is published in the Swedish daily newspaper, Svenska Dagbladet.

Shareholders who wish to have a matter addressed by the Annual General Meeting must submit a written request to the Board in sufficient time prior to the meeting.<sup>4)</sup>

Shareholders may submit proposals to the Company's Nominating Committee at any time, however, no later than two months prior to the Annual General Meeting, so that the Committee can consider proposals received with due care.

## Nominating Committee for the Annual General Meeting 2018

The Nominating Committee for the Annual General Meeting in 2018 was announced on the Company's website on October 11, 2017. In addition to the Chairman of the Board of Swedish Match, Conny Karlsson, the Nominating Committee consists of the following members: Mark Husson (Cedar Rock Capital), Daniel Ovin (Nordea Asset Management), William James (Standard Life Investments) and Ossian Ekdahl (Första AP-fonden). Daniel Ovin serves as Chairman of the Nominating Committee.

## PROPOSALS TO THE NOMINATING COMMITTEE ARE TO BE SUBMITTED TO:

Swedish Match AB  
The Nominating Committee  
c/o General Counsel Marie-Louise Heiman  
SE-118 85 Stockholm, Sweden  
E-mail: nominating.committee@swedishmatch.com

<sup>1)</sup> Available on Swedish Match's website [www.swedishmatch.com/governance](http://www.swedishmatch.com/governance).

<sup>2)</sup> Available on Swedish Corporate Governance Board's website [www.corporategovernanceboard.se](http://www.corporategovernanceboard.se).

<sup>3)</sup> Source: Euroclear Sweden AB.

<sup>4)</sup> More information is available on Swedish Match's website [www.swedishmatch.com/agm](http://www.swedishmatch.com/agm).



# GOVERNANCE OF THE SWEDISH MATCH GROUP

## External auditors

The auditors are elected by the Annual General Meeting (AGM) for a term of between one and four years. According to the Articles of Association, the number of authorized public auditors must be one or two with a maximum of one or two deputy auditors or one or two auditing firms.

The duties of the external auditors include auditing the management of the Board and the President as well as the Company's annual accounts and accounting records. The external auditors report continuously to the Board's Audit Committee and, in conjunction with preparation of the annual accounts, they also report their observations from the audit to the Board.

## General Meeting

The General Meeting constitutes the highest governing body in a limited liability company, and shareholders' rights to participate in resolutions regarding the Company's affairs are exercised at General Meetings. The Company's shareholders are informed of their legal rights to have issues addressed at General Meetings through the Company's website [www.swedishmatch.com/aggm](http://www.swedishmatch.com/aggm). There are no special provisions on how the General Meeting works in the Articles of Association or, as far as known to the Company, due to any shareholders agreement. Resolutions adopted by General Meetings are generally resolved by a simple majority. However, according to the Swedish Companies Act, certain matters are to be resolved by a qualified majority.

## Audit Committee

The Audit Committee is appointed annually by the Board of Directors and is a body within the Board. Although the Audit Committee's work is primarily of a preparatory and advisory nature, the Board of Directors delegates decision-making authority on specific issues to the Committee. The Committee is responsible for monitoring the Company and its subsidiaries' accounting and financial reporting processes as well as, in respect of the financial reporting, the efficiency of the internal controls, internal audit and risk management.

The Committee is also to review and monitor the impartiality and independence of the auditors. The Committee's responsibilities are to large extent set by the EU Audit and Auditor Regulation, which includes responsibility for the audit selection procedure and otherwise to assist the Nominating Committee in preparing proposals regarding election of auditors and recommendations on audit fees. It also keeps itself informed regarding the audit of the annual report and consolidated accounts. In conjunction with the Audit Committee's review of the financial reporting, the members of the Committee also discuss accounting issues relating to the Company's financial reporting. The Committee also establishes guidelines by which services other than auditing may be secured from the Company's auditors. The Audit Committee also discusses other important issues relating to the Company's financial reporting and reports its observations to the Board.

In consultation with committee members, the Chairman of the Audit Committee is to decide where and how frequently the Committee is to meet.\*

## The Board of Directors

The Board of Directors is the Company's highest administrative body under the General Meeting. The Board of Directors is responsible for ensuring that the Group's organization is appropriate for its purpose and conducts ongoing evaluations of the financial position of the Company, of management guidelines and of the investment of company funds. The Board also safeguards the Company's financial accounting, internal controls and the quality of its financial reporting through the internal control system described in detail in the section entitled Risk management and internal control over financial reporting. The Board is primarily responsible for establishing Swedish Match's strategic and financial Long Range Plan, monitoring the performance of the operations on an ongoing basis, reviewing and approving the financial accounts, and taking decisions regarding investments and divestments.

## Disclosure Committee

The President has appointed a Disclosure Committee whose primary responsibility is to ensure that all external reporting, including interim reports, annual reports, and press releases, whose content could have an impact on the share price or that contains financial information, is prepared in accordance with the Group's prevailing procedures routines.

## President and CEO

The President is appointed by the Board of Directors and manages the Company's operations within the framework of rules established by the Board.

With regard to the Board of Directors, the President's duties include responsibility for ensuring that the Board of Directors receives objective, comprehensive, and relevant information prior to Board meetings, thus enabling the Board to reach well-founded decisions. The President also submits proposals

SCANDINAVIA  
DIVISION

US DIVISION

The AGM must be held within six months of the close of the fiscal year. At the AGM, resolutions are adopted concerning such matters as dividend, approval of the annual report, discharge of the Board of Directors and the President from personal liability, election and compensation of the Chairman and members of the Board of Directors and, auditors, guidelines for determination of compensation payable to senior executives, and other matters of importance to the Company.

### Nominating Committee

The Nominating Committee is established according to the principles resolved by the AGM. The AGM also resolves on instructions for the Nominating Committee and according to the instructions the Nominating Committee shall submit to the AGM proposals regarding any changes to these instructions. The Nominating Committee's duties are to prepare and submit proposals to the AGM concerning the election of the Chairman of the AGM, the election of the Chairman and other members of the Board, the amount of Board fees and their apportionment between the Chairman of the Board and other Board members and any fees for committee work, as well as the election of and fees to be paid to the auditors.

In the autumn of each year, the Board of Directors commissions an external consultant to evaluate the performance and functioning of the Board's work. The Chairman of the Board informs the Nominating Committee about the outcome of the evaluation. This evaluation gives the Nominating Committee a basis from which to assess the competence and experience of the Board members and requirements for the future. The Nominating Committee is to meet as often as necessary to discharge its duties, but at least once per year.

The Board of Directors appoints and issues instructions for the President and monitors the President's work.

The working procedures for the Board of Directors are established annually at the statutory Board meeting. The working procedures include instructions relating to the role of the Chairman of the Board, the division of responsibilities between the Board of Directors and the President and the guidelines for financial reporting to the Board.

The Chairman of the Board is responsible for organizing and directing the Board's work and ensuring that the Board fulfills its obligations. The Chairman's other responsibilities include forwarding the owners' opinions to the Board of Directors.

### Compensation Committee

The Compensation Committee is appointed annually by the Board of Directors and is a body within the Board. The Committee's duties are to prepare and submit to the Board proposals for resolutions relating to remuneration and other terms of employment for the Company's President, principles regarding remuneration to senior executives, which the Board will present to the AGM for a resolution and other remuneration and employment term matters which by law or other regulations, the Swedish Code of Corporate Governance or established practice shall be resolved by the General Meeting or the Board of Directors.

The Board of Directors has delegated decision-making authority to the Compensation Committee in certain issues such as calculation and payment of variable salary to the Company's President, salary and other compensation that, within the framework of the guidelines resolved by the AGM, is to be paid to members of the Group Management Team other than the President, including performance criteria, and targets in any long term incentive plan and approval of significant engagements outside the Company with respect to members of the Group Management Team other than the President.

The Committee is to meet as often as necessary but at least twice annually.\*

for decisions by the Board. On a monthly basis, the President provides Board members with the information required to monitor the position, liquidity and development of the Group, while also providing the Chairman with ongoing information regarding the operations of the Group.

[www.swedishmatch.com](http://www.swedishmatch.com)



\* Further information regarding for example the committees' respective responsibilities and authorizations, the Company's system of variable remuneration to senior executives as well as minutes from shareholders' meetings, is to be found on the Company's website, [www.swedishmatch.com/governance](http://www.swedishmatch.com/governance).

LIGHTS DIVISION

# GOVERNANCE OF THE SWEDISH MATCH GROUP 2017

## ANNUAL GENERAL MEETING 2017

In 2017, the Annual General Meeting was held on May 4. The minutes of the meeting are available on the Company's website [www.swedishmatch.com/agma](http://www.swedishmatch.com/agma).

The Annual General Meeting 2017 passed the following resolution, amongst others:

- An ordinary dividend of 8.50 SEK per share and a special dividend of 7.50 SEK per share, in total 16.00 SEK per share for the 2016 fiscal year.
- Re-election of Charles A. Blixt, Andrew Cripps, Jacqueline Hoogerbrugge, Conny Karlsson, Wenche Rolfsen, and Joakim Westh as Board members. Pauline Lindwall was elected as new member of the board. Re-election of Conny Karlsson as Chairman of the Board and Andrew Cripps as deputy Chairman of the Board.

- The Chairman shall receive 1,840,000 SEK, the deputy Chairman shall receive 870,000 SEK and the other Board members elected by the Meeting shall each receive 735,000 SEK. Furthermore, as compensation for committee work carried out, it was decided to allocate 260,000 SEK to the Chairman of the Compensation Committee as well as to the Chairman of the Audit Committee and to allocate 130,000 SEK to each of the other members of these committees.
- Withdrawal of 6,950,000 repurchased shares in the Company.
- Authorization of the Board of Directors to acquire, on one or more occasions prior to the next Annual General Meeting, a maximum of as many shares as may be acquired without the Company's holding at any time exceeding 10 percent of all shares in the Company.
- Authorization of the Board of Directors to decide on transfer of the Company's own shares and to issue new ordinary shares.
- Principles for determining the salary and other remuneration of the President and other members of the Company's management.
- Adoption of income statements and balance sheets for 2016 and discharge from personal liability granted of the Board of Directors and the Chief Executive Officer.
- Election of the auditor company Deloitte AB for the period as of the end of the Annual General Meeting 2017 until the end of the Annual General Meeting 2019.

For information on the utilization of the authorization granted by the General Meeting to the Board of Directors to acquire treasury shares, see the *Report of the Board of Directors*, page 56 of the 2017 Annual Report.

## Nominating Committee

Pursuant to instructions established by the Annual General Meeting 2011, the Nominating Committee is, until further notice, to include the Chairman of the Board of Directors and one member appointed by each of the four largest shareholders who wish to appoint a member to the Nominating Committee. The four largest shareholders are to be identified on the basis of the known numbers of votes on August 31, the year before the forthcoming Annual General Meeting.

## Nominating Committee for the Annual General Meeting 2017

The Nominating Committee for the Annual General Meeting in 2017 comprised the following five members: Daniel Ovin (Nordea Asset Management), Mark Husson (Cedar Rock Capital), Ulrika Danielson (Andra AP-fonden), William James (Standard Life Investments), as well as Conny Karlsson (the Chairman of the Board). Daniel Ovin served as Chairman of the Nominating Committee.

The main task of the Committee is to propose Board members for election by the Annual General Meeting. As member of the Nominating Committee, the Chairman of the Board of Directors fulfills an important role to inform the Committee of the Company's strategy and future challenges. Such insights are necessary for the Committee to be able to assess the competence and experience that is required by the Board. In addition, the Committee

must consider independence rules applicable to the Board of Directors and its committees. When preparing proposals for the Board for the 2017 Annual General Meeting, the Nominating Committee paid particular attention to the issues of diversity and for gender balance on the board and the Committee thus applied Item 4.1 of the Swedish Corporate Governance Code as its diversity policy when preparing these proposals.

The Nominating Committee held three meetings during the period between the 2016 and 2017 Annual General Meetings combined with informal contacts and discussions among the members. A report on the work of the Nominating Committee was presented to the Annual General Meeting 2017.

## Board of Directors

### Composition

According to the Articles of Association, the Company's Board of Directors shall consist of at least five and at most ten directors, apart from those persons who, pursuant to law, may be appointed according to other arrangements. At the end of 2016, the Swedish Match Board of Directors comprised seven members elected by the General Meeting plus three employee representatives and their three deputy in accordance with the Trade Union Representatives (Status at the Workplace) Act.

The Nominating Committee advised before the Annual General Meeting 2017 that the Nominating Committee had

applied the Swedish Corporate Governance Code, section 4.1, as diversity policy with the aim to propose a composition of Board members with complementing experiences and competencies that is diverse also in terms of age, gender and cultural/geographical background. The current Board composition is the result of the work of the Nomination Committee prior to the Annual General Meeting 2017.

Since Annual General Meeting 2017, the Board of Directors consisted of the following directors elected by the General Meeting: Conny Karlsson, Charles A. Blixt, Andrew Cripps, Jacqueline Hoogerbrugge, Pauline Lindwall, Wenche Rolfsen, and Joakim Westh. Conny Karlsson served as Chairman of the Board. Employee representatives on the Board were Eva Larsson, Dragan Popovic and Patrik Engbretsson with Joakim Andersson and Gert-Inge Rang as deputies. As from June 2017, Niclas Ed has been a deputy Board member. Detailed information about individual Board members and deputies is provided on pages 120–121 of the 2017 Annual Report.

### Independence of Board members

According to the Nominating Committee, all of the Board members elected by the Annual General Meeting are considered to be independent, under the rules of the Swedish Code of Corporate Governance, in relation to the Company's major shareholders and in relation to management and the Company.

### Meetings

The Board of Directors convenes for at least six scheduled meetings and one statutory meeting per year. In addition to the scheduled Board meetings, the Board is summoned to additional meetings convened at the discretion of any director or of the President. The auditors participate in the Board meeting at which the annual accounts for the fiscal year are presented in order to communicate their observations from the audit. The auditors also meet with the Board without the presence of the President or any other member of the Group Management Team.

### Evaluation of the work of the Board of Directors

During autumn 2017, the Board's work was evaluated with the assistance of an independent consulting company. The Nominating Committee was informed of the result of the evaluation.

### Compensation to the Board of Directors

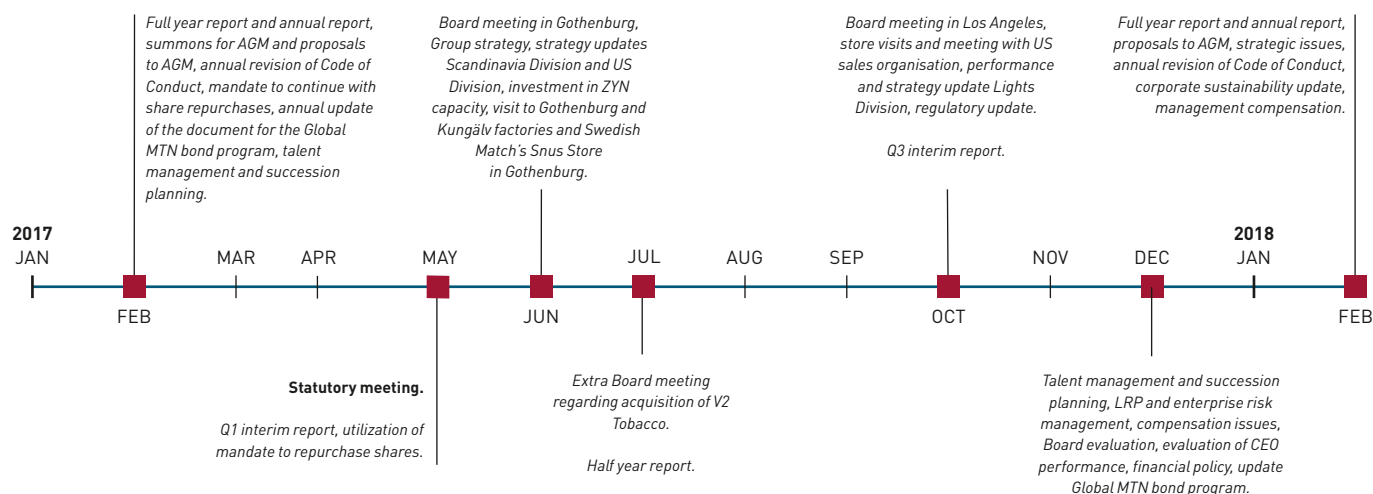
Compensation to the Board for the period from the 2017 Annual General Meeting up to and including the 2018 Annual General Meeting was paid in accordance with the resolution adopted by the 2017 Annual General Meeting. No compensation for

directorship work was paid to directors employed by the Swedish Match Group.

For further information about Directors' fees for 2017, see *Note 6 Personnel*, page 78 of the 2017 Annual Report.

### Activities of the Board of Directors during 2017

During the period from January 1, until December 31, 2017, the Board held eight scheduled meetings and one statutory meeting. During 2018 (until and including February) one Board meeting has been held.



### Composition of the Board and attendance 2017

	Board of Directors	Audit Committee	Compensation Committee	Independent <sup>1)</sup>	Member since	Compensation, TSEK
<b>Total number of meetings</b>	<b>9</b>	<b>6</b>	<b>5</b>			
<i>Members elected by the General Meeting</i>						
Conny Karlsson (Chairman)	9		5	Yes	2006	2,100
Andrew Cripps (Deputy Chairman)	9	6		Yes	2006	1,000
Charles A. Blixt	7		4	Yes	2015	865
Jacqueline Hoogerbrugge	9		5	Yes	2015	865
Pauline Lindwall (from May, 2017)	7			Yes	2017	735
Wenche Rolfsen	9	6		Yes	2013	865
Meg Tivéus (until May, 2017)	1	3		Yes	1999	–
Joakim Westh	9	6		Yes	2011	995
<b>Employee representatives</b>						
Patrik Engelbrektsson	9					
Eva Larsson	9					
Eva Norlén-Moritz (until May, 2017)	1					
Dragan Popovic (deputy until May, 2017)	8					
<b>Employee representatives (deputies)</b>						
Joakim Andersson	8					
Niclas Ed (from June, 2017)	6					
Gert-Inge Rang	9					

<sup>1)</sup> As defined in the Swedish Code of Corporate Governance.

At all scheduled Board meetings, with the exception of the statutory Board meeting, the Board received a general report from the CEO and discussed the activities and financial results of the Company and the associated companies, as well as other pertinent projects and matters.

All meetings held during the year followed an approved agenda. Prior to each meeting, a proposed agenda and, where applicable, documents relevant to the items on the agenda were sent to the Board. The Company's auditors attended the Board meeting in February 2017 to present the audit report and observations from the audit. At the Board meeting in June, which was held in Gothenburg, Sweden, the Board visited Swedish Match's snus factories in Gothenburg and Kungälv, as well as visiting the Swedish Match snus store located in Gothenburg. In conjunction with the Board meeting in October, which was held in Los Angeles, the Board conducted store visits, and in addition business reviews were presented by the US sales organization. Issues covered by the Board in 2017 included, among other things the sale of Swedish Match's holding in Scandinavian Tobacco Group (STG) and the acquisition of V2 Tobacco. The sell downs of shares in STG, both completed through accelerated book building processes to institutional investors, were executed in January 2017, when Swedish Match sold 9.1 percent of the total number of shares and votes in STG, and in November 2017 when the remaining 9.1 million shares were sold. In September 2017, Swedish Match acquired V2 Tobacco, a privately held smokeless tobacco company, primarily active in Europe. V2 Tobacco is headquartered in Silkeborg, Denmark. Furthermore, a new e-commerce service was launched during the year enabling people living in Sweden and Switzerland to order the entire snus range online. Swedish Match further expanded the distribution of ZYN, a nicotine pouch product without tobacco, in the western US. It was also decided to invest over 40 MUSD into US production capacity of ZYN.

#### **Audit Committee**

In 2017, the members of the Audit Committee were Joakim Westh, (Chairman), Andrew Cripps, and Wenche Rolfsen.

Throughout the year, the Chairman of the Audit Committee kept the Board of Directors regularly informed of the committee's work and decisions. A total of six meetings were held in 2017. The

Company's auditor, as well as the head of the Internal Audit, participated in all of the meetings of the Audit Committee in 2017 and, at two of these meetings, also met with the committee without the presence of the management of the Company.

#### **Compensation Committee**

Following the AGM and the statutory meeting, the members of the Compensation Committee in 2017 were Conny Karlsson (Chairman), Charles A. Blixt, and Jacqueline Hoogerbrugge. The Company's President presents reports on certain issues, but is not a member of the committee and is not present when the committee prepares decisions regarding compensation to the President.

During the year, the Compensation Committee's Chairman kept the Board of Directors regularly informed about the committee's work and decisions. The committee is to meet as often as necessary but at least twice annually. Five meetings were held in 2017.

During 2017, the committee devoted special attention to determination of variable compensation for 2016 to be paid in 2017, and on targets relevant to variable compensation, proposals to the Board concerning adjustments of the President's salary and variable compensation for 2018, and determination of salaries and variable compensation for other members of the Group Management Team for 2018. In addition, the committee submitted a proposal to the Board concerning guidelines for the determination of salary and other remuneration paid to the President and other members of the Group Management Team.

#### **Group Management Team**

In 2017, the Swedish Match Group Management Team consisted of Lars Dahlgren, President and Chief Executive Officer; Richard Flaherty, President US Division; Marlene Forsell, Senior Vice President and Chief Financial Officer; Thomas Hayes, Vice President and Chief Financial Officer, US Division (from October 1); Marie-Louise Heiman, Senior Vice President Group Legal Affairs; Fredrik Lagercrantz, Senior Vice President Business Control (up until September 30); Lars Olof Lofman, Senior Vice President R&D, Scandinavia Division; Fredrik Peyron, Senior Vice President Regulatory Affairs and Group Communication; Håkan Söderberg, President, Lights Division (from

October 1) and Joakim Tilly, President Scandinavia Division.

Detailed information about the President and Chief Executive Officer Lars Dahlgren, including his and related persons shareholding in the Company, is provided on page 122 of the 2017 Annual Report. Lars Dahlgren has no significant shareholdings and partnerships in companies with which Swedish Match has important business relations.

#### **Compensation to the Group Management Team**

The 2017 Annual General Meeting established certain guidelines for determining salary and other compensation to the President and other members of the Group Management Team. For information on the guidelines established at the Annual General Meeting, see *Note 6 Personnel*, page 78 of the 2017 Annual Report. For information concerning compensation and other benefits to the Group Management Team, see *Note 6 Personnel*, page 78 of the 2017 Annual Report.

#### **Audit and auditors**

Since the accounting firm KPMG AB had been appointed auditor in Swedish Match since 2004, Swedish Match was obliged to initiate an audit tender process during 2016 in accordance with the EU Audit and Auditor Regulation<sup>1)</sup>. The proposal to the shareholders at the Annual General Meeting 2017 for the appointment of auditors included a recommendation and preference for Deloitte AB made by the Audit Committee. The accounting firm Deloitte AB was elected by the General Meeting as the Company's external auditors for the period from 2017 up to and including the Annual General Meeting in 2019. During 2017, in addition to auditing, Deloitte AB provided consultancy services to the Group to a large part related to tax services.

Peter Ekberg, authorized public accountant, served as auditor in charge. For information concerning compensation to the Swedish Match's auditors during 2017, see *Note 7 Audit fees*, page 80 of the 2017 Annual Report.

#### **Disclosure Committee**

Members of the Disclosure Committee during 2017 included the heads of Business Control, Investor Relations and Corporate Sustainability, as well as Group Legal Affairs.

<sup>1)</sup> Regulation (EU) no 537/2014 of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities (the "Regulation") and applicable transitional rules regarding appointment of auditors.



## RISK MANAGEMENT AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors is responsible for internal control over financial reporting pursuant to the Swedish Companies Act and the Swedish Corporate Governance Code. The Audit Committee has a specific responsibility for monitoring the effectiveness of risk management and internal controls regarding financial reporting. This report describes the Group's system for internal control and risk management regarding financial reporting.

### Control environment

The foundation for internal control over financial reporting is the control environment that has been documented and communicated. It includes the Swedish Match Code of Conduct and internal policies and instructions on delegation of authority, accounting and reporting, internal control and information security. All governing documents are regularly updated and distributed to key individuals who implement them within their area of responsibility. Fundamental to creating an effective control environment is the Board of Directors', the Audit Committee's and management's unyielding dedication to reliable financial reporting. Swedish Match has established clear decision-making and review structures, including a system of regular review meetings between the Group, operating units and local management during which the Group values are reinforced.

### Risk assessment

The Group applies a risk assessment and a risk management method to ensure that the risks to which the Group is exposed are managed within the established framework. Based on the risk assessment, the Group defines a standardized system of controls to ensure reliable financial recordkeeping, transparent financial reporting and

disclosure, and protection of physical and immaterial assets. These standardized controls are reviewed and updated annually. In addition, each operating unit is charged with the responsibility to assess company-specific risks and identify additional key internal controls not covered by the standardized system of controls.

### Control activities

Based on the framework of Group policies and instructions, the heads of Swedish Match's operating units are charged with the responsibility to establish internal controls over financial reporting to meet the requirements of the standardized system of controls as well as to mitigate material company specific financial reporting risks. Control activities are established in all business processes and systems supplying information to the financial accounts in order to safeguard the reliability of the information.

### Information and communication

The information and communication component includes the systems and procedures that support the identification, capture, and exchange of information in a form and timeframe that enable personnel to carry out their responsibilities and reliable financial reports to be generated. Management has established communication channels and forums to allow for an effective information flow relating to business conditions and changes affecting financial reporting. The Swedish Match Code of Conduct encourages employees to raise compliance concerns promptly and prohibits retribution for doing so.

### Monitoring

The Group monitors compliance with governing documents in the form of internal policies and instructions, and evaluates the

effectiveness of the control structure. The Group Internal Audit department is established with the primary task of independently evaluating the effectiveness of internal controls. Internal Audit's work is based on annual risk-focused plans that are updated throughout the year based on changes and events which influence the risks relating to the system for internal control. These plans are reviewed and approved by the Audit Committee and Internal Audit reports regularly on the results directly to the Audit Committee and to company management. The Audit Committee monitors that recommended actions are taken to improve the internal control regarding financial reporting. The head of Internal Audit reports directly to the Chairman of the Audit Committee and to the CFO. The Audit Committee also receives regular reports from the external auditor.

Financial accounts are provided on a monthly, quarterly and annual basis to the Group and operating unit management through a common reporting and consolidation system. Financial and operating management review the financial information to validate completeness and accuracy. The Board receives monthly reports, and the financial status of the Group is discussed at every scheduled Board meeting. At these Board meetings the Chairman of the Audit Committee also informs the Board on the work of the Audit Committee relating to the monitoring of the effectiveness of internal controls regarding financial reporting. The Disclosure Committee monitors the sufficiency of financial reports with regard to disclosure requirements.

Stockholm, February 13, 2018

The Board of Directors of  
Swedish Match AB

## Auditors' report on the corporate governance report

To the general meeting of the shareholders in Swedish Match AB (publ.), Corporate Identity Number 556015-0756

### Engagement and responsibility

It is the board of directors who is responsible for the corporate governance statement for the financial year 2017-01-01 – 2017-12-31 on pages 112–123 and that it has been prepared in accordance with the Annual Accounts Act.

### The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard *RevU 16 The auditor's examination of the corporate governance statement*. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

### Opinions

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm, March 15, 2018

Deloitte AB

Peter Ekberg  
Authorized Public Accountant

# Board of Directors 2017

**Conny Karlsson**



**CONNY KARLSSON**

Born 1955. M.Sc. in Economics and Business from Stockholm School of Economics. Chairman of the Board of Directors since 2007. Board member since 2006. Chairman of the Compensation Committee.  
*Other board assignments:* Chairman of Zeres Capital AB and Cake O emission AB. Non-Executive Board member of Malte Månsson AB and Yrkesakademin AB.  
*Previous positions:* Chief Executive Officer, Duni AB; Marketing Director, Procter & Gamble UK; Marketing Director and Regional Director, Procter & Gamble Scandinavia; Marketing Director, Procter & Gamble E&SO.  
*Own and related parties' shares:* 30,000

**Andrew Cripps**



**ANDREW CRIPPS**

Born 1957. B.A. University of Cambridge. Chartered Accountant. Board member since 2006. Deputy Chairman of the Board of Directors and member of the Audit Committee.  
*Other board assignments:* Non-Executive Director of the Howden Joinery Group plc, Booker Group plc and the 2 Sisters Food Group.  
*Previous positions:* Director of Corporate Finance, Rothmans International; Director of Investments, British American Tobacco; President, Laurens International SA.  
*Own and related parties' shares:* 19,200

**Charles A. Blixt**



**CHARLES A. BLIXT**

Born 1951. Jur. Dr. and B.A University of Illinois. Board member since 2015. Member of the Compensation Committee.  
*Other board assignments:* Non-Executive Chairman, Atrum Coal Limited; Non-Executive Director, Lamb Weston Holdings Inc.  
*Previous positions:* Interim General Counsel, Krispy Kreme Doughnuts Inc; Executive Vice President and General Counsel, Reynolds American Inc.  
*Own and related parties' shares:* 3,000

**Jacqueline Hoogerbrugge**



**JACQUELINE HOOGERBRUGGE**

Born 1963. M.Sc. Chemical Engineering from the University of Groningen. Board member since 2015. Member of the Compensation Committee.  
*Other board assignments:* Non-Executive Board member of Ikea Industry AB and Dometic AB.  
*Previous positions:* President Operations, Cloetta AB; President Operations, Leaf International BV; Vice President Operations, Danone's Medical Nutrition Division; Vice President Procurement, Numico Baby & Medical Food, various positions in engineering, manufacturing and procurement, Unilever; and various positions in engineering and sales Fluor Daniel.  
*Own and related parties' shares:* 3,200

**Pauline Lindwall**



**PAULINE LINDWALL**

Born 1961. BSc., University of Växjö. Board member since 2017.  
*Other board assignments:* Non-Executive Board member of Celasio AG, Duni AB, and Lantmännen.  
*Previous positions:* Category Director Coffee, France and Southern Europe Mondelez International; Country Business Manager, Nestlé Nutrition Germany & Austria; Country Business Manager, Nestlé Nutrition Indonesia; Nordic Marketing Director, Nestlé Nordic; Head of Nestlé Innovation, Out of Home Coffee UK; Nordic Marketing Manager, Nestlé Coffee & Beverages.  
*Own and related parties' shares:* 1,400

Holdings of own and related parties shares as of December 31, 2017. For a detailed report of remuneration and benefits for the Board of Directors, refer to Note 6 Personnel.

**Wenche Rolfsen****WENCHE ROLFSEN**

Born 1952. M.Sc. in Pharmacy and Ph.D. in Pharmacology from Uppsala University. Board member since 2013. Member of the Audit Committee.

*Other board assignments:* Chairman of Index Pharmaceuticals and Bioarctic AB; Board member of Recipharm AB.

*Previous positions:* Vice President Quintiles Phase I, Europe; CEO, Quintiles, Scandinavia; Director, Quintiles, Sweden; Managing Director of Pharmacology, Pharmacia Upjohn; Head of Pharmacology, Pharmacia Ophthalmics; Head of Pharmacology, Pharmacia Läkemedel.

*Own and related parties' shares:* 3,180

**Joakim Westh****JOAKIM WESTH**

Born 1961. M.Sc. Royal Institute of Technology and M.Sc. Aeronautics and Astronautics MIT. Board member since 2011. Chairman of the Audit Committee.

*Other board assignments:* Board member and Chairman of the Audit Committee of Saab AB. Non-Executive Board member of Absolent Group AB and CGI Inc.

*Previous positions:* Senior Vice President and Head of Group Function Strategy and Operational Excellence and member of Group Management Team, Telefonaktiebolaget LM Ericsson; Group Vice President and member of the Executive Management Team, Assa Abloy AB; Chairman, Absolent AB; Partner, McKinsey & Co. Inc.

*Own and related parties' shares:* 2,500

**AUDITOR**

Deloitte AB, Peter Ekberg,  
Authorized Public Accountant.  
Swedish Match auditor since 2017.

**SECRETARY**

Marie-Louise Heiman,  
Senior Vice President Group Legal  
Affairs and General Counsel.  
Secretary to the Board since 2015.

**INDEPENDENCE OF BOARD MEMBERS**

According to the Nominating Committee, all of the Board members elected by the Annual General Meeting are considered to be independent, under the rules of the Swedish Code of Corporate Governance, in relation to the Company's major shareholders and in relation to management and the Company.

**CHANGES IN THE BOARD OF DIRECTORS**

At the Annual General Meeting 2017, Meg Tivéus left the Board while Pauline Lindwall was elected as a new member. Dragan Popovic replaced Eva Norlén-Moritz as an employee representative. Niclas Ed is a new deputy member from June, 2017.

**EMPLOYEE REPRESENTATIVES****Patrik Engelbrektsson****Eva Larsson****Dragan Popovic****PATRIK ENGELBREKTSSON**

Born 1965. Board member since 2013. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Chairman of the Trade Union Association at the snus factory in Gothenburg, Sweden. Logistic Technician at the factory in Gothenburg.

*Previous positions:* Mill worker, Machine Operator, Forklift driver at Swedish Match's snus factory in Gothenburg.

*Own and related parties' shares:* 0

**EVA LARSSON**

Born 1958. Board member since 1999. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match Industries. Chairman of the Trade Union Association at the match factory in Tidaholm, Sweden. Insurance Manager for insurance policies of persons employed under collective agreements at Swedish Match's match factory in Tidaholm.

*Previous positions:* Line Operator at Swedish Match's match factory in Tidaholm.

*Own and related parties' shares:* 0

**DRAGAN POPOVIC**

Born 1973. Board member since 2017. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Board member of the Swedish Association of Management and Professional Staff (Ledarna) at the snus factories in Gothenburg and Kungälv, Sweden. Area Manager Production at Swedish Match's snus factory in Gothenburg.

*Previous positions:* Area Manager loose snus, Area Manager portion snus Original, Area Manager Pilot Plant and Machine Operator, at Swedish Match's snus factory in Gothenburg.

*Own and related parties' shares:* 0

**EMPLOYEE REPRESENTATIVES (DEPUTIES)****Joakim Andersson****Niklas Ed****Gert-Inge Rang****JOAKIM ANDERSSON**

Born 1970. Deputy member since 2013. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Chairman of the Swedish Food Workers' Trade Union Association (Livs) at SMD Logistics in Kungsängen, Sweden. Module Technician at SMD Logistics in Kungsängen.

*Previous positions:* Module Technician, Swedish Match Distribution in Solna, Sweden.

*Own and related parties' shares:* 0

**NICLAS ED**

Born 1968. Deputy member since 2017. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Deputy Chairman of the Trade Union Association (Sälj-klubben) within Swedish Match Scandinavia Division. Sales Representative, Swedish Match Scandinavia Division.

*Previous positions:* Sales Representative, JC – Brothers; Sales support, Skandia; Sales Representative, Ellte; Sales Representative, Nikko.

*Own and related parties' shares:* 0

**GERT-INGE RANG**

Born 1954. Deputy member since 2007. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match Industries. Production Supervisor at Swedish Match's match factory in Vetlanda, Sweden.

*Previous positions:* Supervisor, Swedish Match's match factory in Vetlanda.

*Own and related parties' shares:* 1,000



# Group Management 2017



Lars Dahlgren

**LARS DAHLGREN**

President and Chief Executive Officer, Swedish Match since 2008. Joined Swedish Match in 1996. Member of the Group Management Team since 2004. Born 1970. M.Sc. in Business and Economics from the Stockholm School of Economics, Sweden.  
*Board assignments:* Board member of Orkla ASA.  
*Previous positions:* Senior Vice President and Chief Financial Officer, Swedish Match AB; Vice President Group Finance, Swedish Match AB; Finance Director, Swedish Match Philippines; Financial analyst, SBC Warburg.  
*Own and related parties' shares:* 36,900



Richard Flaherty

**RICHARD FLAHERTY**

President, US Division, Swedish Match since 2008. Joined Swedish Match in 2000. Member of the Group Management Team since 2008. Born 1958. B.A. Economics, J.D. Law Rutgers University, and LL.M. Taxation New York University, USA.  
*Previous positions:* Chief Operating Officer, Swedish Match North America Division OTP; Chief Financial Officer, Swedish Match North America Division; Chief Financial Officer, Bumble Bee Seafoods; Commercial Director, Unilever.  
*Own and related parties' shares:* 18,125



Marlene Forsell

**MARLENE FORSELL**

Chief Financial Officer and Senior Vice President, Group Finance, Swedish Match since 2013. Joined Swedish Match in 2004. Member of the Group Management Team since 2013. Born 1976. M.Sc. in Business and Economics from the Stockholm School of Economics, Sweden.  
*Previous positions:* Vice President Group Reporting, Swedish Match AB; Vice President Business Control, Swedish Match Smokefree Division; Vice President Corporate Control, Swedish Match AB; Analyst, Ernst & Young.  
*Own and related parties' shares:* 2,700



Thomas Hayes

**THOMAS HAYES**

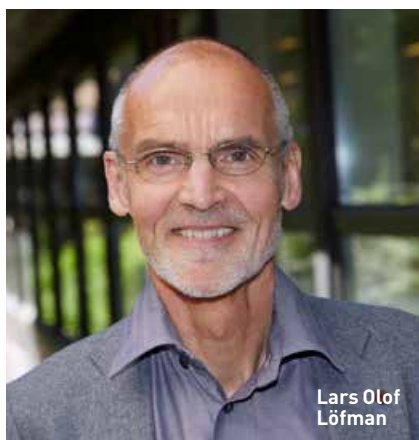
Vice President and Chief Financial Officer, US Division, Swedish Match since 2006. Joined Swedish Match in 2006. Member of the Group Management Team since October 1, 2017. Born 1966. B.S. in Accounting from Wake Forest University, USA.  
*Previous positions:* Chief Financial Officer Swedish Match International Division; Controller and Chief Accounting Officer, Chesapeake Corporation; Managing Director, PricewaterhouseCoopers.  
*Own and related parties' shares:* 1,815



Marie-Louise Heiman

**MARIE-LOUISE HEIMAN**

Senior Vice President, Group Legal Affairs and General Counsel, Swedish Match since 2015. Joined Swedish Match in 1996. Member of the Group Management Team and Secretary to the Board since 2015. Born 1965. Master of Laws (LL.M.), Uppsala University, Sweden.  
*Previous positions:* Vice President Legal Affairs, Swedish Match AB; General Counsel Swedish Match North Europe AB; Legal Counsel, AB Fortos, BCP Branded Consumer Products AB and Procordia AB.  
*Own and related parties' shares:* 3,025



Lars Olof  
Löfman

#### LARS OLOF LÖFMAN

Senior Vice President R&D, Scandinavia Division, Swedish Match since 2017. Joined Swedish Match in 1987. Member of the Group Management Team since 2004. Born 1956. M.Sc. in Engineering and Controller DIHM, Sweden.

*Previous positions:* Senior Vice President Product Supply and Innovation, Swedish Match Scandinavia Division; President, Swedish Match Smokefree Products Division; President, Swedish Match Distribution AB; President, Swedish Match North Europe Division; Vice President Production & Development, Swedish Match North Europe Division; Vice President Operations, Swedish Match Snuff Division; Plant and Production Manager, Swedish Match North Europe Division.

*Own and related parties' shares:* 10,689



Fredrik  
Peyron

#### FREDRIK PEYRON

Senior Vice President, Regulatory Affairs and Group Communications. Joined Swedish Match in 2016. Member of the Group Management Team since 2016. Born 1967. Bachelor of Law (LLB), Lund University, Sweden.

*Previous positions:* Group Vice President, Legal Affairs, General Counsel and Secretary, Autoliv; Senior Vice President, Legal Affairs and General Counsel, Swedish Match AB; Vice President Corporate Affairs, Swedish Match AB; Legal Counsel, Akzo Nobel; Associate, Mannheimer Swartling law firm.

*Own and related parties' shares:* 2,500



Håkan  
Söderberg

#### HÅKAN SÖDERBERG

President, Lights Division, Swedish Match since October 1, 2017. Joined Swedish Match in 2007. Member of the Group Management Team since October 1, 2017. Born 1969. M.Sc BA from the University of Stockholm, Sweden.

*Previous positions:* COO Lights International Division, Swedish Match; COO Continental Europe Division Netherlands, Swedish Match; Vice President Finance & IT International Division Netherlands, Swedish Match; Regional Finance Director Belgium, AstraZeneca; CFO South Africa, AstraZeneca; Director, Finance Supply chain and Logistics England, AstraZeneca; Director, Business logistics and Finance, AstraZeneca; Corporate controller, Astra AB.

*Board assignments:* Board member of Södertälje Sportklubb AB

*Own and related parties' shares:* 1,398



Joakim  
Tilly

#### JOAKIM TILLY

President, Scandinavia Division, Swedish Match since 2013. Joined Swedish Match in 2004. Member of the Group Management Team since 2008. Born 1970. M. Sc. in Business and Economics from the Stockholm School of Economics, Sweden.

*Previous positions:* Senior Vice President, Group Finance and IT, and Chief Financial Officer, Swedish Match AB; Senior Vice President Group Finance, Swedish Match AB; Vice President Group Finance, Swedish Match AB; Chief Executive Officer and Chief Financial Officer, Netgiro International; Chief Financial Officer, Swedish Match Lighter Division.

*Own and related parties' shares:* 8,240

#### CHANGES IN THE GROUP MANAGEMENT TEAM DURING 2017 AND UP UNTIL MARCH 2018

Håkan Söderberg was appointed President Lights Division and member of the Group Management Team as of October 1, 2017. Thomas Hayes was appointed as member of the Group Management Team on October 1, 2017, and Chief Financial Officer as of March 10, 2018. Fredrik Lagercrantz left the Group Management Team on September 30, 2017, and Marlene Forsell left the Group Management Team on March 9, 2018.



# Swedish Match's vision is of a world without cigarettes.

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

**Swedish Match**<sup>®</sup>

**Swedish Match AB (publ)**

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Telephone: +46 8-658 02 00

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Media: [media@swedishmatch.com](mailto:media@swedishmatch.com)

Sustainability: [sustainability@swedishmatch.com](mailto:sustainability@swedishmatch.com)

**The Nominating Committee's proposal under item 11 on the Agenda of the Annual General Meeting of Swedish Match AB (publ) on April 11, 2018**

The Nominating Committee proposes that the remuneration to the members of the Board of Directors, for the period until the Annual General Meeting 2019, be paid according to the following (the 2017 resolved remuneration within brackets).

The Chairman shall receive 1,910,000 SEK (1,840,000), the deputy Chairman shall receive 900,000 SEK (870,000) and the other Board members elected by the General Meeting shall each receive 764,000 SEK (735,000). It is further proposed that the Board, as remuneration for committee work, be allotted 270,000 SEK (260,000) to the Chairman of the Compensation Committee, and 310,000 SEK (260,000) to the Chairman of the Audit Committee, and 135,000 SEK (130,000) respectively to the other members of these committees.

**The Nominating Committee's proposal under item 12 on the Agenda of the Annual General Meeting of Swedish Match AB (publ) on April 11, 2018**

The Nominating Committee proposes election of the Board of Directors according to the following:

Re-election of:            Charles A. Blixt  
                                 Andrew Cripps  
                                 Jacqueline Hoogerbrugge  
                                 Conny Karlsson  
                                 Pauline Lindwall  
                                 Wenche Rolfsen  
                                 Joakim Westh

The Nominating Committee further proposes that Conny Karlsson is elected as Chairman of the Board of Directors and Andrew Cripps is elected as deputy Chairman of the Board of Directors.

All proposed Board members to be elected by the Annual General Meeting are considered to be independent in relation to the Company, the executive management and major shareholders of the Company.

Presentation of proposed Board members

**Conny Karlsson**

Born 1955. M.Sc. in Economics and Business. Chairman of the Board of Directors since 2007. Board member since 2006. Chairman of the Compensation Committee.

**Other board assignments:** Chairman of Zeres Capital AB and Cake 0 emission AB. Non-Executive Board member of Malte Månsson AB and Yrkesakademin AB.

**Previous positions:** Chief Executive Officer, Duni AB; Marketing Director, Procter & Gamble UK; Marketing Director and Regional Director, Procter & Gamble Scandinavia; Marketing Director, Procter & Gamble E&SO.

*Own and related parties' shares:* 30,000

**Andrew Cripps**

Born 1957. B.A. University of Cambridge. Chartered Accountant. Board member since 2006. Deputy Chairman of the Board of Directors and member of the Audit Committee.

**Other board assignments:** Non-Executive Director of the Howden Joinery Group plc, Booker Group Plc, and the 2 Sisters Food Group.

**Previous positions:** Director of Corporate Finance, Rothmans International Plc; Director of Investments, British American Tobacco; President, Laurens International SA.

*Own and related parties' shares:* 19,200

**Charles A. Blixt**

Born 1951, Jur.Dr. and B.A University of Illinois. Board member since 2015.

Member of the Compensation Committee.

**Other board assignments:** Non-Executive Chairman, Atrum Coal Limited, Non-Executive Director, Lamb Weston Holdings Inc.

**Previous positions:** Interim General Counsel, Krispy Kreme Doughnuts Inc; Executive Vice President and General Counsel, Reynolds American Inc.

*Own and related parties' shares: 3,000*

**Jacqueline Hoogerbrugge**

Born 1963. M.Sc. Chemical Engineering from the University of Groningen. Board member since 2015. Member of the Compensation Committee.

**Other board assignments:** Non-executive Board Member to Ikea Industry AB and Dometic AB.

**Previous positions** President Operations , Cloetta AB; President Operations, Leaf International BV; Vice President Operations, Danone's Medical Nutrition Division; Vice President Procurement, Numico Baby & Medical Food, various positions in engineering, manufacturing and procurement, Unilever; and various positions in engineering and sales, Fluor Daniel.

*Own and related parties' shares: 3,200*

**Pauline Lindwall**

Born 1961. BSc, University of Växjö. Board member since 2017.

**Other board assignments:** Non-Executive Board member of Celesio AG, Duni AB, and Lantmännen,

**Previous positions:** Category Director Coffee, France and Southern Europe Mondelez International, Country Business Manager Nestlé Nutrition Germany & Austria, Country Business Manager Nestlé Nutrition Indonesia, Nordic Marketing Director Nestlé Nordic, Head of Nestlé Innovation Out of Home Coffee UK, Nordic Marketing Manager Nestlé Coffee & Beverages,

*Own and related parties' shares: 1,400*

**Wenche Rolfsen**

Born 1952. M.Sc. in Pharmacy and Ph.D. in Pharmacology from Uppsala University. Board member since 2013. Member of the Audit Committee.

**Other board assignments:** Chairman of Index Pharmaceuticals and Bioarctic AB; Board member of Recipharm AB..

**Previous positions:** Vice President; Director of Quintiles Phase I, Europe, CEO, Quintiles, Scandinavia; Director, Quintiles, Sweden; Managing Director of Pharmacology, Pharmacia Upjohn, Head of Pharmacology, Pharmacia Ophthalmics; Head of Pharmacology, Pharmacia Läkemedel.

*Own and related parties' shares: 3,180*

**Joakim Westh**

Born 1961. M.Sc. Royal Institute of Technology and M.Sc. Aeronautics and Astronautics MIT. Board member since 2011. Member of the Audit Committee.

*Other board assignments:* Board member and Chairman of the Audit Committee of Saab AB, Non-Executive Board member of Absolent Group AB and CGI Group Inc.

*Previous positions:* Senior Vice President and Head of Group Function Strategy and Operational Excellence and member of Group Management Team, Telefonaktiebolaget LM Ericsson; Group Vice President and member of the Executive Management Team, Assa Abloy AB; Chairman, Absolent AB; Partner, McKinsey & Co. Inc.

*Own and related parties' shares:* 2,500

Additionally, the shareholders are informed that the employees' associations have, through special elections, appointed:

As members of the Board:

Patrik Engelbrektsson, LO

Pär-Ola Olausson, LO

Dragan Popovic, PTK

As deputy members of the Board:

Matthias Eklund, LO

Niclas Bengtsson, SACO

Niclas Ed, PTK



**The Nominating Committee's proposal under items 13 on the Agenda of the Annual General Meeting of Swedish Match AB (publ) on April 11, 2018**

**Item 13:** The Nominating Committee proposes that remuneration to the auditor, as previous years, be paid according to approved accounts.

## **The Board of Directors' proposal under item 14 on the Agenda of the Annual General Meeting of Swedish Match AB (publ) on April 11, 2018**

The Board of Directors proposes that the following principles for remuneration and other terms of employment for the President and other members of the Group management be adopted by the Annual General Meeting 2018. The members of the Group management are referred to below as the “**Group Management Team**” or “**GMT**”.

The objective of these principles is to ensure that the Company is able to recruit and retain employees with appropriate skills and qualifications for their respective duties. The remuneration structures shall encourage employees to do their utmost to safeguard shareholders' interests. Swedish Match takes into account both global remuneration practice and the practice of the country of residence of each member of the GMT. The principles apply in relation to members of the GMT appointed after the adoption of the principles, and, in other cases, to the extent permitted under existing agreements. The 2017 annual report for 2017 sets out details of the remuneration and benefits of the GMT during 2017.

The total remuneration paid to GMT consists of fixed salary, variable components in the form of annual short term variable remuneration and long term variable remuneration, pension, other benefits and terms related to termination of employment.

### *1. Fixed salary*

The fixed salary for the GMT shall correspond to market rates and shall be based on each member's competence, country of residence, responsibility and performance.

### *2. Variable salary*

The members of the GMT may be entitled to a variable salary in addition to the fixed salary. The variable salary may include both an annual short term program to be paid out in the beginning of the subsequent year depending on the outcome of the program, and a long term program with a performance period which shall not be shorter than three years. The variable salary shall primarily be based on specific, clear, predetermined and measurable financial or operational criteria set by the Board of Directors in relation to the President and by the Compensation Committee in relation to the GMT. The variable salary shall be capped in relation to the fixed salary and reflect the market practice in the country of residence.

The Company shall have the right to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.

### *3. Profit Sharing System*

All employees in Sweden are participating in Swedish Match profit sharing system (“**PSS**”). For 2018 the maximum total accruals for GMT members is estimated to 0.3 MSEK.

### *4. Insurable benefits*

Old age pension, disability and sickness benefits, medical benefits and life insurance benefits shall be designed to reflect the practices in the country where a member of the GMT is resident. New members of the GMT shall preferably be covered by defined

contribution plans.

*5. Severance pay, etc*

A mutual period of notice of six months shall apply. Fixed salary during notice of termination and severance payment (if any) shall not exceed an amount corresponding to 24 months fixed salary. Members of the GMT residing outside Sweden may however be offered notice periods for termination and severance payment that are competitive in the country where the members are resident.

*6. Other benefits*

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

*7. The Board's right to deviate from the principles*

The Board of Directors shall be entitled to deviate from the principles approved by the Annual General Meeting if specific reasons for doing so exist in any individual case.

*8. Committee work and decisions*

Swedish Match Board of Directors shall have a Compensation Committee. The Committee has the authority to approve salary and other remuneration and employment terms for members of the GMT, except those regarding the President. The Committee shall prepare and present proposals for the Board's decisions on issues relating to salary and other remuneration and employment terms for the President. The Committee is authorized to decide and in relation to the President to propose to the Board of Directors the further details regarding the criteria and targets on which the variable salary is based for the GMT. In addition hereto the Committee is authorized to decide to what extent such criteria and targets have been met both for the GMT and the President.

*9. Previous undertakings not yet due*

The Company has no previous undertakings not yet due besides what is evident from the annual report 2017.

**The Board of Directors' proposal under items 15 a) and 15 b) on the Agenda of the Annual General Meeting of Swedish Match AB (publ) on April 11, 2018**

**Item 15 a)**

The Board of Directors proposes to reduce the Company's share capital with 12,533,911:65 SEK by means of withdrawal of 5,850,000 shares in the Company. The shares in the Company proposed for withdrawal have been repurchased by the Company in accordance with authorization granted by the General Meeting.

**Item 15 b)**

Provided that the General Meeting passes a resolution in accordance with the Board's proposal under item 15 a) above, the Board of Directors proposes an increase in the Company's share capital of 12,533,911:65 SEK through a transfer from non-restricted equity to the share capital (bonus issue). The share capital shall be increased without issuing any new shares. The reason for the bonus issue is that if the Company transfers an amount corresponding to the amount by which the share capital is reduced in accordance with the Board's proposal under item 15 a) above, the resolution to reduce the share capital may be passed without obtaining permission from the Swedish Companies Registration Office (sw. *Bolagsverket*), or, in disputed cases, the court.

The effect of the Board of Directors' proposal under item 15 a) is a reduction in the Company's share capital of 12,533,911:65 SEK. The effect of the Board of Directors' proposal under item 15 b) is a corresponding increase in the Company's share capital through a bonus issue, thereby restoring it to its balance prior to the reduction.

The auditor's opinion, in accordance with Chapter 20 § 14 of the Swedish Companies Act and in respect of this statement by the Board of Directors, is enclosed in Appendix 12 A.

The resolution of the General Meeting in accordance with the Board's proposal under item 15 a), is only valid if supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting.

## **Auditor's report pursuant to Chapter 20, Section 14 of the Swedish Companies Act (2005:551) in respect of motions concerning the resolutions under items 15 a) and 15 b) of the agenda of the Annual General Meeting**

### **To the Annual General Meeting of Swedish Match AB (publ), Swedish Company Reg No: 556015-0756**

We have examined the Board of Directors' statement concerning its motions for resolutions under items 15 a) and 15 b) of the agenda of the Annual General Meeting on 11<sup>th</sup> April 2018.

#### *Responsibility of the Board of Directors*

It is the Board of Directors that is responsible for the statement and for preparing it in accordance with the Swedish Companies Act and for such internal control as the Board of Directors determine is necessary to enable the preparation of the statement that is free from material misstatement, whether due to fraud or error.

#### *Responsibility of the auditor*

Our responsibility is to express an opinion on the statement based on our examination. The examination was performed in compliance with the recommendation RevR 9 issued by FAR, The Auditor's Other Statements Pursuant to the Swedish Companies Act and the Companies Ordinance. This standard requires that we plan and perform the examination to obtain reasonable assurance about whether the statement is free from material misstatements. The Audit firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of professional standards and applicable legal and regulatory requirements.

We are independent of Swedish Match AB (publ) accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The examination involves performing procedures to obtain audit evidence about the amounts and other disclosures in the Board of Directors' statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of misstatement in the statement, whether due to fraud or error. In making those risk assessments, the auditor consider internal control relevant to the Board of Directors' preparation if the statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. The examination also includes evaluating the appropriateness of the action taken in connection with the company's restricted equity or share capital as well as the reasonableness of the assessments made by the Board of Directors. We believe that the audit we obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Opinion*

In our opinion, the actions that are to be taken and that will result in no reduction of either the restricted equity or share capital of the company are appropriate and the assessments that the Board of Directors has made concerning the effects of these actions are correct.

#### *Other information*

The sole purpose of this Auditor's report is to satisfy the requirements of Chapter 20, Section 14 of the Swedish Companies Act and it may not be used for any other purpose.

Stockholm March 13<sup>th</sup> 2018  
Deloitte AB

*See Swedish version for signature*

Peter Ekberg  
Auktoriserad revisor



**The Board of Directors' proposal under item 16 on the Agenda of the Annual General Meeting of Swedish Match AB (publ) on April 11, 2018**

The Board of Directors proposes that it be authorized to resolve on acquisition of the Company's own shares, on one or several occasions prior to the next Annual General Meeting, provided that the Company's holding does not at any time exceed 10 percent of all shares in the Company. The shares shall be acquired on Nasdaq Stockholm, at a price within the price interval registered at any given time, i.e. the interval between the highest bid price and the lowest selling price. Payment for the shares is to be made in cash. The purpose of the repurchasing right is primarily to enable the Company to adapt its capital structure to its capital needs over time, and thereby contribute to an increased shareholder value.

The Board of Directors shall be able to resolve that a purchase of own shares shall be made within a repurchase program in accordance with the Market Abuse Regulation (EU) No 596/2014 ("MAR") and the Commission Delegated Regulation (EU) No 2016/1052 (the "Safe Harbour Regulation"), if the purpose of the purchase only is to decrease the Company's equity.

The Board of Directors' statement concerning the justification of the proposed authorization in respect of repurchase of the Company's own shares pursuant to Chapter 19 § 22 of the Swedish Companies Act, is enclosed in Appendix 6.

The resolution of the General Meeting with regard to the Board's proposal under item 16 is only valid if supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting.

**Previous repurchases\***

<b>Year</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Number of repurchased shares</b>	1,578,627	3,744,788	7 473 046	4 243 104	8 762 149
<b>Holding at year-end</b>	2,954,479	4,822,933	7 584 209	4 077 313	5 889 462
<b>Holding at year-end as a percentage of total share capital</b>	1,46 %	2,41%	3,86 %	2,16%	3,24%

\* net after shares sold in conjunction with stock option programmes

**The Board of Directors' proposal under item 17 on the Agenda of the Annual General Meeting of Swedish Match AB (publ) on April 11, 2018**

The Board of Directors proposes that it be authorized to resolve on transfer of the Company's own shares, on one or several occasions prior to the next Annual General Meeting.

The shares may only be transferred in conjunction with the financing of company acquisitions and other types of strategic investments and acquisitions, and the transfers may not exceed the maximum number of treasury shares held by the Company at any given time. Transfer of own shares shall be made either on Nasdaq Stockholm or in another manner. In conjunction with the acquisition of companies or operations, transfer of own shares may be made with deviation from the shareholders' preferential rights and at a price within the price interval registered at any given time (i.e. the interval between the highest bid price and the lowest selling price) at the time of the decision regarding the transfer and in accordance with the rules of Nasdaq Stockholm. Payment for shares transferred in this manner may be made in cash or through a non-cash issue or offsetting of claims against the Company, or on other specific terms.

The reason for the authorization and deviation from the shareholders' preferential rights is, where appropriate, to be able to transfer shares in conjunction with the financing of any company acquisitions and other types of strategic investments and acquisitions in a cost-efficient manner.

The resolution of the Annual General Meeting with regard to the Board's proposal under item 17 requires the support of shareholders representing at least two thirds of both the votes cast and the shares represented at the Meeting.

**The Board of Directors' proposal under item 18 on the Agenda of the Annual General Meeting of Swedish Match AB (publ) on April 11, 2018**

The Board of Directors proposes it be authorized to, for the period until the end of the next Annual General Meeting, to issue new ordinary shares on one or more occasions, with or without deviation from shareholders' preferential rights and against payment in cash, in kind or by set-off.

The number of shares that may be issued may not exceed a maximum dilution effect of 10 percent of the share capital and votes at the time of the Annual General Meeting 2018. The reasons for the authorization and deviation from shareholders' preferential rights are that the Board wishes to increase the Company's financial flexibility and to allow the Company to issue common shares as payment in connection with acquisitions the Company might make. The subscription price shall be determined according to prevailing market conditions at the time the shares are issued.

The resolution of the Annual General Meeting with regard to the Board's proposal under item 18 requires the support of shareholders representing at least two thirds of both the votes cast and the shares represented at the Meeting.