Swedish Match

Q2 2018

# Half Year Report
## JANUARY – JUNE 2018

## Highlights from the second quarter

- **In local currencies, sales increased by 10 percent for the second quarter. Reported sales increased by 9 percent to 3,336 MSEK (3,053).**
- **In local currencies, operating profit from product segments[1)] increased by 16 percent for the second quarter. Reported operating profit from product segments increased by 15 percent to 1,293 MSEK (1,123).**
- **Operating profit amounted to 1,263 MSEK (1,091) for the second quarter.**
- **Profit after tax amounted to 928 MSEK (812) for the second quarter.**
- **Earnings per share amounted to 5.31 SEK (4.48) for the second quarter. Adjusted earnings per share[2)] increased by 27 percent to 5.31 SEK (4.17).**
- **The outlook statement on page 10 has been modified with regard to snus and nicotine pouches outside Scandinavia.**

1) Operating profit for Swedish Match product segments, which excludes Other operations and larger one-time items.
2) Earnings per share adjusted to exclude income from Scandinavian Tobacco Group (STG) and larger one-time items.

## CEO Lars Dahlgren comments:

### Broad-based strength in growing segments and markets

Swedish Match reported impressive financial results for the second quarter where sales and operating profit in local currencies increased across all product segments. The performance in the second quarter was particularly notable in that our two largest product segments – Snus and moist snuff and Other tobacco products – reported record sales and operating profit, further demonstrating the benefit of our strategy of focusing on growing segments and markets. The segments and markets in which we compete remain highly competitive, and changing market conditions and competitive dynamics can result in periodic variability of the results. The second quarter was somewhat unusual in that all of our businesses performed at or above our own expectations.

Snus and moist snuff product segment sales grew by 7 percent and operating profit increased by 16 percent in local currencies due to strong performances from both our Scandinavian snus business and our snus and nicotine pouches outside Scandinavia. Excluding calendar effects, estimated underlying organic volume growth for our Scandinavian snus business (excluding V2 Tobacco) was 3 percent. Both the Swedish and Norwegian markets continued to grow at a healthy pace during the second quarter and compared to the prior year, we once again gained share in the fast-growing Norwegian pouch segment. Generally, the changeover to plain packaging at retail from July 1st in Norway went smoothly for Swedish Match; however, we may still see some disruptive effects as the trade and consumers adapt to the packaging change.

For international snus and nicotine pouches, an improved profit picture in the US and the addition of V2's international snus business resulted in an operating profit for snus and nicotine pouches outside Scandinavia. Previously, we have stated that the operating *loss* for snus and nicotine pouches outside Scandinavia should be noticeably lower in 2018 than in 2017. We now anticipate that losses, if any, for snus and nicotine pouches outside Scandinavia will be nominal for the full year.

The strong development of sales and operating profit for Other tobacco products (cigars and chewing tobacco) was driven by US cigars. The profitability within our cigar business was aided by both strong volumes and higher average pricing for our natural leaf cigars. Our chewing tobacco businesses also delivered a good financial performance in the quarter. In addition to a stable result from our US chewing tobacco business, the acquisitions of V2 and Oliver Twist contributed positively. The integrations of V2 Tobacco and Oliver Twist are proceeding according to plan and these acquisitions have further broadened our market presence in the niche international chewing tobacco segment.

The financial performance of our Lights segment improved notably versus the prior year's relatively weak second quarter. The portfolio mix for lighters was more favorable, and volumes for matches grew. More importantly, matches, lighters and complementary products each delivered a stronger performance versus the first quarter on a sequential basis, despite the soft Brazilian real and continued challenging market conditions in certain key markets.

In summary, I am very pleased with the second quarter results and remain optimistic about our full year performance. Our innovation efforts and growth-oriented acquisitions position us nicely to pursue opportunities within growing markets and segments in a balanced, yet focused, manner. Also, the unfavorable foreign currency translation effects that we experienced in the first half of this year would, if current exchange rates prevail, reverse providing currency tailwinds during the second half – most notably for the US dollar. Approximately one-half of our reported operating profit from product segments in the first half of the year was realized in US dollars.

## Summary of consolidated income statement

| MSEK | April-June 2018 | Restated 2017[3] | Chg % | January-June 2018 | Restated 2017[3] | Chg % | Restated Full year 2017[3] |
|---|---|---|---|---|---|---|---|
| Sales | 3,336 | 3,053 | 9 | 6,276 | 5,886 | 7 | 11,751 |
| Sales from product segments[1] | 3,244 | 2,960 | 10 | 6,104 | 5,715 | 7 | 11,410 |
| Operating profit from product segments[1] | 1,293 | 1,123 | 15 | 2,372 | 2,144 | 11 | 4,345 |
| Operating profit | 1,263 | 1,091 | 16 | 2,311 | 2,326 | -1 | 4,592 |
| Profit before income tax | 1,190 | 1,066 | 12 | 2,165 | 2,222 | -3 | 4,353 |
| Profit for the period | 928 | 812 | 14 | 1,694 | 1,744 | -3 | 3,400 |
| Operating margin from product segments, %[1] | 39.9 | 37.9 | | 38.9 | 37.5 | | 38.1 |
| Earnings per share, SEK | 5.31 | 4.48 | | 9.67 | 9.56 | | 18.88 |
| Adjusted earnings per share, SEK[2] | 5.31 | 4.17 | | 9.67 | 7.95 | | 16.40 |

1) Excluding Other operations and larger one-time items.
2) Excluding income from STG and larger one-time items.
3) Restated to reflect implementation of IFRS 15 – see Note 1 on page 19.

## The second quarter

*(Note: Comments below refer to the comparison between the second quarter 2018 vs. the second quarter 2017).*

### Sales

Sales increased by 9 percent to 3,336 MSEK (3,053). Sales from product segments increased by 10 percent to 3,244 MSEK (2,960). Currency translation negatively affected the comparability of sales from product segments by 36 MSEK. In local currencies, sales from product segments increased 11 percent and increased across all product segments.

### Earnings

Operating profit from product segments increased by 15 percent to 1,293 MSEK (1,123). In local currencies, operating profit from product segments was up by 16 percent and increased across all product segments.

Operating profit amounted to 1,263 MSEK (1,091).

The Group's net finance cost amounted to 73 MSEK (24). The second quarter 2017 net finance cost included dividend income of 65 MSEK from STG. The income tax expense amounted to 263 MSEK (254), and the tax rate, excluding non-taxable one-time items, was 22.1 percent (24.5). The reduction in the Group's underlying tax rate is attributable to the lower corporate tax rate on our US businesses following the Tax Cuts and Job Act of 2017. Changes to the Group's deferred income tax balances from the recently enacted change in Swedish income tax regulations did not have a material effect during the quarter.

Profit for the period amounted to 928 MSEK (812).

Earnings per share (EPS) for the second quarter amounted to 5.31 SEK (4.48). Adjusted EPS, excluding dividend income from STG, increased by 27 percent to 5.31 SEK (4.17).

## The first six months

*(Note: Comments below refer to the comparison between the first six months 2018 vs. the first six months 2017).*

### Sales

Sales increased by 7 percent to 6,276 MSEK (5,886). Currency translation affected the sales comparison negatively by 211 MSEK. In local currencies, sales increased by 10 percent.

### Earnings

Operating profit from product segments amounted to 2,372 MSEK (2,144). Operating profit increased for the products segments Snus and moist snuff and Other tobacco products. In local currencies the operating profit from product segments increased by 13 percent.

Operating profit, including larger one-time items and Other operations, amounted to 2,311 MSEK (2,326). The first six months of 2017 included non-taxable larger one-time items of 238 MSEK relating to capital gains on the sale of STG shares and from the sale of a parcel of land. Currency translation has affected the comparison of the operating profit negatively by 59 MSEK.

The Group's net finance cost amounted to 146 MSEK (104). The 2017 net finance cost includes dividend income from STG of 65 MSEK. Income tax expense amounted to 471 MSEK (478), corresponding to a tax rate of 21.7 percent (21.5). The tax rate, excluding associated companies, a dividend from STG and non-taxable larger one-time items, was 21.8 percent (24.5).

Profit for the period amounted to 1,694 MSEK (1,744).

EPS for the first six months amounted to 9.67 SEK (9.56). Adjusted EPS, excluding income from STG and larger one-time items in 2017, increased by 22 percent to 9.67 SEK (7.95).

# GENERAL

**The *General* snus brand** is well known throughout Scandinavia, and also within the US snus segment. *General* snus has always stood for quality, and, with recent product innovations, delivers the performance and taste for today's consumers. For instance, within the *General* white portion assortment, varieties are available with both traditional and modern flavors and formats. One of the newest product ranges, *General G.4*, fits well for consumers wanting an all-white product, with both strength and flavor.


## Snus and moist snuff

### Second quarter highlights:

- Higher volumes, sales and operating profit in both Scandinavia and the US in local currencies
- Strong growth from our portfolio of snus and *ZYN* nicotine pouches outside Scandinavia
- Underlying organic volume growth for Swedish Match in Scandinavia estimated at 3 percent

**Key data**

| *MSEK* | April-June 2018 | April-June 2017 | Chg % | January-June 2018 | January-June 2017 | Chg % | Full year 2017 |
|---|---|---|---|---|---|---|---|
| Sales | 1,509 | 1,405 | 7 | 2,894 | 2,701 | 7 | 5,484 |
| Operating profit | 691 | 590 | 17 | 1,314 | 1,124 | 17 | 2,358 |
| Operating margin, % | 45.8 | 42.0 | | 45.4 | 41.6 | | 43.0 |
| EBITDA | 744 | 642 | 16 | 1,420 | 1,225 | 16 | 2,563 |
| EBITDA margin, % | 49.3 | 45.6 | | 49.1 | 45.4 | | 46.7 |

### The second quarter

*(Note: Comments below refer to the comparison between the second quarter 2018 vs. the second quarter 2017).*

Sales for Snus and moist snuff were up 7 percent. In local currencies, sales improved for snus in Scandinavia, and for snus and nicotine pouches outside Scandinavia, while moist snuff sales were marginally down. Operating profit in local currencies improved in both Scandinavia and the US. The operating margin was higher than both the first quarter of 2018, and the second quarter of 2017, largely driven by the improvement for snus and nicotine pouches outside Scandinavia.

In Scandinavia, market volumes increased in both Sweden and Norway. Swedish Match estimates that the total Scandinavian market grew by more than 4 percent. Shipment volumes were negatively impacted to a small degree by year-on-year calendar effects (Easter timing). Swedish Match shipment volumes including volumes from V2 Tobacco, acquired in 2017, were up by close to 4 percent. Swedish Match estimates that its underlying organic volumes (excluding V2 Tobacco as well as Easter/calendar effects) were up by 3 percent. Sales and gross profits in Scandinavia increased on higher volumes and higher realized pricing. Average selling prices were higher than the prior year with the effect of a stronger NOK and price increases being partially offset by negative mix effects. Swedish Match estimates than any volume/sales effects related to the changeover to plain packaging in Norway from July 1, 2018 have thus far been insignificant.

In Norway, our total market share was slightly higher compared to the prior year period, led by our growing share within the pouch segment. In Sweden, our market share declined in both the premium and value segments.

Shipment volumes for our US moist snuff business benefited from an incremental trading day. Volumes grew for pouches and tubs, but were more than offset by continued declines within our traditional loose product portfolio. Sales were down marginally, while operating profit was flat on a local currency basis.

Volumes for snus and nicotine pouches outside Scandinavia continued to increase sharply, coming primarily from *ZYN* in the US, but further aided by the inclusion of V2 snus. Snus is available in close to 18,000 stores in the US while *ZYN* is available in approximately 12,000 stores. Velocities per store for snus and especially for *ZYN* in the US continued to increase.

## The first six months

*(Note: Comments below refer to the comparison between the first six months 2018 vs. the first six months 2017).*

Sales for the product segment grew by more than 8 percent in local currencies. Operating profit increased to 1,314 MSEK (1,124) and included net operating result for snus and nicotine pouches outside Scandinavia of 9 MSEK (negative 93).

In Scandinavia, shipment volumes grew by 6 percent. Swedish Match estimates that its underlying organic Scandinavian snus volumes (excluding V2 Tobacco and adjusted for calendar effects) increased close to 3 percent. Operating profit for snus in Scandinavia grew on higher sales. In the US, sales in local currency for moist snuff were flat, while operating profit was higher. For snus and nicotine pouches outside Scandinavia, the favorable financial development resulted from higher volumes, improved pricing and lower marketing costs for snus in the US as well as the contribution from V2 Tobacco.

### Swedish Match shipment volumes

| *Millions of cans* | April-June | | Chg | January-June | | Chg | Full year |
|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | % | 2018 | 2017 | % | 2017 |
| Snus, Scandinavia[1)] | 65.3 | 63.0 | 4 | 126.8 | 119.5 | 6 | 247.6 |
| Moist snuff, US | 31.1 | 31.3 | -1 | 65.1 | 65.9 | -1 | 127.4 |
| Snus and nicotine pouches, outside Scandinavia[1)] | 6.1 | 2.9 | 110 | 10.9 | 5.4 | 103 | 13.2 |

1) Includes V2 Tobacco snus volumes from date of acquisition, August 31, 2017.

### Swedish Match Scandinavian snus market shares[1)]

| *Percent* | April-June | | Chg | January-June | | Chg | Full year |
|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | ppts | 2018 | 2017 | % | 2017 |
| Snus, Sweden, total | 63.8 | 65.6 | -1.8 | 64.0 | 65.7 | -1.8 | 65.4 |
| Snus, Sweden, premium | 88.5 | 91.5 | -3.0 | 88.9 | 91.8 | -2.9 | 91.2 |
| Snus, Sweden, value | 35.3 | 36.7 | -1.5 | 35.3 | 36.8 | -1.5 | 36.3 |
| Snus, Norway, total | 51.6 | 51.5 | 0.1 | 51.9 | 51.9 | 0.0 | 52.1 |

1) Swedish Match estimates using Nielsen data (excluding tobacconists): 13 weeks to July 1, 2018 and July 2, 2017, respectively. All figures for the Swedish market have been restated to reflect changes in Nielsen store measurements.


# Other tobacco products

## Second quarter highlights:

- Sales up 17 percent and operating profit up 14 percent in local currencies
- Higher sales and operating profit for US cigars on increased volumes and improved pricing/mix
- Continued growth in our niche chew bags/tobacco bits businesses with positive contribution from V2 Tobacco and House of Oliver Twist acquisitions

### Key data

| *MSEK* | April-June 2018 | April-June 2017 | Chg % | January-June 2018 | January-June 2017 | Chg % | Full year 2017 |
|---|---|---|---|---|---|---|---|
| Sales | 1,433 | 1,252 | 14 | 2,623 | 2,373 | 11 | 4,634 |
| Operating profit | 557 | 496 | 12 | 981 | 923 | 6 | 1,776 |
| Operating margin, % | 38.8 | 39.6 | | 37.4 | 38.9 | | 38.3 |
| EBITDA | 581 | 516 | 12 | 1,027 | 962 | 7 | 1,857 |
| EBITDA margin, % | 40.5 | 41.2 | | 39.1 | 40.6 | | 40.1 |

## The second quarter

*(Note: Comments below refer to the comparison between the second quarter 2018 vs. the second quarter 2017).*

Sales for Other tobacco products grew by 17 percent in local currencies while operating profit grew by 14 percent. Operating profit grew for both cigars and chewing tobacco.

Cigar volumes grew by 9 percent, or 7 percent on a constant trading day basis, driven by natural leaf varieties. Both sales and operating profit grew in US dollars on higher volumes as well as an improved price/mix.

Chewing tobacco shipments in the US (excluding contract manufacturing volumes) declined by more than 2 percent, or 4 percent on a constant trading day basis. Volumes for traditional premium varieties declined, while they grew for value brands. Based on distributor shipments to retail, Swedish Match's volumes declined at a rate less than the overall category. Including contract manufacturing volumes, US chewing tobacco sales grew marginally, while operating profit was flat in US dollars. Given the category shift to value products, adverse mix effects and volume declines outpaced higher list prices for the Swedish Match portfolio.

Chew bags and tobacco bits contributed positively to both sales and operating profit. During the quarter, Swedish Match acquired House of Oliver Twist which has a small but well-established presence in the niche chewing tobacco market with its tobacco bits in Europe, and is a natural complement to our chewing products portfolio.

### The first six months

*(Note: Comments below refer to the comparison between the first six months 2018 vs. the first six months 2017).*

In local currencies, sales for Other tobacco products were up by 16 percent, while operating profit was up by 12 percent, attributable to the strong performance for US cigars.

Cigar volumes increased by 8 percent and sales in US dollars increased at a faster rate due to higher average pricing for rolled leaf varieties, along with a portfolio shift toward natural leaf cigars. Operating profit was also higher despite increased FDA related fees and costs.

For chewing tobacco, sales and operating profit in local currencies grew, principally due to the addition of acquired V2 and Oliver Twist chewing businesses.

**Swedish Match US shipment volumes**

| | April-June 2018 | April-June 2017 | Chg % | January-June 2018 | January-June 2017 | Chg % | Full year 2017 |
|---|---|---|---|---|---|---|---|
| Cigars, millions of sticks | 465 | 428 | 9 | 894 | 826 | 8 | 1,629 |
| Chewing tobacco, thousands of pounds (excluding contract manufacturing volumes) | 1,650 | 1,690 | -2 | 3,218 | 3,353 | -4 | 6,341 |


## Lights

### Second quarter highlights:

- Improved performance following an unusually weak first quarter
- Operating profit higher on lower operating expenses versus prior year
- Favorable price/mix for lighters, and higher volumes for matches versus prior year

**Key data**

| *MSEK* | April-June 2018 | April-June 2017 | Chg % | January-June 2018 | January-June 2017 | Chg % | Full year 2017 |
|---|---|---|---|---|---|---|---|
| Sales | 302 | 302 | 0 | 587 | 642 | -9 | 1,291 |
| Operating profit | 46 | 37 | 24 | 77 | 97 | -21 | 211 |
| Operating margin, % | 15.1 | 12.2 | | 13.1 | 15.1 | | 16.4 |
| EBITDA | 56 | 47 | 18 | 97 | 118 | -18 | 253 |
| EBITDA margin, % | 18.5 | 15.6 | | 16.5 | 18.4 | | 19.6 |

### The second quarter

*(Note: Comments below refer to the comparison between the second quarter 2018 vs. the second quarter 2017).*

Sales were flat, with modest sales growth for matches and complementary products offsetting modest sales declines for lighters. Price/mix effects were favorable for both matches and lighters while net currency transaction/translation impacts were negative. Operating profits grew for both matches and lighters, more than offsetting declines for complementary products. Profit growth is attributable to both higher gross profits with an improved price/mix, as well as lower operating expenses. With regard to comparable profit figures, last year's *second* quarter operating profit was negatively impacted by certain restructuring costs, while this year's *first* quarter included restructuring costs amounting to approximately 12 MSEK in Brazil.

### The first six months

*(Note: Comments below refer to the comparison between the first six months 2018 vs. the first six months 2017).*

Sales declined by 9 percent, primarily as a result of a particularly weak performance for lighters in the first quarter. Lighter sales declined on lower volumes, most notably in the first quarter and volumes for matches were modestly lower.

**Swedish Match shipment volumes, worldwide**

| | April-June | | Chg | January-June | | Chg | Full year |
|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | % | 2018 | 2017 | % | 2017 |
| Matches, billion sticks | 15.4 | 14.7 | 4 | 31.2 | 32.5 | -4 | 65.0 |
| Lighters, million units | 77.6 | 85.9 | -10 | 150.6 | 181.2 | -17 | 368.1 |

## Financing and cash flow

Cash flow from operating activities for the first six months amounted to 1,712 MSEK (1,781). The stronger EBITDA development from product segments during 2018 was adversely affected by increased working capital investments and the phasing of income tax payments.

Investments in property, plant and equipment as well as intangible assets increased to 287 MSEK (178). Total cash provided from investing activities during the same period prior year included 1,527 MSEK relating to the net proceeds from the sale of STG shares, the sale of a parcel of land and dividend from STG.

Net finance cost for the first six months increased to 146 MSEK (104). Excluding the dividend received from STG of 65 MSEK recognized in the finance net during the second quarter 2017, the net finance cost improved by 23 MSEK. This improvement is mainly related to lower borrowing interest rates which is partly offset by higher average debt.

During the first six months 2018, new bond loans of 1,748 MSEK were issued and repayments of bond loans amounting to 500 MSEK were made. As of June 30, 2018, Swedish Match had 12,296 MSEK of interest bearing debt excluding retirement benefit obligations compared to 11,123 MSEK at December 31, 2017. During the remainder of 2018, 750 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 1,025 MSEK as of June 30, 2018, from 1,058 MSEK at December 31, 2017.

As of June 30, 2018, Swedish Match had 1,500 MSEK in unutilized committed credit lines. Cash and cash equivalents amounted to 2,550 MSEK at the end of the period, compared to 3,998 MSEK at December 31, 2017.

The net debt as of June 30, 2018 amounted to 10,771 MSEK compared to 8,183 MSEK at December 31, 2017.

## Shareholder distributions and the share

In the first half of the year, Swedish Match paid a dividend totaling 2,911 MSEK, consisting of an ordinary dividend of 1,613 MSEK and a special dividend of 1,298 MSEK following the final sale of shares in STG. During the same period, Swedish Match repurchased 2.6 million shares for 1,078 MSEK at an average price of 409.17 SEK, following authorization from the Annual General Meetings held in 2017 and 2018. Total shares bought back by Swedish Match since the buyback program started have been repurchased at an average price of 126.39 SEK. As per June 30, 2018 Swedish Match held 2.7 million shares, corresponding to 1.52 percent of the total number of shares. The number of shares outstanding, net, as per June 30, 2018, amounted to 173.3 million.

## Other events during the quarter

### Acquisition of Oliver Twist

On April 3, Swedish Match acquired House of Oliver Twist A/S, a Danish smokeless tobacco company, headquartered in Odense, Denmark. The company develops, produces and sells chewing tobacco bits made of processed tobacco strands under the brand Oliver Twist. The company's main markets are in Scandinavia and certain other EU countries. The company's annual revenues amount to approximately 60 MDKK. For further information, see Note 4.

### Ruling by the Swedish Patent and Market Court of Appeal

On June 29, 2018, the Swedish Patent and Market Court of Appeal ruled that the uniform labelling system implemented for Swedish Match's and other manufacturers' products in Swedish Match's own snus coolers during parts of 2012 and 2013 was not in breach of the competition legislation. The court thereby fully rejected the Competition Authority's complaint and changed the previous ruling of the Patent and Market Court and Swedish Match shall not pay the fine of 38 MSEK imposed by this court. Swedish Match will also be reimbursed for legal costs. The ruling cannot be appealed. No provision for a fine had previously been made.

### Swedish proposition on extended regulation on tobacco and similar products

As described in the Company's interim report for the first quarter, the Swedish Government on March 9 submitted a proposal to the Parliament for new legislation on tobacco and similar products (including inter alia an outdoor smoking ban in public places, retail marketing restrictions and the EU mandated track and trace system). The Swedish Parliament did not manage to vote on the proposal prior to summer vacation, and the expectation is now that the proposal will not be addressed legislatively until after the Swedish elections in September.

## Updated outlook

*The outlook included in the first quarter report stated that "the operating loss for snus and nicotine pouches outside Scandinavia is expected to be noticeably lower in 2018 than in 2017." This updated outlook has been revised to delete reference to operating loss for snus and nicotine pouches outside Scandinavia as we now anticipate that operating losses, if any, for snus and nicotine pouches outside Scandinavia will be nominal for the full year. The remaining points of the previous outlook statement remain unchanged.*

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 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.

## Risk factors

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

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

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

For a further description of risk factors affecting Swedish Match, see the Report of the Board of Directors in the Swedish Match annual report for 2017, available on swedishmatch.com.

## Swedish Match AB (publ)

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

Sales in the Parent Company for the first six months amounted to 26 MSEK (22). The loss before income tax amounted to -240 MSEK (profit 3,530) and net loss for the first six months amounted to -187 MSEK (net profit 3,607). The loss for the first six months mainly pertains to lower dividends from subsidiaries and higher write-downs of shares in subsidiaries compared to the same period previous year.

During the first six months, the Parent Company received dividends of 1,246 MSEK (3,825) of which 630 MSEK related to a dividend in kind of shares in subsidiaries. The higher dividend last year was attributable to proceeds relating to the sale of shares in STG. In addition, an additional purchase price payment of 107 MSEK was received last year which related to the sale of a parcel of land adjacent to the old headquarters building sold in 2007. An impairment loss on shares in subsidiaries of 1,247 MSEK in total was recognized during the first six months of 2018 which was primarily attributable to reduced equity in the subsidiaries following the dividends. During the period, a capital contribution of 100 MSEK to a subsidiary was made.

The reported increase in administration costs is primarily due to a one-time gain in the prior year from surplus pension 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 first six months, repayment of bond loans amounted to 500 MSEK and new bond loans of 1,748 MSEK were issued.

During the first six months, the Parent Company made share repurchases of 2.6 million (4.8) shares for 1,078 MSEK (1,392).

No capital expenditures on tangible or intangible assets have been made during the first six months of 2018 or 2017.

A dividend of 2,911 MSEK (2,908) has been paid during the period.

## Forward-looking information

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

## Additional information

This report has not been reviewed by the Company's auditors. The January-September 2018 report will be released on October 26, 2018.

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

Stockholm, July 19, 2018

| | | | |
|---|---|---|---|
| Conny Karlsson<br>Chairman of the Board | Andrew Cripps<br>Deputy Chairman | Charles A. Blixt<br>Board member | Patrik Engelbrektsson<br>Board member |
| Jacqueline Hoogerbrugge<br>Board member | Pauline Lindwall<br>Board member | Pär-Ola Olausson<br>Board member | Dragan Popovic<br>Board member |
| Wenche Rolfsen<br>Board member | Joakim Westh<br>Board member | Lars Dahlgren<br>President and CEO | |

## Product segments summary and key ratios

The segment reporting is shown according to the recognition of the Group's reportable segments which were changed as per January 1, 2018.

### Sales

| MSEK | Note | April-June 2018 | April-June Restated 2017 | Chg % | January-June 2018 | January-June Restated 2017 | Chg % | Restated Full year 2017 |
|---|---|---|---|---|---|---|---|---|
| Snus and moist snuff | | 1,509 | 1,405 | 7 | 2,894 | 2,701 | 7 | 5,484 |
| Other tobacco products | | 1,433 | 1,252 | 14 | 2,623 | 2,373 | 11 | 4,634 |
| Lights | | 302 | 302 | 0 | 587 | 642 | -9 | 1,291 |
| **Sales from product segments** | 3 | **3,244** | **2,960** | **10** | **6,104** | **5,715** | **7** | **11,410** |
| Other operations | 3 | 92 | 93 | -2 | 172 | 170 | 1 | 342 |
| **Sales** | | **3,336** | **3,053** | **9** | **6,276** | **5,886** | **7** | **11,751** |

### Operating profit

| MSEK | Note | April-June 2018 | April-June Restated 2017 | Chg % | January-June 2018 | January-June Restated 2017 | Chg % | Restated Full year 2017 |
|---|---|---|---|---|---|---|---|---|
| Snus and moist snuff | | 691 | 590 | 17 | 1,314 | 1,124 | 17 | 2,358 |
| Other tobacco products | | 557 | 496 | 12 | 981 | 923 | 6 | 1,776 |
| Lights | | 46 | 37 | 24 | 77 | 97 | -21 | 211 |
| **Operating profit from product segments** | 3 | **1,293** | **1,123** | **15** | **2,372** | **2,144** | **11** | **4,345** |
| Other operations | 3 | -30 | -32 | | -62 | -57 | | -126 |
| Income from defined benefit plan amendment | | - | - | | - | - | | 69 |
| Capital gain from sale of land | | - | - | | - | 107 | | 107 |
| Sale of STG shares | | - | - | | - | 131 | | 197 |
| **Operating profit** | | **1,263** | **1,091** | **16** | **2,311** | **2,326** | **-1** | **4,592** |

### Operating margin by product segment

| Percent | April-June 2018 | April-June Restated 2017 | January-June 2018 | January-June Restated 2017 | Restated Full year 2017 |
|---|---|---|---|---|---|
| Snus and moist snuff | 45.8 | 42.0 | 45.4 | 41.6 | 43.0 |
| Other tobacco products | 38.8 | 39.6 | 37.4 | 38.9 | 38.3 |
| Lights | 15.1 | 12.2 | 13.1 | 15.1 | 16.4 |
| **Operating margin from product segments** | **39.9** | **37.9** | **38.9** | **37.5** | **38.1** |

### EBITDA by product segment

| MSEK | April-June 2018 | April-June Restated 2017 | Chg % | January-June 2018 | January-June Restated 2017 | Chg % | Restated Full year 2017 |
|---|---|---|---|---|---|---|---|
| Snus and moist snuff | 744 | 642 | 16 | 1,420 | 1,225 | 16 | 2,563 |
| Other tobacco products | 581 | 516 | 12 | 1,027 | 962 | 7 | 1,857 |
| Lights | 56 | 47 | 18 | 97 | 118 | -18 | 253 |
| **EBITDA from product segments** | **1,381** | **1,205** | **15** | **2,543** | **2,306** | **10** | **4,673** |

### EBITDA margin by product segment

| Percent | April-June 2018 | April-June Restated 2017 | January-June 2018 | January-June Restated 2017 | Restated Full year 2017 |
|---|---|---|---|---|---|
| Snus and moist snuff | 49.3 | 45.6 | 49.1 | 45.4 | 46.7 |
| Other tobacco products | 40.5 | 41.2 | 39.1 | 40.6 | 40.1 |
| Lights | 18.5 | 15.6 | 16.5 | 18.4 | 19.6 |
| **EBITDA margin from product segments** | **42.6** | **40.7** | **41.7** | **40.3** | **41.0** |

## Key ratios

| | January-June 2018 | Restated 2017 | Restated 12 months ended June 30, 2018 | Restated Full year 2017 |
|---|---|---|---|---|
| Operating margin from product segments, % | 38.9 | 37.5 | 38.8 | 38.1 |
| Operating margin, % | 36.8 | 39.5 | 37.7 | 39.1 |
| Net debt, MSEK | 10,771 | 9,226 | 10,771 | 8,183 |
| Investments in property, plant and equipment, MSEK | 285 | 172 | 482 | 369 |
| EBITA, MSEK[1)] | 2,342 | 2,117 | 4,503 | 4,278 |
| EBITA interest cover | 16.6 | 13.0 | 14.1 | 12.6 |
| Net debt/EBITA | | | 2.4 | 1.9 |
| *Share data* | | | | |
| Number of shares outstanding at end of period | 173,275,855 | 179,893,310 | 173,275,855 | 175,910,538 |
| Average number of shares outstanding | 175,207,059 | 182,440,382 | 176,480,028 | 180,096,690 |

1) Excluding larger one-time items.

# Financial statements

## Condensed consolidated income statement

| MSEK | Note | April-June 2018 | April-June Restated 2017 | Chg % | January-June 2018 | January-June Restated 2017 | Chg % | Restated Full year 2017 |
|---|---|---|---|---|---|---|---|---|
| Sales, including tobacco tax | | 4,179 | 3,898 | | 7,929 | 7,551 | | 15,025 |
| Less tobacco tax | | -844 | -845 | | -1,653 | -1,666 | | -3,273 |
| **Sales** | | **3,336** | **3,053** | **9** | **6,276** | **5,886** | **7** | **11,751** |
| Cost of goods sold | | -1,251 | -1,114 | | -2,358 | -2,164 | | -4,356 |
| **Gross profit** | | **2,085** | **1,939** | **8** | **3,918** | **3,722** | **5** | **7,396** |
| Selling and admin. expenses | | -823 | -852 | | -1,608 | -1,643 | | -3,187 |
| Share of profit/loss in associated companies | | 1 | 4 | | 1 | 8 | | 10 |
| Capital gain from sale of land | | - | - | | - | 107 | | 107 |
| Sale of STG shares | | - | - | | - | 131 | | 197 |
| Income from defined benefit plan amendment | | - | - | | - | - | | 69 |
| **Operating profit** | | **1,263** | **1,091** | **16** | **2,311** | **2,326** | **-1** | **4,592** |
| Dividend from STG | | - | 65 | | - | 65 | | 107 |
| Finance income | | 17 | 12 | | 30 | 30 | | 49 |
| Finance costs | | -90 | -101 | | -176 | -199 | | -396 |
| Net finance cost | | -73 | -24 | | -146 | -104 | | -240 |
| **Profit before income tax** | | **1,190** | **1,066** | **12** | **2,165** | **2,222** | **-3** | **4,353** |
| Income tax expense | | -263 | -254 | | -471 | -478 | | -952 |
| **Profit for the period** | | **928** | **812** | **14** | **1,694** | **1,744** | **-3** | **3,400** |
| *Attributable to:* | | | | | | | | |
| Equity holders of the Parent | | 928 | 812 | | 1,694 | 1,744 | | 3,400 |
| Non-controlling interests | | 0 | 0 | | 0 | 0 | | 0 |
| **Profit for the period** | | **928** | **812** | **14** | **1,694** | **1,744** | **-3** | **3,400** |
| Earnings per share, basic and diluted, SEK | 7 | 5.31 | 4.48 | | 9.67 | 9.56 | | 18.88 |

## Condensed consolidated statement of comprehensive income

| MSEK | April-June 2018 | April-June Restated 2017 | January-June 2018 | January-June Restated 2017 | Restated Full year 2017 |
|---|---|---|---|---|---|
| **Profit for the period** | **928** | **812** | **1,694** | **1,744** | **3,400** |
| *Other comprehensive income that may be reclassified to the income statement* | | | | | |
| Translation differences related to foreign operations | 255 | -180 | 383 | -246 | -301 |
| Translation differences included in profit and loss | -2 | - | -2 | - | -6 |
| Effective portion of changes in fair value of cash flow hedges | -4 | -2 | -37 | -33 | -126 |
| Reclassification of gains/losses on cash flow hedges included in profit and loss | - | - | - | - | 22 |
| Change in fair value of STG shares | - | -177 | - | -164 | -80 |
| Change in fair value of STG shares included in profit and loss | - | 0 | - | -138 | -230 |
| Income tax relating to reclassifiable components of other comprehensive income | -3 | 22 | 4 | 27 | 23 |
| **Sub-total, net of tax for the period** | **246** | **-337** | **349** | **-553** | **-697** |
| *Other comprehensive income that will not be reclassified to the income statement* | | | | | |
| Actuarial gains/losses attributable to pensions, incl. payroll tax | 78 | -54 | 169 | 17 | 116 |
| Income tax relating to non-reclassifiable components of other comprehensive income | -26 | 26 | -49 | -3 | -133 |
| **Sub-total, net of tax for the period** | **52** | **-27** | **120** | **14** | **-17** |
| **Total comprehensive income for the period** | **1,226** | **448** | **2,163** | **1,205** | **2,686** |
| *Attributable to:* | | | | | |
| Equity holders of the Parent | 1,226 | 448 | 2,162 | 1,205 | 2,686 |
| Non-controlling interests | 0 | 0 | 0 | 0 | 0 |
| **Total comprehensive income for the period** | **1,226** | **448** | **2,163** | **1,205** | **2,686** |

## Condensed consolidated balance sheet

| *MSEK* | Note | June 30, 2018 | Restated December 31, 2017 |
|---|---|---|---|
| Intangible assets | | 2,443 | 2,088 |
| Property, plant and equipment | | 2,753 | 2,558 |
| Investments in associated companies | | 22 | 22 |
| Other non-current assets and operating receivables | | 19 | 22 |
| Other non-current financial assets and receivables | 6 | 1,618 | 1,254 |
| **Total non-current assets** | | **6,854** | **5,944** |
| Other current financial receivables | 6 | 702 | 263 |
| Current operating assets and receivables | | 3,572 | 3,171 |
| Cash and cash equivalents | | 2,550 | 3,998 |
| **Total current assets** | | **6,825** | **7,432** |
| **Total assets** | | **13,679** | **13,376** |
| Equity attributable to equity holders of the Parent | | -6,029 | -4,202 |
| Non-controlling interests | | 1 | 1 |
| **Total equity** | | **-6,028** | **-4,201** |
| Non-current financial provisions | | 1,190 | 1,200 |
| Non-current loans | | 11,265 | 10,277 |
| Other non-current financial liabilities | 6 | 1,121 | 1,218 |
| Other non-current operating liabilities | | 415 | 368 |
| **Total non-current liabilities** | | **13,992** | **13,063** |
| Current loans | | 1,999 | 1,253 |
| Other current financial liabilities | 6 | 822 | 534 |
| Other current operating liabilities | | 2,894 | 2,727 |
| **Total current liabilities** | | **5,715** | **4,514** |
| **Total liabilities** | | **19,707** | **17,577** |
| **Total equity and liabilities** | | **13,679** | **13,376** |

## Condensed consolidated cash flow statement

| MSEK | Note | 2018 | Restated 2017 |
|---|---|---|---|
| | | January-June | |
| *Operating activities* | | | |
| **Profit before income taxes** | | **2,165** | **2,222** |
| Share of profit/loss in associated companies | | -1 | -8 |
| Other non-cash items and other | | 214 | 15 |
| Income tax paid | | -436 | -270 |
| **Cash flow from operating activities before changes in working capital** | | **1,942** | **1,959** |
| Changes in working capital | | -230 | -178 |
| **Net cash generated from operating activities** | | **1,712** | **1,781** |
| *Investing activities* | | | |
| Purchase of property, plant and equipment | | -285 | -172 |
| Proceeds from sale of property, plant and equipment | | 1 | 0 |
| Purchase of intangible assets | | -2 | -6 |
| Acquisition of subsidiaries | 4 | -294 | - |
| Proceeds from sale of land | | - | 107 |
| Divestments of associated companies | | - | 1,355 |
| Dividend received from STG | | - | 65 |
| Changes in financial receivables etc. | | -1 | 0 |
| **Net cash used in/from investing activities** | | **-582** | **1,349** |
| *Financing activities* | | | |
| Proceeds from borrowings | | 1,748 | 500 |
| Repayment of borrowings | | -500 | - |
| Dividend paid to equity holders of the Parent | | -2,911 | -2,908 |
| Repurchase of own shares | | -1,078 | -1,392 |
| Realized exchange gain/losses on financial instruments | | 76 | -135 |
| Other | | 1 | -2 |
| **Net cash used in/from financing activities** | | **-2,664** | **-3,937** |
| **Net decrease in cash and cash equivalents** | | **-1,534** | **-807** |
| Cash and cash equivalents at the beginning of the period | | 3,998 | 3,364 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | 86 | -51 |
| **Cash and cash equivalents at the end of the period** | | **2,550** | **2,506** |

## Condensed consolidated statement of changes in equity

| MSEK | Note | Equity attributable to holders of the Parent | Non-controlling interests | Total equity |
|---|---|---|---|---|
| **Equity at January 1, 2017** | | **-1,366** | **1** | **-1,365** |
| Change in accounting principle | 1 | -23 | - | -23 |
| **Adjusted equity at January 1, 2017** | | **-1,389** | **1** | **-1,388** |
| Profit for the period | | 1,744 | 0 | 1,744 |
| Other comprehensive income, net of tax for the period | | -539 | 0 | -539 |
| **Total comprehensive income for the period** | | **1,205** | **0** | **1,205** |
| Dividend | | -2,908 | 0 | -2,908 |
| Repurchase of own shares | | -1,392 | - | -1,392 |
| Cancellation of shares | | -14 | - | -14 |
| Bonus issue | | 14 | - | 14 |
| **Equity at June 30, 2017** | | **-4,484** | **1** | **-4,483** |
| **Equity at January 1, 2018** | | **-4,202** | **1** | **-4,201** |
| Profit for the period | | 1,694 | 0 | 1,694 |
| Other comprehensive income, net of tax for the period | | 469 | 0 | 469 |
| **Total comprehensive income for the period** | | **2,163** | **0** | **2,162** |
| Dividend | | -2,911 | - | -2,911 |
| Repurchase of own shares | | -1,078 | - | -1,078 |
| Cancellation of shares | | -13 | - | -13 |
| Bonus issue | | 13 | - | 13 |
| **Equity at June 30, 2018** | | **-6,029** | **1** | **-6,028** |

## Condensed Parent Company income statement

| MSEK | January-June 2018 | January-June 2017 |
|---|---|---|
| Sales | 26 | 22 |
| Administrative expenses | -113 | -78 |
| **Operating loss** | **-86** | **-56** |
| Result from participation in Group companies | -2 | 3,883 |
| Net finance cost | -152 | -298 |
| **Profit/Loss before income tax** | **-240** | **3,530** |
| Income tax | 53 | 77 |
| **Profit/Loss for the period** | **-187** | **3,607** |

## Condensed Parent Company statement of comprehensive income

| MSEK | January-June 2018 | January-June 2017 |
|---|---|---|
| **Profit/Loss for the period** | **-187** | **3,607** |
| *Other comprehensive income that may be reclassified to the income statement* | | |
| Effective portion of changes in fair value of cash flow hedges | -37 | -33 |
| Income tax relating to components of other comprehensive income | 4 | 7 |
| **Other comprehensive income, net of tax for the period** | **-33** | **-26** |
| **Total comprehensive income for the period** | **-220** | **3,581** |

## Condensed Parent Company balance sheet

| MSEK | June 30, 2018 | June 30, 2017 | December 31, 2017 |
|---|---|---|---|
| Intangible and tangible assets | 1 | 2 | 1 |
| Non-current financial assets | 31,717 | 49,665 | 32,002 |
| Current assets | 1,404 | 793 | 4,394 |
| **Total assets** | **33,122** | **50,460** | **36,397** |
| **Equity** | **15,013** | **17,715** | **19,221** |
| **Untaxed reserves** | **1,330** | **995** | **1,330** |
| Provisions | 58 | 97 | 86 |
| Non-current liabilities | 11,268 | 26,355 | 10,349 |
| Current liabilities | 5,453 | 5,298 | 5,409 |
| **Total liabilities** | **16,779** | **31,749** | **15,845** |
| **Total equity and liabilities** | **33,122** | **50,460** | **36,397** |

## Note 1 – Accounting principles

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

### *New standards, amendments and interpretations applied in 2018*

As of January 1, 2018, Swedish Match adopted IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement, as well as IFRS 15 Revenue from Contracts with Customers, which supersedes IAS 18 Revenue and IAS 11 Construction Contracts and the related Interpretations.

It is only the application of IFRS 15 Revenue from Contracts with Customers that has a material impact on the financial statements of Swedish Match. IFRS 15 materially affects the revenue recognition of the Swedish distribution function but does not affect profit recognized for this function. As a consequence of the implementation of IFRS 15, Swedish Match segment reporting has changed as of 2018. This is further described below and in Note 3.

IFRS 15 also influenced the timing of revenue recognition from goods returned within the reportable segment Snus and moist snuff, constituting an immaterial amount.

Other new amendments and interpretations applicable as of January 1, 2018 have no material effect on the Group’s financial result or position.

All other accounting principles and basis of calculation applied in this report are the same as in the annual report for 2017.

### *The nature and effect of the change from the adoption of IFRS 9*

IFRS 9 Financial Instruments 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.

IFRS 9 does not have a 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 immaterial, and hedge accounting transactions are to be treated in a similar manner under the new standard as before.

The new standard is applied from January 1, 2018. Financial instruments for 2017 in this report are presented in accordance with previous standard, IAS 39.

### *The nature and effect of the change from the adoption of IFRS 15*

The main principle of IFRS 15 is that revenue shall be recognized when the control of the promised goods or service is transferred to the customer at the expected consideration for such delivery, including expected outcome of variable consideration.

Adopting IFRS 15 has resulted in a reduction in sales and cost of goods sold attributed to distributed third party tobacco products compared to how Swedish Match previously reported such sales and cost of sales under IAS 18. Under IFRS 15, it was concluded that for most of the transactions, the Swedish distribution function is acting as an agent. For the transactions where the Swedish distribution function is acting as an agent, the revenue recognized now represents the amount of the fee received from the principals (the manufacturers of the goods) for arranging delivery of the goods 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 retail customers after paying the principals. Recognizing the fee instead of the gross invoiced amount materially reduced the net sales of Swedish Match but does not alter operating profit.

Accordingly, 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 and has limited control over such inventory has not been recognized in Swedish Match’s balance sheet.

The new standard is applied retrospectively with the cumulative transition effects (negative 23 MSEK) recognized as an adjustment to the opening balance of retained earnings of the annual reporting period starting

January 1, 2017. Financial statements of 2017 have been restated in this interim report reflecting the recognition of revenue according to the new standard.

The following tables present a reconciliation of the accounting effects from the adoption of IFRS 15 for the opening balance of 2017 and for the first six months of 2017. For the reconciliation effects from the adoption of IFRS 15 for the full year 2017, please refer to Note 1 in the annual report 2017.

### *Summary of the effects from the adoption of IFRS 15 on the opening balance at January 1, 2017*

**Condensed consolidated balance sheet**

| *MSEK* | **Dec 31, 2016** | **IFRS 15 transition effects adjustments** Reclassification from principal to agent | Provision for goods returned | **Restated Jan 1, 2017** |
|---|---|---|---|---|
| Total non-current assets | 8,387 | - | - | 8,387 |
| Total current assets | 6,948 | -203 | - | 6,745 |
| **Total assets** | **15,335** | **-203** | **-** | **15,132** |
| Equity attributable to equity holders of the Parent | -1,366 | - | -23 | -1,389 |
| Non-controlling interests | 1 | - | - | 1 |
| **Total equity** | **-1,365** | **-** | **-23** | **-1,388** |
| Total non-current liabilities | 11,318 | - | - | 11,318 |
| Total current liabilities | 5,382 | -203 | 23 | 5,202 |
| **Total liabilities** | **16,700** | **-203** | **23** | **16,520** |
| **Total equity and liabilities** | **15,335** | **-203** | **-** | **15,132** |

### *Summary of the effects from the adoption of IFRS 15 for the first six months 2017*

**Condensed consolidated income statement**

| *MSEK* | **Jan-Jun 2017** | **IFRS 15 transition effects adjustments** Reclassification from principal to agent | Net change in provision for goods returned | **Restated Jan-Jun 2017** |
|---|---|---|---|---|
| **Sales** | **7,989** | **-2,106** | **2** | **5,886** |
| Cost of goods sold | -4,269 | 2,106 | - | -2,164 |
| **Gross profit** | **3,719** | **-** | **2** | **3,722** |
| Selling and admin. expenses | -1,643 | - | - | -1,643 |
| Share of profit/loss in associated companies | 8 | - | - | 8 |
| Larger one-time items | 238 | - | - | 238 |
| **Operating profit** | **2,323** | **-** | **2** | **2,326** |
| Net finance cost | -104 | - | - | -104 |
| **Profit before income tax** | **2,219** | **-** | **2** | **2,222** |
| Income tax expense | -477 | - | -1 | -478 |
| **Profit for the period** | **1,742** | **-** | **2** | **1,744** |
| *Attributable to:* | | | | |
| Equity holders of the Parent | 1,742 | - | 2 | 1,744 |
| Non-controlling interests | 0 | - | - | 0 |
| **Profit for the period** | **1,742** | **-** | **2** | **1,744** |
| Earnings per share, SEK | 9.55 | - | 0.01 | 9.56 |

## Condensed consolidated balance sheet

| *MSEK* | | IFRS 15 transition effects adjustments | | |
|---|---|---|---|---|
| | **Jun 30, 2017** | Reclassification from principal to agent | Provision for goods returned | **Restated Jun 30, 2017** |
| Total non-current assets | 6,676 | - | - | 6,676 |
| Total current assets | 6,306 | -251 | - | 6,055 |
| **Total assets** | **12,982** | **-251** | **-** | **12,731** |
| Equity attributable to equity holders of the Parent | -4,463 | - | -21 | -4,484 |
| Non-controlling interests | 1 | - | - | 1 |
| **Total equity** | **-4,462** | **-** | **-21** | **-4,483** |
| Total non-current liabilities | 11,229 | - | - | 11,229 |
| Total current liabilities | 6,214 | -251 | 21 | 5,985 |
| **Total liabilities** | **17,444** | **-251** | **21** | **17,214** |
| **Total equity and liabilities** | **12,982** | **-251** | **-** | **12,731** |

### *New IFRSs and interpretations which have not yet been applied*

IFRS 16 Leases, which will become effective in 2019 and replace IAS 17 Leases and the related Interpretations, is not expected to have a material impact on the Group's financial statements. 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, depreciation on the right-of-use asset and interest expense on the lease liability will be recognized instead of the lease payments recognized as cost when incurred. 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.

Other IFRS standards, amendments and interpretations to existing standards applicable as of January 1, 2019 or later are not expected to have a significant impact on the Group's financial result or position.

## Note 2 – Disaggregation of revenue

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

### Sales – April to June

| *MSEK* | Segments | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Snus and moist snuff | | Other tobacco products | | Lights | | Total segments | | Other operations | | Group | |
| **Primary geographical markets** | **April-June 2018** | **2017** | **April-June 2018** | **2017** | **April-June 2018** | **2017** | **April-June 2018** | **2017** | **April-June 2018** | **2017** | **April-June 2018** | **2017** |
| Scandinavia | 1,082 | 1,034 | 17 | 3 | 10 | 11 | 1,109 | 1,047 | 92 | 93 | 1,200 | 1,140 |
| The US | 420 | 369 | 1,375 | 1,249 | 11 | 9 | 1,805 | 1,627 | - | - | 1,805 | 1,627 |
| Other markets | 7 | 3 | 41 | 1 | 282 | 282 | 330 | 286 | - | - | 330 | 286 |
| **Total sales** | **1,509** | **1,405** | **1,433** | **1,252** | **302** | **302** | **3,244** | **2,960** | **92** | **93** | **3,336** | **3,053** |
| Timing of revenue recognition | | | | | | | | | | | | |
| **Goods and services transferred at a point in time** | **1,509** | **1,405** | **1,433** | **1,252** | **302** | **302** | **3,244** | **2,960** | **92** | **93** | **3,336** | **3,053** |

### Sales – January to June

| *MSEK* | Segments | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Snus and moist snuff | | Other tobacco products | | Lights | | Total segments | | Other operations | | Group | |
| **Primary geographical markets** | **January-June 2018** | **2017** | **January-June 2018** | **2017** | **January-June 2018** | **2017** | **January-June 2018** | **2017** | **January-June 2018** | **2017** | **January-June 2018** | **2017** |
| Scandinavia | 2,069 | 1,943 | 24 | 5 | 22 | 24 | 2,116 | 1,972 | 172 | 170 | 2,288 | 2,142 |
| The US | 811 | 753 | 2,517 | 2,365 | 19 | 24 | 3,348 | 3,142 | - | - | 3,348 | 3,142 |
| Other markets | 14 | 5 | 81 | 3 | 545 | 594 | 640 | 602 | - | - | 640 | 602 |
| **Total sales** | **2,894** | **2,701** | **2,623** | **2,373** | **587** | **642** | **6,104** | **5,715** | **172** | **170** | **6,276** | **5,886** |
| Timing of revenue recognition | | | | | | | | | | | | |
| **Goods and services transferred at a point in time** | **2,894** | **2,701** | **2,623** | **2,373** | **587** | **642** | **6,104** | **5,715** | **172** | **170** | **6,276** | **5,886** |

## Note 3 – Descriptive information on segments

As of January 1, 2018, Swedish Match reports three segments: Snus and moist snuff, Other tobacco products and Lights. The reportable segments represent operating divisions producing, marketing and selling Swedish Match products.

Following the implementation of IFRS 15, Other operations no longer qualifies as a reportable segment, as the recognized sales are substantially lower. Other operations consist of corporate functions providing services to the Swedish Match operating divisions and the Swedish distribution function. Services provided include, among others, regulatory affairs, legal and financial services. The distribution function provides services to Swedish Match in Sweden and Norway as well as to other manufacturers within the Swedish distribution network.

The segment reporting of prior periods in this report is shown according to the new recognition of the Group's reportable segments.

## Note 4 – Business combinations

On April 3, 2018, Swedish Match acquired 100 percent of the shares in House of Oliver Twist A/S (Oliver Twist). The consideration amounted to 221 MDKK and was paid in cash. At the date of the acquisition the DKK/SEK currency rate was 1.38.

Sales attributable to Oliver Twist from the day of acquisition amounted to 17 MSEK and are included in the Group's net sales. Oliver Twist also contributed profit after tax of 3 MSEK over the same period. If Oliver Twist had been consolidated as of January 1, 2018 the Group's net sales would have included sales from Oliver Twist of 42 MSEK and profit after tax of 8 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:

| *MSEK* | **Fair value reported in the Group[1)]** |
|---|---|
| Property, plant and equipment | 6 |
| Intangible assets | 88 |
| Long-term receivables and other non-current assets | 0 |
| Inventory | 33 |
| Trade receivables and other current assets | 13 |
| Total liquid funds | 12 |
| Trade liabilities and other current liabilities | 11 |
| Deferred tax liability | 19 |
| **Net identifiable assets and liabilities** | **122** |
| Group goodwill | 184 |
| **Total consideration paid** | **306** |
| Less acquired liquid funds | 12 |
| **Net effect on Group's liquid funds from the acquisition** | **294** |

1) The acquired fair values reported as per June 30, 2018 are preliminary and can be changed when the final acquisition analysis has been completed.

The goodwill associated to the acquisition represents the opportunity for Swedish Match to broaden our product offer in line with our vision. No part of the goodwill value is expected to be deductible for tax purposes.

Acquisition costs amounted to 2 MSEK and mainly pertain to consultancy fees relating to the due diligence process. Acquisition costs are recognized in profit and loss as administration costs.

No contingent liabilities arising from the acquisition have been identified.

## Note 5 – Carrying value and fair value

Beginning January 1, 2018, Swedish Match applies IFRS 9, which contains new principles in how financial assets are classified and measured, determined by to which business model the financial asset is held. The business models are:

| | |
|---|---|
| Hold to collect | - measured at amortized cost |
| Hold to collect and sell | - measured at fair value through other comprehensive income (FVOCI) |
| Other | - measured at fair value through profit and loss (FVTPL) |

The following table shows the transition of the classification and measurement of financial assets between IAS 39 at closing balance December 31, 2017 and IFRS 9 at opening balance January 1, 2018 according to the balance sheet. The classification of the financial assets is based on measurement category for IAS 39 and the business model for IFRS 9. No difference between the standards are recognized.

## Carrying value and fair value transition effects

| MSEK | IAS 39 | | | IFRS 9 | | | |
|---|---|---|---|---|---|---|---|
| | Closing balance 2017 | | | Opening balance 2018 | | | Difference |
| Categories: | Items carried at fair value via the income statement | Cash flow hedges | Loans and receivables | Other | Cash flow hedges | Hold to collect | |
| measured at: | FVTPL | FVOCI | Amortized cost | FVTPL | FVOCI | Amortized cost | |
| Trade receivables | - | - | 1,536 | - | - | 1,536 | - |
| Other non-current financial receivables | - | 273 | - | - | 273 | - | - |
| Other current assets and financial receivables | 0 | - | - | 0 | - | - | - |
| Prepaid expenses and accrued income | - | 1 | - | - | 1 | - | - |
| Cash and cash equivalents | - | - | 3,998 | - | | 3,998 | - |
| **Total assets** | **0** | **274** | **5,534** | **0** | **274** | **5,534** | **-** |

Swedish Match uses the following valuation techniques of the fair value hierarchy in determining the fair values of the financial instruments:

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

The following table shows carrying value and fair value for financial instruments applying IFRS 9 per June 30, 2018.

## Carrying value and fair value

| MSEK | Other measured at FVTPL | Hold to collect | Other financial liabilities | Cash flow hedges | Non-financial instruments | Total carrying value | Estimated fair value |
|---|---|---|---|---|---|---|---|
| Trade receivables | - | 1,703 | - | - | - | 1,703 | 1,703 |
| Other non-current financial receivables | - | - | - | 500 | 600 | 1,100 | 1,100 |
| Other current assets and financial receivables | 38 | - | - | 148 | 252 | 438 | 438 |
| Prepaid expenses and accrued income[1)] | - | - | - | 0 | 101 | 102 | 102 |
| Cash and cash equivalents | - | 2,550 | - | - | - | 2,550 | 2,550 |
| **Total assets** | **38** | **4,253** | **-** | **648** | **953** | **5,893** | **5,893** |
| Loans and borrowings | - | - | 13,264 | - | - | 13,264 | 13,426 |
| Other non-current financial liabilities | - | - | - | 3 | 77 | 80 | 80 |
| Other current liabilities | 0 | - | - | - | 1,275 | 1,276 | 1,276 |
| Accrued expenses and deferred income[1)] | - | - | 91 | 39 | 730 | 861 | 861 |
| Trade payables | - | - | 787 | - | - | 787 | 787 |
| **Total liabilities** | **0** | **-** | **14,142** | **42** | **2,082** | **16,268** | **16,430** |

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

## Fair value measurement by level

| MSEK | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Derivative financial assets | - | 686 | - | 686 |
| Derivative financial liabilities | - | 42 | - | 42 |

The following table shows carrying value and fair value for financial instruments applying IAS 39 per June 30, 2017.

## Carrying value and fair value

| *MSEK* | Items carried at fair value via the income statement | Loans and receiv-ables | Available for sale financial assets | Other financial liabilities | Cash flow hedges | Non-financial instruments | Total carrying value | Estimated fair value |
|---|---|---|---|---|---|---|---|---|
| Trade receivables | - | 1,627 | - | - | - | - | 1,627 | 1,627 |
| Other non-current financial assets | - | - | 1,246 | - | - | - | 1,246 | 1,246 |
| Other non-current financial receivables | - | - | - | - | 312 | 445 | 757 | 757 |
| Other current assets and financial receivables | - | - | - | - | 41 | 200 | 241 | 241 |
| Prepaid expenses and accrued income1) | - | - | - | - | -16 | 84 | 68 | 68 |
| Cash and cash equivalents | - | 2,506 | - | - | - | - | 2,506 | 2,506 |
| **Total assets** | **-** | **4,133** | **1,246** | **-** | **337** | **729** | **6,445** | **6,445** |
| Loans and borrowings | - | - | - | 10,762 | - | - | 10,762 | 11,020 |
| Other non-current financial liabilities | - | - | - | - | 82 | 54 | 136 | 136 |
| Other current liabilities | 35 | - | - | - | - | 1,632 | 1,667 | 1,667 |
| Accrued expenses and deferred income1) | - | - | - | 117 | 26 | 669 | 812 | 812 |
| Trade payables | - | - | - | 669 | - | - | 669 | 669 |
| **Total liabilities** | **35** | **-** | **-** | **11,548** | **108** | **2,355** | **14,046** | **14,304** |

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

## Fair value measurement by level

| *MSEK* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Other non-current financial assets | 1,246 | - | - | 1,246 |
| Derivative financial assets | - | 337 | - | 337 |
| Derivative financial liabilities | - | 143 | - | 143 |

For the second quarter 2017, the fair value designated as level 1 and quoted in an active market consists of available for sale financial assets which reflect the investment in STG. These assets were sold in the fourth quarter 2017. No transfer in or out of level 2 has been made during the second quarter 2018. The recognized amounts are regarded as reasonable estimates for all items measured at carrying value in the balance sheet, except for loans and borrowings, as these amounts have a long time to maturity. The fair value of loans and borrowings differ from their carrying value as a consequence of changes in the market interest rates. Items not valued at fair value in the balance sheet are measured at amortized cost. The total nominal amount of outstanding derivatives is 8,773 MSEK (8,210) of which 7,196 MSEK (7,053) is in cash flow hedges consisting of cross currency and interest rate swaps related to bond loans. The remaining 1,577 MSEK (1,157) consist of currency swaps related to the conversion of surplus cash in US dollars to Swedish kronor. Methodologies utilized in the valuation of financial instruments can be found in Note 1 in the 2017 annual report.

## Note 6 – Alternative performance measures

Swedish Match presents several financial measures that are outside IFRS definitions (Alternative performance measures, according to ESMA's guidelines) with the aim of enabling effective evaluation of the 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 |
|---|---|---|
| **SALES FROM PRODUCT SEGMENTS** | Sales from reportable segments, which excludes Other operations | Used as a measure of sales performance of the core commercial businesses of Swedish Match, excluding the impact of Other operations (incl. Swedish distribution function). |
| **OPERATING PROFIT/LOSS (EBIT) FROM PRODUCT SEGMENTS** | Operating profit from reportable segments, excluding Other operations, larger one-time items, net finance cost and income tax | Used as a measure of operating performance of the core commercial businesses of Swedish Match, excluding the impact of Other operations (incl. Swedish distribution function), items which impact comparability between periods, financing and corporate income tax. |
| **OPERATING MARGIN FROM PRODUCT SEGMENTS (%)** | 100 × Operating profit from product segments ÷ Sales from product segments | Used as a measure of operational profitability of the core commercial businesses of Swedish Match excluding the impact of Other operations (incl. Swedish distribution function). |
| **LARGER ONE-TIME ITEMS** | Larger one-time items are separately disclosed non-recurring income and cost which usually refer to larger capital gains or losses on divestments, larger restructuring costs and other larger non-recurring income and costs recognized during the period | Used to provide information regarding items which impact comparability between periods. |
| **EBITDA** | Operating profit excluding larger one-time items, income from STG, net finance cost, income tax, depreciation, amortization and impairments of tangible and intangible assets | Used as an alternative measure of operating performance that is not impacted by historical investments and the related accounting treatment of such investments as well as items which impact comparability between periods. |
| **EBITDA FROM PRODUCT SEGMENTS** | Operating profit from product segments, excluding Other operations, larger one-time items, income from STG, net finance cost, income tax, depreciation, amortization and impairments of tangible and intangible assets | Used as an alternative measure of operating performance for the core commercial businesses of Swedish Match, that is not impacted by historical investments and the related accounting treatment of such investments as well as items which impact comparability between periods. |
| **EBITDA MARGIN (%)** | 100 × EBITDA ÷ Sales | Used as an alternative measure of operating profitability. |
| **EBITDA MARGIN FROM PRODUCT SEGMENTS (%)** | 100 × EBITDA from product segments ÷ Sales from product segments | Used as an alternative measure of operating profitability for the core commercial businesses of Swedish Match. |
| **PROFIT FOR THE PERIOD, EXCLUDING INCOME FROM STG AND LARGER ONE-TIME ITEMS** | Profit for the period excluding income 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. |
| **EBITA** | Operating profit excluding larger one-time items, income from STG, net finance cost, tax, amortization and impairments of intangible assets | Used as a proxy for the free cash flow of the ongoing business available for payment of financial obligations. |
| **EBITA INTEREST COVERAGE RATIO (EBITA INTEREST COVER)** | EBITA ÷ (Interest expense - interest income) | Used as a measure of the ability to fund interest expenses. |
| **NET DEBT** | Current and non-current loans, adjusted for hedges relating to these loans + net provisions for pensions and similar obligations – cash and cash equivalents and other investments | Used as a measure of net financial obligations. |
| **NET DEBT/EBITA** | Net debt ÷ EBITA | Used as an indication of the duration (in years) required to fund existing net financial obligations with free cash flows from the ongoing business. |

## Larger one-time items

| *MSEK* | January-June 2018 | January-June 2017 | Full year 2017 |
|---|---|---|---|
| Income from defined benefit plan amendment | - | - | 69 |
| Sale of STG shares | - | 131 | 197 |
| Capital gain from sale of land | - | 107 | 107 |
| **Total larger one-time items** | **-** | **238** | **373** |

## Net debt

| *MSEK* | January-June 2018 | January-June 2017 | Full year 2017 |
|---|---|---|---|
| Non-current loans | 11,265 | 8,173 | 10,277 |
| Current loans | 1,999 | 2,589 | 1,253 |
| Components of derivatives (liabilities)[1)] | 0 | 35 | 40 |
| Net provision for pensions and similar obligations[2)] | 1,118 | 1,482 | 1,146 |
| Cash and cash equivalents and other short-term investments | -2,550 | -2,506 | -3,998 |
| Net asset for pensions and similar receivables[3)] | -93 | -101 | -88 |
| Components of derivatives (assets)[4)] | -968 | -447 | -446 |
| **Net debt** | **10,771** | **9,226** | **8,183** |

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

## Note 7 – Earnings per share

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

## Earnings per share

| *Basic and diluted* | April-June 2018 | April-June Restated 2017 | January-June 2018 | January-June Restated 2017 | Restated Full year 2017 |
|---|---|---|---|---|---|
| Profit for the period attributable to equity holders of the Parent, MSEK | 928 | 812 | 1,694 | 1,744 | 3,400 |
| Profit for the period attributable to equity holders of the Parent, excluding income from STG and larger one-time items, MSEK | 928 | 757 | 1,694 | 1,451 | 2,953 |
| **Weighted average number of shares outstanding, basic and diluted** | **174,572,254** | **181,225,363** | **175,207,059** | **182,440,382** | **180,096,690** |

| *Earnings per share, basic and diluted, SEK* | April-June 2018 | April-June Restated 2017 | January-June 2018 | January-June Restated 2017 | Restated Full year 2017 |
|---|---|---|---|---|---|
| Earnings per share | 5.31 | 4.48 | 9.67 | 9.56 | 18.88 |
| Adjusted earnings per share[1)] | 5.31 | 4.17 | 9.67 | 7.95 | 16.40 |

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

## Quarterly data

Financial information for 2017 in the tables below have been restated to reflect recognition of revenue in accordance with IFRS 15. The segment reporting is shown according to the recognition of the Group's reportable segments which were changed as per January 1, 2018.

### Consolidated income statement in summary

| *MSEK* | **Q2/18** | **Q1/18** | **Q4/17** | **Q3/17** | **Q2/17** |
|---|---|---|---|---|---|
| Sales, including tobacco tax | 4,179 | 3,750 | 3,784 | 3,689 | 3,898 |
| Less tobacco tax | -844 | -810 | -833 | -775 | -845 |
| **Sales** | **3,336** | **2,941** | **2,951** | **2,915** | **3,053** |
| Cost of goods sold | -1,251 | -1,107 | -1,130 | -1,062 | -1,114 |
| **Gross profit** | **2,085** | **1,834** | **1,821** | **1,852** | **1,939** |
| Selling and administrative expenses | -823 | -786 | -780 | -765 | -852 |
| Share of net profit/loss in associated companies | 1 | -1 | 2 | 1 | 4 |
| Income from defined benefit plan amendment | - | - | 69 | - | - |
| Sale of STG shares | - | - | 66 | - | - |
| **Operating profit** | **1,263** | **1,047** | **1,178** | **1,088** | **1,091** |
| Dividend from STG | - | - | 42 | - | 65 |
| Finance income | 17 | 14 | 10 | 9 | 12 |
| Finance costs | -90 | -87 | -96 | -101 | -101 |
| Net finance cost | -73 | -73 | -44 | -91 | -24 |
| **Profit before income tax** | **1,190** | **974** | **1,134** | **997** | **1,066** |
| Income tax expense | -263 | -208 | -231 | -244 | -254 |
| **Profit for the period** | **928** | **766** | **904** | **753** | **812** |
| *Attributable to:* | | | | | |
| Equity holders of the Parent | 928 | 766 | 904 | 753 | 812 |
| Non-controlling interests | 0 | 0 | 0 | 0 | 0 |
| **Profit for the period** | **928** | **766** | **904** | **753** | **812** |

## Quarterly data by product segment

### Sales

| *MSEK* | **Q2/18** | **Q1/18** | **Q4/17** | **Q3/17** | **Q2/17** |
|---|---|---|---|---|---|
| Snus and moist snuff | 1,509 | 1,386 | 1,407 | 1,377 | 1,405 |
| Other tobacco products | 1,433 | 1,190 | 1,120 | 1,142 | 1,252 |
| Lights | 302 | 285 | 341 | 308 | 302 |
| **Sales from product segments** | **3,244** | **2,860** | **2,867** | **2,827** | **2,960** |
| Other operations | 92 | 81 | 84 | 88 | 93 |
| **Sales** | **3,336** | **2,941** | **2,951** | **2,915** | **3,053** |

### Operating profit

| *MSEK* | **Q2/18** | **Q1/18** | **Q4/17** | **Q3/17** | **Q2/17** |
|---|---|---|---|---|---|
| Snus and moist snuff | 691 | 623 | 612 | 622 | 590 |
| Other tobacco products | 557 | 425 | 417 | 436 | 496 |
| Lights | 46 | 31 | 68 | 46 | 37 |
| **Operating profit from product segments** | **1,293** | **1,079** | **1,096** | **1,104** | **1,123** |
| Other operations | -30 | -31 | -53 | -16 | -32 |
| Income from defined benefit plan amendment | - | - | 69 | - | - |
| Sale of STG shares | - | - | 66 | - | - |
| **Operating profit** | **1,263** | **1,047** | **1,178** | **1,088** | **1,091** |

### Operating margin by product segment

| *Percent* | **Q2/18** | **Q1/18** | **Q4/17** | **Q3/17** | **Q2/17** |
|---|---|---|---|---|---|
| Snus and moist snuff | 45.8 | 45.0 | 43.5 | 45.2 | 42.0 |
| Other tobacco products | 38.8 | 35.7 | 37.2 | 38.2 | 39.6 |
| Lights | 15.1 | 10.9 | 19.9 | 15.1 | 12.2 |
| **Operating margin from product segments** | **39.9** | **37.7** | **38.2** | **39.1** | **37.9** |

### EBITDA by product segment

| *MSEK* | Q2/18 | Q1/18 | Q4/17 | Q3/17 | Q2/17 |
|---|---|---|---|---|---|
| Snus and moist snuff | 744 | 675 | 663 | 674 | 642 |
| Other tobacco products | 581 | 446 | 438 | 457 | 516 |
| Lights | 56 | 41 | 78 | 57 | 47 |
| **EBITDA from product segments** | **1,381** | **1,162** | **1,180** | **1,188** | **1,205** |

### EBITDA margin by product segment

| *Percent* | Q2/18 | Q1/18 | Q4/17 | Q3/17 | Q2/17 |
|---|---|---|---|---|---|
| Snus and moist snuff | 49.3 | 48.7 | 47.2 | 49.0 | 45.6 |
| Other tobacco products | 40.5 | 37.5 | 39.1 | 40.0 | 41.2 |
| Lights | 18.5 | 14.4 | 23.0 | 18.4 | 15.6 |
| **EBITDA margin from product segments** | **42.6** | **40.6** | **41.1** | **42.0** | **40.7** |

## Additional quarterly data

### Depreciation, amortization and impairments

| *MSEK* | Q2/18 | Q1/18 | Q4/17 | Q3/17 | Q2/17 |
|---|---|---|---|---|---|
| Property, plant and equipment | 84 | 81 | 85 | 80 | 80 |
| Intangible assets | 16 | 16 | 13 | 16 | 15 |
| **Total** | **100** | **97** | **98** | **96** | **95** |

### Net finance cost

| *MSEK* | Q2/18 | Q1/18 | Q4/17 | Q3/17 | Q2/17 |
|---|---|---|---|---|---|
| Interest income | 17 | 14 | 10 | 9 | 12 |
| Interest expense | -86 | -86 | -97 | -99 | -97 |
| **Net interest expense** | **-69** | **-72** | **-87** | **-90** | **-85** |
| Dividend from STG | - | - | 42 | - | 65 |
| Other finance costs, net | -4 | -1 | 1 | -1 | -4 |
| **Total net finance cost** | **-73** | **-73** | **-44** | **-91** | **-24** |

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

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

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