

## Interim Report JANUARY – SEPTEMBER 2017

### Highlights from the third quarter

- Sales increased by 1 percent in local currencies. Reported sales declined by 1 percent to 4,069 MSEK (4,118) for the third quarter.
- Operating profit from product areas in local currencies increased by 2 percent. Reported operating profit from product areas<sup>1)</sup> amounted to 1,089 MSEK (1,089) for the third quarter.
- Operating profit amounted to 1,089 MSEK (2,694) for the third quarter. The previous year's third quarter included larger one-time items of 1,550 MSEK relating to a capital gain from the partial divestment of STG and an unrealized gain from revaluing Swedish Match's remaining shareholding in STG to market value.
- Profit after tax amounted to 753 MSEK (2,306 - positively affected by the larger one-time items mentioned above).
- Earnings per share excluding both larger one-time items and share of net profit in STG amounted to 4.22 SEK (3.76). Reported earnings per share amounted to 4.22 SEK (12.32) for the third quarter.

1) Operating profit for Swedish Match product areas, which excludes larger one-time items and share of net profit in STG.



## CEO Lars Dahlgren comments:

### Taking further tangible steps toward our vision

This has been an exciting quarter for Swedish Match, where we have further demonstrated our commitment toward our vision of a world without cigarettes as evidenced by our efforts in modern smokeless products. We have been introducing innovative new products, and continued to expand in new markets, organically as well as via the acquisition of the Danish smokeless tobacco business, V2 Tobacco. In the world around us, there exists a continuously growing interest, from consumers, industry players and certain important policymakers, in tobacco harm reduction. Where regulators have yet to acknowledge a more science-based approach to tobacco regulation, we have continued to make our voice and solid fact base heard.

At the same time, we have continued our strong commitment toward our more traditional businesses, often in very competitive environments. For the quarter, sales and profit from product areas demonstrated resilience. Currency translation effects turned negative this quarter but sales grew in local currencies for both Snus and moist snuff and Other tobacco products.

Our expansion into markets outside Scandinavia continued during the quarter within our Snus and moist snuff product area as well as within Other tobacco products. In Europe, we launched chew bags in Germany at the end of the second quarter, building on our presence in Denmark, Slovenia, and the Czech Republic. At the end of August, we further expanded and strengthened our position by acquiring V2 Tobacco, a manufacturer of both chew bags and snus. We intend to build upon V2's small but broad and growing presence in a number of European markets. In the western US, we further expanded the distribution of ZYN, our non-tobacco nicotine pouches, and the product continued to demonstrate impressive traction. We have decided to invest over 40 MUSD into US production capacity of ZYN – a project that has now been initiated. The project is still in its early phase and until completion, increased production in Sweden will support the growth of ZYN.

In Norway, we are encouraged by recent market share gains, which we believe demonstrate the strength of our brands and innovation capabilities. In Sweden, we launched *One*, a range of premium products at a popular price point, and expanded our footprint for ZYN, previously only available in our own stores, but now available in one of Sweden's largest convenience store chains.

There is an increasingly enlightened approach toward harm reduction in the US, New Zealand, and some countries in Europe. In the US, the 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 strategy 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 type 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 are also litigating the disproportionate and discriminatory decision to fold snus into the Norwegian plain packaging regulation.

With regard to the third quarter financial performance, both sales and operating profit grew for Snus and moist snuff. In Scandinavia we effectively managed our price changes in Sweden without losing our volume momentum, and in the US we continued to reduce the losses from snus and nicotine pouches on impressive growth and better pricing. We anticipated challenging year-on-year headwinds for our Other tobacco products segment during the second half of the year, and in particular during the third quarter, considering the strong performance in prior year periods. Still, we experienced modest volume growth for cigars during the third quarter, and our more aggressive approach within the value segment helped to temper volume losses within chewing tobacco. The weakening dollar versus the Swedish krona, FDA fees, unusually adverse seasonal weather in the US and the Dominican Republic and negative product mix effects combined to negatively impact operating profit for Other tobacco products during the quarter. For the Lights product area, our financial results reflected this year's tougher market conditions, but we saw continued strong performance for complementary products.

## Summary of consolidated income statement

MSEK	Note	July-September 2017	2016	Chg %	January-September 2017	2016	Chg %	Full year 2016
Sales		4,069	4,118	-1	12,057	11,594	4	15,551
Operating profit from product areas		1,089	1,089	0	3,174	3,036	5	3,990
Operating profit		1,089	2,694	-60	3,412	5,466	-38	6,420
Profit before income tax		997	2,545	-61	3,217	5,120	-37	5,988
Profit for the period		753	2,306	-67	2,495	4,461	-44	5,123
Operating margin from product areas, %		26.8	26.5		26.3	26.2		25.7
Earnings per share, SEK	7	4.22	12.32		13.77	23.77		27.38
Earnings per share, excl. profit from STG, SEK	7	4.22	12.03		13.47	22.83		26.44
Earnings per share, excl. profit from STG, and larger one-time items, SEK	7	4.22	3.76		12.15	10.82		14.39

## The third quarter

(Note: Comments below refer to the comparison between the third quarter 2017 vs. the third quarter 2016).

### Sales

Sales declined by 1 percent to 4,069 MSEK (4,118). Currency translation negatively affected the sales comparison by 80 MSEK. In local currencies, sales increased 1 percent and were up for the product areas Snus and moist snuff and Other tobacco products.

### Earnings

Operating profit from product areas amounted to 1,089 MSEK (1,089). Operating profit increased for our Snus and moist snuff product area, but declined for Other tobacco products and Lights. The operating profit for Other tobacco products was negatively affected by FDA user fees. The loss for Other operations was significantly lower than in prior year due to low costs for the quarter while prior year period was burdened by some costs of temporary nature. In local currencies, operating profit from product areas was up by 2 percent.

Operating profit amounted to 1,089 MSEK (2,694). Operating profit included income from associated companies of 1 MSEK (56) of which 0 MSEK (55) related to STG (see Note 8). Currency translation has affected the comparison of the operating profit negatively by 26 MSEK. Previous year's third quarter included larger one-time items of 1,550 MSEK relating to a capital gain from the partial divestment of STG and an unrealized gain from revaluing Swedish Match's remaining shareholding in STG to market value.

The Group's net finance cost amounted to 91 MSEK (149). Prior year period's net finance cost included costs for a partial repurchase of a bond. The income tax expense amounted to 244 MSEK (239) and the tax rate excluding associated companies and larger one-time items amounted to 24.5 percent.

Profit for the period amounted to 753 MSEK (2,306).

Earnings per share (EPS) for the third quarter amounted to 4.22 SEK (12.32). EPS excluding both larger one-time items and share of net profit in STG in 2016 increased by 12 percent to 4.22 SEK (3.76).

## The first nine months

(Note: Comments below refer to the comparison between the first nine months 2017 vs. the first nine months 2016).

### Sales

Sales increased by 4 percent to 12,057 MSEK (11,594). Currency translation affected the sales comparison positively by 184 MSEK. In local currencies, sales increased by 2 percent.

### Earnings

Operating profit from product areas amounted to 3,174 MSEK (3,036). Operating profit increased for all product areas except Lights. In local currencies, the operating profit from product areas increased by 2 percent. The FDA user fees which burden the operating profit in 2017 but not in the prior year period had a negative effect of approximately 2 percent.

Operating profit, including larger one-time items, amounted to 3,412 MSEK (5,466). Operating profit included income from associated companies of 9 MSEK (177) of which 0 MSEK (176) related to STG. The first nine months of 2017 included 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. The first nine months of 2016 included larger one-time items of 2,254 MSEK relating to capital gains on sale of shares in STG and the sale of a distribution real estate in Sweden as well as an unrealized gain from revaluing Swedish Match's remaining shareholding in STG to market value. Currency translation has affected the comparison of the operating profit positively by 65 MSEK.

During the second quarter, one-time costs relating to a restructuring in Scandinavia affecting both the Snus and moist snuff and the Lights product areas were recognized. Also in the second quarter, a one-time income from a surplus of assets relating to insurance contracts purchased in previous years to settle certain defined benefit obligations in Sweden was recognized. The effects of these one-time items substantially offset within the respective product areas.

The Group's net finance cost including a dividend from STG of 65 MSEK in 2017 amounted to 195 MSEK (346). Prior year period's net finance cost included costs of 67 MSEK for repurchases of bonds. The income tax expense amounted to 721 MSEK (659), corresponding to a tax rate of 22.4 percent (12.9). The tax rate, excluding associated companies, a dividend from STG, and non-taxable larger one-time items was 24.5 percent.

Profit for the period amounted to 2,495 MSEK (4,461).

EPS for the first nine months amounted to 13.77 SEK (23.77). EPS increased by 12 percent to 12.15 SEK (10.82) when adjusted for larger one-time items in both periods, a dividend from STG in 2017 and share of net profit in STG in 2016.

---

## General One

## Göteborgs Rapé One

Inspired by the classic flavors of Sweden's two best-known snus brands, Swedish Match has created a series of three new snus products. *General One* and *Göteborgs Rapé One* are a result of a collaboration between Swedish Match and Alexander Gustafsson, a passionate snus user and a well-known Swedish athlete.

*General One* and *Göteborgs Rapé One* deliver both strength and tobacco taste at a competitive price. *General One* and *Göteborgs Rapé One* also have a portion pouch with a softer and fuller feel. *Göteborgs Rapé One* is available in white portion while *General One* is available in both white portion and original portion.





## Snus and moist snuff

### Third quarter highlights:

- Higher sales and operating profit of snus in Scandinavia from positive net price/mix and volume growth in both Sweden and Norway
- Continued improved share trend in Norway
- Continued growth of our portfolio of snus and ZYN nicotine pouches outside Scandinavia

### Key data

MSEK	July-September			January-September			Full year
	2017	2016	Chg %	2017	2016	Chg %	
Sales	1,377	1,338	3	4,076	3,922	4	5,277
Operating profit	622	577	8	1,744	1,656	5	2,197
Operating margin, %	45.2	43.1		42.8	42.2		41.6
EBITDA	675	625	8	1,898	1,791	6	2,383
EBITDA margin, %	49.0	46.7		46.6	45.7		45.2

### The third quarter

(Note: Comments below refer to the comparison between the third quarter 2017 vs. the third quarter 2016).

Sales for Snus and moist snuff were up 4 percent in local currencies. In local currencies, sales improved for snus in Scandinavia and for snus and nicotine pouches outside Scandinavia but declined for US moist snuff. In local currencies, operating profit improved for snus in Scandinavia, US moist snuff and snus and nicotine pouches outside Scandinavia.

In Scandinavia, the market grew at a somewhat faster pace than in the previous quarters. Swedish Match estimates that the total Scandinavian market grew in the range of 4 percent, with higher market volumes in both Norway and Sweden. Swedish Match's underlying volumes are estimated to be up by 1 percent. Sales in Scandinavia increased on higher volumes and positive net price/mix effects (with list price increases in both Sweden and Norway during the year). Direct cost of goods sold per can increased but overhead costs were lower.

In Norway, the plain packaging regulation has been in force since July 1, 2017. New products launched after this date need 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.

For the US moist snuff business, volumes declined, impacted by phasing and level of promotional activity versus the prior year. Sales were less negatively impacted due to higher average pricing. Operating profit increased as the volume decline was more than compensated by the positive effect from higher net average price and favorable production costs.

The total net operating loss for snus and nicotine pouches outside Scandinavia decreased to 51 MSEK (66), attributable to improved gross profit from higher volumes and improved pricing. Snus is available in about 19,000 stores in the US. ZYN is available in close to 8,000 stores and velocity per store has increased strongly.



## The first nine months

(Note: Comments below refer to the comparison between the first nine months 2017 vs. the first nine months 2016).

Sales for the product area grew by 3 percent in local currencies. Operating profit increased to 1,744 MSEK (1,656) and included net operating result for snus and nicotine pouches outside Scandinavia of negative 144 MSEK (negative 173).

In Scandinavia, shipment volumes grew by 1 percent. Swedish Match estimates that its underlying volumes (adjusted for calendar effects) on the Scandinavian market were up by less than 1 percent. Operating profit for snus in Scandinavia grew on higher sales. In the US, sales in local currency for moist snuff declined, while operating profit was higher despite a decline in volumes on higher average price and favorable production costs. For snus and nicotine pouches outside Scandinavia, both sales and gross profit increased.

### Swedish Match shipment volumes

<i>Millions of cans</i>	July-September			January-September			Full year 2016
	2017	2016	Chg %	2017	2016	Chg %	
Snus, Scandinavia <sup>1)</sup>	61.7	60.6	2	181.2	179.0	1	241.3
Moist snuff, US	33.6	35.9	-6	99.5	104.4	-5	131.4
Snus and nicotine pouches, outside Scandinavia <sup>1)</sup>	3.5	2.0	74	8.8	5.6	58	7.8

1) Includes V2 Tobacco snus volumes from time of acquisition.

### Swedish Match Scandinavian snus market shares<sup>1)</sup>

<i>Percent</i>	July-September			January-September			Full year 2016
	2017	2016	Chg ppts	2017	2016	Chg ppts	
Snus, Sweden, total	64.9	67.1	-2.2	65.4	67.6	-2.3	67.3
Snus, Sweden, premium	90.5	92.4	-1.9	91.3	92.8	-1.5	92.7
Snus, Sweden, value	35.7	37.3	-1.6	36.2	38.3	-2.1	38.0
Snus, Norway, total	52.0	53.2	-1.2	51.9	53.8	-1.9	53.5

1) Swedish Match estimates using Nielsen data (excluding tobacconists): 13 weeks and YTD to October 1, 2017 and October 2, 2016, respectively. All figures for the Swedish market have been restated to reflect changes in Nielsen store measurements.



## Other tobacco products (cigars and chewing tobacco)

### Third quarter highlights:

- US cigar volumes and sales slightly higher on challenging prior year comparisons
- Declining sales and volumes for US chewing tobacco
- Operating profit negatively impacted by FDA user fees and portfolio mix for cigars, as well as some weather-related factory disruptions
- Danish chewing tobacco manufacturer V2 Tobacco acquired during the quarter

### Key data

MSEK	July-September		Chg	January-September		Chg	Full year
	2017	2016	%	2017	2016	%	2016
Sales	1,142	1,166	-2	3,514	3,192	10	4,283
Operating profit	436	486	-10	1,359	1,310	4	1,705
Operating margin, %	38.2	41.6		38.7	41.1		39.8
EBITDA	457	501	-9	1,419	1,357	5	1,768
EBITDA margin, %	40.0	43.0		40.4	42.5		41.3

### The third quarter

(Note: Comments below refer to the comparison between the third quarter 2017 vs. the third quarter 2016).

Sales for Other tobacco products grew by 3 percent in local currencies while operating profit declined by 6 percent. With the addition of V2 Tobacco from September 1<sup>st</sup>, operating profit for chewing tobacco improved for the quarter, while cigars showed a decline. Operating profit and operating margin were negatively impacted by the introduction of FDA fees for cigars beginning from October 1, 2016. FDA fees for cigars were 2.5 MUSD in the third quarter. Adjusted for the FDA fee, the operating profit would have been in line with previous year in local currency.

Cigar volumes were up by 1 percent on challenging prior year comparisons and following a strong preceding quarter. While volumes grew, profitability was negatively impacted by both the FDA user fees and the quarter's product mix. During September, there were also weather-related disruptions, which had some negative effects on production costs.

Chewing tobacco shipments in the US (excluding contract manufacturing volumes) declined by 6 percent, somewhat less than Swedish Match's estimate of the total market decline. Traditional premium varieties declined whereas value brands grew. Sales and operating profit for US chewing tobacco declined in local currency by less than the volume in percent.

*General Cut* chew bags are now available in Germany, following launches over the past year in Denmark, the Czech Republic, and Slovenia. With the acquisition of V2 Tobacco on August 31, the combined Swedish Match and V2 portfolio of chew bag brands now include *General Cut*, *Thunder*, and *Offroad*.

### The first nine months

(Note: Comments below refer to the comparison between the first nine months 2017 vs. the first nine months 2016).

In local currencies, sales for Other tobacco products were up by 7 percent, while operating profit was up by 1 percent, with cigars outperforming US chewing tobacco.

Cigar volumes increased by 11 percent and sales in US dollars increased in line with volumes. Operating profit was also higher despite 7.5 MUSD of FDA user fees incurred in 2017.

For chewing tobacco, sales and operating profit in local currencies declined, with lower volumes partly compensated by higher prices.

### Swedish Match US shipment volumes

	July-September			January-September			Full year
	2017	2016	Chg %	2017	2016	%	2016
Cigars, millions of sticks	405	402	1	1,232	1,105	11	1,472
Chewing tobacco, thousands of pounds (excluding contract manufacturing volumes)	1,636	1,735	-6	4,989	5,269	-5	6,709



## Lights (matches, lighters and complementary products)

### Third quarter highlights:

- Sales and operating profit declined for both matches and lighters, on lower volumes
- Increased sales and operating profit for complementary products

### Key data

MSEK	July-September			January-September			Full year
	2017	2016	Chg %	2017	2016	%	2016
Sales	308	346	-11	950	967	-2	1,314
Operating profit	46	61	-24	143	157	-9	219
Operating margin, %	15.1	17.6		15.1	16.2		16.7
EBITDA	57	71	-20	175	186	-6	259
EBITDA margin, %	18.4	20.6		18.4	19.3		19.7

### The third quarter

(Note: Comments below refer to the comparison between the third quarter 2017 vs. the third quarter 2016).

Sales declined as increased sales for complementary products only partly offset lower volumes for both matches and lighters. Sales held up relatively well for matches on improved pricing and product mix. In addition to lower volumes, sales for lighters were also affected by negative product mix. Operating margin in the third quarter was in line with the average of the first two quarters. Complementary products (including Swedish Match brands of high efficiency light bulbs, razors and batteries, primarily for the Brazilian market) demonstrated growth in both sales and profit.

### The first nine months

(Note: Comments below refer to the comparison between the first nine months 2017 vs. the first nine months 2016).

Sales declined by 2 percent despite sales growth for both complementary products and matches. Lighter sales declined on lower volumes. Volumes for matches were also down, but this was more than compensated by pricing, mix and positive currency effects compared to the first nine months of 2016. Operating profit for the product area declined.

### Swedish Match shipment volumes, worldwide

	July-September			January-September			Full year
	2017	2016	Chg %	2017	2016	%	2016
Matches, billion sticks	14.3	16.9	-16	46.8	52.8	-11	72.0
Lighters, million units	93.9	108.6	-14	275.0	304.5	-10	399.2



## Other operations

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. See the Note 2 *Descriptive information on segments* for more information.

### The third quarter

Sales in Other operations for the third quarter amounted to 1,241 MSEK (1,267). Operating loss for Other operations was 16 MSEK (34). The costs were low in the quarter and prior year costs were high due to high IT related costs and some costs of temporary nature.

### The first nine months

Sales for the first nine months amounted to 3,517 MSEK (3,513). Operating loss for the first nine months was 73 MSEK (87). During the first quarter of 2016, a tax exempt capital gain of 145 MSEK from the sale of the Solna distribution facility was recognized as a larger one-time item.

## Financing and cash flow

Cash flow from operating activities for the first nine months amounted to 2,569 MSEK (2,559). Adjusted for the dividend received from STG in the prior year, the cash flow from operating activities increased by 201 MSEK to 2,569 MSEK (2,368). The positive cash flow from improved EBITDA was partly offset by negative cash flow from working capital.

During the first nine months, Swedish Match had a positive net cash flow from investing activities. Swedish Match received 1,355 MSEK from the partial divestment of STG in January and another 107 MSEK of additional purchase price payments relating to a parcel of land sold in 2007. Cash flow from investing activities also include a dividend of 65 MSEK from STG received during the second quarter of 2017 (based on a 9.1 percent ownership). The dividend received from STG of 191 MSEK during the second quarter of 2016 (based on a 31.1 percent ownership) was recognized as cash flow from operating activities.

Investments in property, plant and equipment as well as intangible assets decreased to 237 MSEK (499), with prior year investments reflecting the acquisition of patent rights for a nicotine pouch product without tobacco. For the full year, investments in property, plant and equipment are expected to be lower than prior year.

Net finance cost for the first nine months decreased to 195 MSEK (346), including the dividend received from STG of 65 MSEK recognized as a component of finance net during this year's second quarter. The third quarter 2016 included a cost of 67 MSEK relating to repurchase of bond loans. Excluding 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 pension costs and higher return on surplus cash. Loan interest expenses were on a similar level to prior year with the effect of higher average debt being offset by lower interest rates.

During the first nine months of 2017, new bond loans of 1,099 MSEK were issued while no repayments of bond loans were made during the period. As of September 30, 2017, Swedish Match had 10,861 MSEK of interest bearing debt excluding retirement benefit obligations compared to 9,854 MSEK at December 31, 2016. During the remainder of 2017, 2,064 MSEK of this debt falls due for payment. For further detail of the maturity profile of the debt portfolio please see the Company website. Retirement benefit obligations decreased to 1,299 MSEK as of September 30, 2017, from 1,452 MSEK at December 31, 2016.

As of September 30, 2017, Swedish Match had 1,500 MSEK in unutilized committed credit lines. Cash and cash equivalents amounted to 2,064 MSEK at the end of the period, compared to 3,364 MSEK at December 31, 2016.

The net debt as of September 30, 2017 amounted to 10,096 MSEK compared to 7,941 MSEK at December 31, 2016.

## Shareholder distributions

During the first nine months of 2017 Swedish Match has distributed a total of 4,989 MSEK (4,763) to its shareholders in the form of ordinary and special dividends as well as share repurchases.

In the first nine months, Swedish Match paid a dividend totaling 2,908 MSEK, consisting of an ordinary dividend of 1,545 MSEK and a special dividend of 1,363 MSEK due to the partial divestment of shares in STG. During the same period, Swedish Match repurchased 7.2 million shares for 2,081 MSEK at an average price of 289.73 SEK, following authorization from the Annual General Meetings held in 2016 and 2017. Total shares bought back by Swedish Match since the buyback program started have been repurchased at an average price of 122.02 SEK.

As per September 30, 2017 Swedish Match held 4.3 million shares, corresponding to 2.37 percent of the total number of shares. The number of shares outstanding, net, as per September 30, 2017, amounted to 177.5 million.

## Other events during the quarter

### FDA regulation

On July 28, the US Food and Drug Administration (FDA) announced extended deadlines for substantial equivalence reports and premarket applications 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 ZYM) 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.

### Acquisition of V2 Tobacco

On August 31, Swedish Match acquired V2 Tobacco, 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. The annual turnover is in the range of 160 MSEK.

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.

For further information, see Note 3.

## Events after the reporting period

### Divestment of Arnold André

On October 17, Swedish Match reached an agreement to divest its 40 percent minority holding in the German cigar company Arnold André GmbH & Co. KG. This holding has been reported as an associated company according to the equity method. The transaction is expected to close on October 31.

### Nominating Committee

In accordance with the instructions adopted by the Annual General Meeting 2017, a Nominating Committee has been appointed. In addition to Conny Karlsson (Chairman of the Board), Mark Husson (Cedar Rock Capital), Ossian Ekdahl (First Swedish National Pension Fund), Daniel Ovin (Nordea Asset Management), and William James (Standard Life Investments), have been appointed members of the Nominating Committee.

## Outlook

For 2017, on a full year basis, we expect Scandinavian snus as well as US moist snuff consumption to grow as measured in number of cans. In Scandinavia, we expect the growth to be more modest than in 2016. We expect the level of competitive activity in the Scandinavian snus market to continue to be high.

For cigars in the US, Swedish Match expects the market to continue to grow during the remainder of 2017 but to remain highly competitive. Swedish Match continues to have the ambition to grow cigar volumes but note

that the second half of 2016 was strong for cigar shipments. The year on year comparison for cost of goods for cigars will be adversely impacted by the FDA user fees through the third quarter of 2017. We expect the US chewing tobacco market to continue to decline.

Swedish Match will continue to invest in growth for snus and nicotine pouches outside Scandinavia. We expect continued growth in volumes and sales. The operating loss for snus and nicotine pouches outside Scandinavia is now expected to be lower than in 2016. The decision to invest in additional ZYN production capacity will predominantly affect capital expenditures in 2018.

The effective corporate tax rate in 2017, excluding associated companies, dividend from STG and non-taxable larger one-time items, is expected to be similar to 2016, assuming no changes to current tax regimes. There are currently general expectations that there will be a US corporate income tax reform. Due to the uncertain outcome and structure of such reform, Swedish Match makes no projections of the potential impact for the Company.

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. 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.

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 2016, available on [swedishmatch.com](http://swedishmatch.com).

## Swedish Match AB (publ)

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

Sales in the Parent Company for the first nine months amounted to 35 MSEK (39). Profit before income tax amounted to 5,546 MSEK (1,111) and net profit for the first nine months amounted to 5,663 MSEK (1,254). The higher net profit for the first nine months of 2017 mainly pertains to higher dividends from subsidiaries compared to the same period previous year. During the first nine months, the Parent Company received dividends of 6,027 MSEK (1,847).

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 a surplus of 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 nine months, new bond loans of 1,099 MSEK were issued. No repayments of bond loans have been made. During the first nine months, the Parent Company made share repurchases of 7.2 million (3.4) shares for 2,081 MSEK (999).

No capital expenditures on tangible or intangible fixed assets have been recognized during the first nine months of 2017. During previous year's first nine months, a minor amount was capitalized as tangible fixed asset.

A dividend of 2,908 MSEK (3,764) has been paid during the period.

### **Forward-looking information**

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

### **Additional information**

This report has not been reviewed by the Company's auditors. The full year 2017 report will be released on February 14, 2018.

Stockholm, October 27, 2017

Lars Dahlgren  
President and CEO

## Product area summary and key ratios

### Sales by product area

MSEK	July-September			January-September			Full year 2016
	2017	2016	Chg %	2017	2016	Chg %	
Snus and moist snuff	1,377	1,338	3	4,076	3,922	4	5,277
Other tobacco products	1,142	1,166	-2	3,514	3,192	10	4,283
Lights	308	346	-11	950	967	-2	1,314
Other operations	1,241	1,267	-2	3,517	3,513	0	4,676
<b>Sales</b>	<b>4,069</b>	<b>4,118</b>	<b>-1</b>	<b>12,057</b>	<b>11,594</b>	<b>4</b>	<b>15,551</b>

### Operating profit

MSEK	Note	July-September			January-September			Full year 2016
		2017	2016	Chg %	2017	2016	Chg %	
Snus and moist snuff		622	577	8	1,744	1,656	5	2,197
Other tobacco products		436	486	-10	1,359	1,310	4	1,705
Lights		46	61	-24	143	157	-9	219
Other operations		-16	-34		-73	-87		-132
<b>Operating profit from product areas</b>		<b>1,089</b>	<b>1,089</b>	<b>0</b>	<b>3,174</b>	<b>3,036</b>	<b>5</b>	<b>3,990</b>
Share of net profit in STG	8	-	55		-	176		176
<b>Subtotal</b>		<b>1,089</b>	<b>1,144</b>	<b>-5</b>	<b>3,174</b>	<b>3,212</b>	<b>-1</b>	<b>4,166</b>
<i>Larger one-time items</i>								
Sale of STG shares		-	648		131	1,208		1,208
Gain on fair value of STG shares		-	902		-	902		902
Sale of distribution facility		-	-		-	145		145
Capital gain from sale of land		-	-		107	-		-
<b>Total larger one-time items</b>		<b>-</b>	<b>1,550</b>		<b>238</b>	<b>2,254</b>		<b>2,254</b>
<b>Operating profit</b>		<b>1,089</b>	<b>2,694</b>	<b>-60</b>	<b>3,412</b>	<b>5,466</b>	<b>-38</b>	<b>6,420</b>

### Operating margin by product area

Percent	July-September		January-September		Full year 2016
	2017	2016	2017	2016	
Snus and moist snuff	45.2	43.1	42.8	42.2	41.6
Other tobacco products	38.2	41.6	38.7	41.1	39.8
Lights	15.1	17.6	15.1	16.2	16.7
<b>Operating margin from product areas</b>	<b>26.8</b>	<b>26.5</b>	<b>26.3</b>	<b>26.2</b>	<b>25.7</b>

### EBITDA by product area

MSEK	July-September			January-September			Full year 2016
	2017	2016	Chg %	2017	2016	Chg %	
Snus and moist snuff	675	625	8	1,898	1,791	6	2,383
Other tobacco products	457	501	-9	1,419	1,357	5	1,768
Lights	57	71	-20	175	186	-6	259
Other operations	-3	-22		-35	-50		-82
<b>EBITDA from product areas</b>	<b>1,185</b>	<b>1,175</b>	<b>1</b>	<b>3,456</b>	<b>3,284</b>	<b>5</b>	<b>4,329</b>

### EBITDA margin by product area

Percent	July-September		January-September		Full year 2016
	2017	2016	2017	2016	
Snus and moist snuff	49.0	46.7	46.6	45.7	45.2
Other tobacco products	40.0	43.0	40.4	42.5	41.3
Lights	18.4	20.6	18.4	19.3	19.7
<b>EBITDA margin from product areas</b>	<b>29.1</b>	<b>28.5</b>	<b>28.7</b>	<b>28.3</b>	<b>27.8</b>



## Key ratios

	January-September		12 months ended	Full year
	2017	2016	Sep 30, 2017	2016
Operating margin from product areas, %	26.3	26.2	25.8	25.7
Operating capital, MSEK <sup>1)</sup>	4,897	3,728	4,897	3,888
Return on operating capital, % <sup>1)</sup>			95.7	111.0
Net debt, MSEK	10,096	6,885	10,096	7,941
Investments in property, plant and equipment, MSEK	231	373	394	537
EBITA from product areas, MSEK	3,220	3 075	4,188	4,043
EBITA interest cover <sup>1)</sup>	12.7	9.1	12.6	9.7
Net debt/EBITA from product areas			2.4	2.0
<i>Share data</i>				
Number of shares outstanding at end of period	177,489,796	185,527,435	177,489,796	184,672,687
Average number of shares outstanding	181,177,367	187,687,287	182,234,033	187,116,474

1) Prior year periods restated to exclude STG.

## Financial statements

### Condensed consolidated income statement

		Jul-Sep			Jan-Sep			12 months ended Sep 30, 2017		Full year 2016	
		2017	2016	Chg %	2017	2016	Chg %	2017	2016	Chg %	
Note											
		7,345	7,546		21,655	21,306		28,832	28,482		
		-3,277	-3,428		-9,597	-9,711		-12,818	-12,932		
		<b>4,069</b>	<b>4,118</b>	<b>-1</b>	<b>12,057</b>	<b>11,594</b>	<b>4</b>	<b>16,014</b>	<b>15,551</b>	<b>3</b>	
		-2,215	-2,222		-6,485	-6,209		-8,601	-8,325		
		<b>1,853</b>	<b>1,896</b>	<b>-2</b>	<b>5,573</b>	<b>5,385</b>	<b>3</b>	<b>7,413</b>	<b>7,226</b>	<b>3</b>	
		-765	-808		-2,408	-2,351		-3,296	-3,240		
	8	1	56		9	177		11	180		
		-	648		131	1,208		131	1,208		
		-	902		-	902		-	902		
		-	-		-	145		-	145		
		-	-		107	-		107	-		
		<b>1,089</b>	<b>2,694</b>	<b>-60</b>	<b>3,412</b>	<b>5,466</b>	<b>-38</b>	<b>4,366</b>	<b>6,420</b>	<b>-32</b>	
		-	-		65	-		65	-		
		9	15		39	29		63	53		
		-101	-165		-300	-375		-409	-484		
		-91	-149		-195	-346		-281	-431		
		<b>997</b>	<b>2,545</b>	<b>-61</b>	<b>3,217</b>	<b>5,120</b>	<b>-37</b>	<b>4,085</b>	<b>5,988</b>	<b>-32</b>	
		-244	-239		-721	-659		-928	-865		
		<b>753</b>	<b>2,306</b>	<b>-67</b>	<b>2,495</b>	<b>4,461</b>	<b>-44</b>	<b>3,157</b>	<b>5,123</b>	<b>-38</b>	
		753	2,306		2,495	4,461		3,157	5,123		
		0	0		0	0		0	0		
		<b>753</b>	<b>2,306</b>	<b>-67</b>	<b>2,495</b>	<b>4,461</b>	<b>-44</b>	<b>3,157</b>	<b>5,123</b>	<b>-38</b>	
	7	4.22	12.32		13.77	23.77		17.32	27.38		

## Condensed consolidated statement of comprehensive income

MSEK		Jul-Sep		Jan-Sep		12 months	Full year
	Note	2017	2016	2017	2016	ended Sep 30, 2017	2016
<b>Profit for the period</b>		<b>753</b>	<b>2,306</b>	<b>2,495</b>	<b>4,461</b>	<b>3,157</b>	<b>5,123</b>
<i>Other comprehensive income that may be reclassified to the income statement</i>							
Translation differences related to foreign operations		-73	53	-318	327	-87	558
Translation differences included in profit and loss		-	-137	-	-143	0	-143
Effective portion of changes in fair value of cash flow hedges		-9	-99	-42	-76	-47	-81
Reclassification of gains/losses on cash flow hedges included in profit and loss		-	15	-	16	-	16
Share of other comprehensive income in associated companies	8	-	24	-	-20	-	-20
Share of other comprehensive income in associated companies included in profit and loss		-	-315	-	-509	-	-509
Change in fair value of STG shares		70	186	-93	186	31	310
Change in fair value of STG shares included in profit and loss		-	-	-138	-	-138	-
Income tax relating to reclassifiable components of other comprehensive income		-8	18	18	13	20	14
<b>Subtotal, net of tax for the period</b>		<b>-20</b>	<b>-254</b>	<b>-573</b>	<b>-207</b>	<b>-222</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		17	-107	34	-472	355	-150
Share of other comprehensive income in associated companies	8	-	0	-	-2	-	-2
Income tax relating to non-reclassifiable components of other comprehensive income		-6	33	-8	156	-125	39
<b>Subtotal, net of tax for the period</b>		<b>11</b>	<b>-75</b>	<b>25</b>	<b>-317</b>	<b>230</b>	<b>-113</b>
<b>Total comprehensive income for the period</b>		<b>744</b>	<b>1,977</b>	<b>1,948</b>	<b>3,937</b>	<b>3,166</b>	<b>5,155</b>
<i>Attributable to:</i>							
Equity holders of the Parent		744	1,977	1,948	3,936	3,166	5,155
Non-controlling interests		0	0	0	0	0	0
<b>Total comprehensive income for the period</b>		<b>744</b>	<b>1,977</b>	<b>1,948</b>	<b>3,937</b>	<b>3,166</b>	<b>5,155</b>

### Condensed consolidated balance sheet

MSEK	Note	September 30, 2017	December 31, 2016
Intangible assets		2,062	1,250
Property, plant and equipment		2,515	2,543
Investments in associated companies		130	122
Other non-current assets and operating receivables		22	23
Other non-current financial assets and receivables <sup>1)2)</sup>	6	2,825	4,450
<b>Total non-current assets</b>		<b>7,554</b>	<b>8,387</b>
Other current financial receivables <sup>2)</sup>	6	332	251
Current operating assets and receivables		3,363	3,333
Cash and cash equivalents		2,064	3,364
<b>Total current assets</b>		<b>5,759</b>	<b>6,948</b>
<b>Total assets</b>		<b>13,314</b>	<b>15,335</b>
Equity attributable to equity holders of the Parent		-4,408	-1,366
Non-controlling interests		1	1
<b>Total equity</b>		<b>-4,406</b>	<b>-1,365</b>
Non-current financial provisions		1,195	1,168
Non-current loans		7,973	8,169
Other non-current financial liabilities <sup>2)</sup>	6	1,475	1,613
Other non-current operating liabilities		353	369
<b>Total non-current liabilities</b>		<b>10,996</b>	<b>11,318</b>
Current loans		3,315	2,047
Other current financial liabilities <sup>2)</sup>	6	566	321
Other current operating liabilities		2,842	3,013
<b>Total current liabilities</b>		<b>6,724</b>	<b>5,382</b>
<b>Total liabilities</b>		<b>17,720</b>	<b>16,700</b>
<b>Total equity and liabilities</b>		<b>13,314</b>	<b>15,335</b>

1) Includes shares in STG of 1,313 MSEK (2,761).

2) Certain components of derivatives are reclassified between assets and liabilities as compared to the full year 2016 report.

## Condensed consolidated cash flow statement

MSEK	January-September	
	2017	2016
<i>Operating activities</i>		
<b>Profit before income taxes</b>	<b>3,217</b>	<b>5,120</b>
Share of profit/loss in associated companies	-9	-177
Dividend received from associated companies	0	192
Other non-cash items and other	80	-2,082
Income tax paid	-461	-461
<b>Cash flow from operating activities before changes in working capital</b>	<b>2,828</b>	<b>2,590</b>
Changes in working capital	-259	-31
<b>Net cash generated from operating activities</b>	<b>2,569</b>	<b>2,559</b>
<i>Investing activities</i>		
Purchase of property, plant and equipment	-231	-373
Proceeds from sale of property, plant and equipment	5	145
Purchase of intangible assets	-7	-125
Acquisition of subsidiaries	-929	-
Proceeds from sale of land	107	-
Divestments in associated companies	1,355	3,908
Investments in associated companies	-	-5
Dividend from STG	65	-
Changes in financial receivables etc.	0	0
<b>Net cash from investing activities</b>	<b>366</b>	<b>3,550</b>
<i>Financing activities</i>		
Proceeds from borrowings	1,099	3,365
Repayment of borrowings	-	-1,307
Dividend paid to equity holders of the Parent	-2,908	-3,764
Repurchase of own shares	-2,081	-999
Realized exchange gain/losses on financial instruments	-267	25
Other	-1	1
<b>Net cash used in financing activities</b>	<b>-4,158</b>	<b>-2,680</b>
<b>Net increase in cash and cash equivalents</b>	<b>-1,223</b>	<b>3,429</b>
Cash and cash equivalents at the beginning of the period	3,364	1,732
Effect of exchange rate fluctuations on cash and cash equivalents	-78	38
<b>Cash and cash equivalents at the end of the period</b>	<b>2,064</b>	<b>5,199</b>

## Condensed consolidated statement of changes in equity

MSEK	Equity		
	attributable to holders of the Parent	Non-controlling interests	Total equity
<b>Equity at January 1, 2016</b>	<b>251</b>	<b>1</b>	<b>252</b>
Profit for the period	4,461	0	4,461
Other comprehensive income, net of tax for the period	-525	0	-525
<b>Total comprehensive income for the period</b>	<b>3,936</b>	<b>0</b>	<b>3,937</b>
Dividend	-3,764	0	-3,764
Repurchase of own shares	-999	-	-999
Cancellation of shares	-15	-	-15
Bonus issue	15	-	15
<b>Equity at September 30, 2016</b>	<b>-576</b>	<b>1</b>	<b>-575</b>
<b>Equity at January 1, 2017</b>	<b>-1,366</b>	<b>1</b>	<b>-1,365</b>
Profit for the period	2,495	0	2,495
Other comprehensive income, net of tax for the period	-548	0	-548
<b>Total comprehensive income for the period</b>	<b>1,948</b>	<b>0</b>	<b>1,948</b>
Dividend	-2,908	0	-2,908
Repurchase of own shares	-2,081	-	-2,081
Cancellation of shares	-14	-	-14
Bonus issue	14	-	14
<b>Equity at September 30, 2017</b>	<b>-4,408</b>	<b>1</b>	<b>-4,406</b>



## Condensed Parent Company income statement

MSEK	January-September	
	2017	2016
Sales	35	39
Administrative expenses	-120	-229
<b>Operating loss</b>	<b>-85</b>	<b>-189</b>
Result from participation in Group companies	6,085	1,847
Net finance cost	-454	-548
<b>Profit before income tax</b>	<b>5,546</b>	<b>1,111</b>
Income tax	117	144
<b>Profit for the period</b>	<b>5,663</b>	<b>1,254</b>

## Condensed Parent Company statement of comprehensive income

MSEK	January-September	
	2017	2016
<b>Profit for the period</b>	<b>5,663</b>	<b>1,254</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	-30	-76
Reclassification for gains/losses on cash flow hedges included in profit and loss	-	15
Income tax relating to components of other comprehensive income	7	13
<b>Other comprehensive income, net of tax for the period</b>	<b>-23</b>	<b>-48</b>
<b>Total comprehensive income for the period</b>	<b>5,640</b>	<b>1,207</b>

## Condensed Parent Company balance sheet

MSEK	September 30, 2017	September 30, 2016	December 31, 2016
Intangible and tangible assets	2	2	2
Non-current financial assets <sup>1)</sup>	50,540	49,926	49,719
Current assets <sup>1)</sup>	1,307	1,604	3,311
<b>Total assets</b>	<b>51,849</b>	<b>51,532</b>	<b>53,032</b>
<b>Equity</b>	<b>19,085</b>	<b>17,659</b>	<b>18,434</b>
<b>Untaxed reserves</b>	<b>995</b>	<b>675</b>	<b>995</b>
Provisions	99	125	100
Non-current liabilities <sup>1)</sup>	26,147	28,522	26,338
Current liabilities <sup>1)</sup>	5,522	4,551	7,165
<b>Total liabilities</b>	<b>31,768</b>	<b>33,198</b>	<b>33,603</b>
<b>Total equity and liabilities</b>	<b>51,849</b>	<b>51,532</b>	<b>53,032</b>

1) For December 31, 2016, certain components of derivatives are reclassified between assets and liabilities.

### 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.

The new amendments and interpretations to existing standards applicable as of January 1, 2017 have not had a material effect on the Group's financial result or position.

The accounting principles and basis of calculation in this report are the same as in the annual report for 2016.

### Note 2 – Descriptive information on segments

Swedish Match reports four segments, 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 a 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. The distribution function recognizes revenues from sales of third party tobacco products on the Swedish market. The distribution function provides no marketing and sales activities. Swedish Match assumes the risk of the third party products from delivery to Swedish Match's warehouse until delivery to retail. As such, Swedish Match acts as a principal and recognizes 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.

### Note 3 – 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.

#### 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 <sup>1)</sup>
Property, plant and equipment	88
Trademarks and software	282
Non-current financial receivables	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	65
<b>Net identifiable assets and liabilities</b>	<b>324</b>
Group goodwill	613
<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>

1) The fair value of trademarks is preliminary. The value of trademarks and goodwill may therefore change when the fair value is finally determined.

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. Immediate 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 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.

No contingent liabilities arising from the acquisition have been identified.

### Note 4 – Related parties transactions

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.

In the normal course of business, Swedish Match conducts various transactions with associated companies. Transactions are conducted on an arms-length basis. At September 30, 2017, receivables from these companies amounted to 13 MSEK (20) and total payables to these companies amounted to 2 MSEK (2).

During the first nine months 2017, total sales to associated companies amounted to 52 MSEK (120) and total purchases from associated companies amounted to 1 MSEK (57).

No transactions with key management personnel besides normal remuneration have been conducted during the period.

### Note 5 – Carrying value and fair value

The following table shows carrying value and fair value for financial instruments per September 30, 2017.

#### Carrying value and fair value

MSEK	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	Fair value level 1	Fair value level 2
Trade receivables	-	1,473	-	-	-	-	1,473	1,473		
Other non-current financial assets	-	-	1,313	-	-	-	1,313	1,313	1,313	
Other non-current financial receivables	-	-	-	-	253	443	696	696		253
Other current assets and financial receivables	35	-	-	-	48	194	277	277		83
Prepaid expenses and accrued income <sup>1)</sup>	-	-	-	-	1	84	85	85		1
Cash and cash equivalents	-	2,064	-	-	-	-	2,064	2,064		
<b>Total assets</b>	<b>35</b>	<b>3,537</b>	<b>1,313</b>	<b>-</b>	<b>302</b>	<b>721</b>	<b>5,908</b>	<b>5,908</b>		
Loans and borrowings	-	-	-	11,288	-	-	11,288	11,536		
Other non-current financial liabilities	-	-	-	-	73	76	149	149		73
Other current liabilities	-	-	-	-	7	1,385	1,392	1,392		7
Accrued expenses and deferred income <sup>1)</sup>	-	-	-	125	27	734	886	886		27
Trade payables	-	-	-	608	-	-	608	608		
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,021</b>	<b>107</b>	<b>2,195</b>	<b>14,323</b>	<b>14,571</b>		

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*.

All items valued at fair value in the balance sheet are considered to be included in level 2 within the fair value hierarchy, except for available for sale financial assets, for which the fair value is designated as level 1 and quoted in an active market. These assets reflect the investment in STG, which was previously reported as an investment in associated companies. During the quarter, a currency forward contract was initiated to hedge exchange rate fluctuations in future cash flows in DKK to SEK relating to the STG investment. The amount corresponds to approximately 70 percent of the shareholding in STG. Items not valued at fair value in the balance sheet are measured at amortized cost.

No transfer in or out of level 2 has been made during the third quarter 2017. The recognized amounts are regarded as reasonable estimates for all items measured at carrying value in the balance sheet, except for loans and borrowings, since 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. The total nominal amount of outstanding derivatives is 9,470 MSEK of which 7,999 MSEK is in cash flow hedges consisting of cross currency and interest rate swaps related to bond loans and currency forward related to the STG investment. The remaining 1,471 MSEK 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 2016 annual report.

### Note 6 – Alternative performance measures

Swedish Match presents a number of 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>OPERATING PROFIT (EBIT)</b>	Earnings excluding net finance cost and 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, 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>LARGER ONE-TIME ITEMS</b>	Larger one-time items are separately disclosed non-recurring income and cost	Used to provide information regarding items which impact comparability between periods.
<b>EBITDA</b>	Earnings from product areas, excluding net finance cost, 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, 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 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 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, 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.
<b>OPERATING CAPITAL</b>	Current operating assets + intangible assets + tangible assets + other non-current operating assets – current and non-current operating liabilities	Used as a measure of the capital employed within operations.
<b>RETURN ON OPERATING CAPITAL (%)</b>	$100 \times \text{Operating profit, excluding larger one-time items} \div \text{Average operating capital}$	Used as a measure of how efficiently capital is employed within the operations.

## Net debt

MSEK	January-September		Full year
	2017	2016	2016
Non-current loans	7,973	10,228	8,169
Current loans	3,315	315	2,047
Components of derivatives (liabilities) <sup>1)</sup>	7	-	65
Net provision for pensions and similar obligations <sup>2)</sup>	1,402	2,103	1,542
Cash and cash equivalents and other short-term investments	-2,064	-5,199	-3,364
Net asset for pensions and similar receivables <sup>3)</sup>	-102	-90	-90
Components of derivatives (assets) <sup>4)</sup>	-435	-473	-428
<b>Net debt</b>	<b>10,096</b>	<b>6,885</b>	<b>7,941</b>

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 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	January-September		Full year
	2017	2016	2016
Profit for the period attributable to equity holders of the Parent, MSEK	2,495	4,461	5,123
Profit for the period attributable to equity holders of the Parent, excluding profit from STG, MSEK	2,440	4,285	4,947
Profit for the period attributable to equity holders of the Parent, excluding profit from STG and larger one-time items, MSEK	2,202	2,031	2,693
<b>Weighted average number of shares outstanding, basic and diluted</b>	<b>181,177,367</b>	<b>187,687,287</b>	<b>187,116,474</b>

Earnings per share, basic and diluted, SEK	January-September		Full year
	2017	2016	2016
Earnings per share	13.77	23.77	27.38
Earnings per share, excl. profit from STG	13.47	22.83	26.44
Earnings per share, excl. profit from STG, and larger one-items items	12.15	10.82	14.39

## Note 8 – Share of net profit in Scandinavian Tobacco Group

Swedish Match's share of net profit in STG was reported on a one quarter lag in 2016. 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 includes 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 and dividends received from STG are recognized as a finance income.



## Quarterly data

### Consolidated income statement in summary

MSEK	Note	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15
Sales, including tobacco tax		7,345	7,624	6,686	7,177	7,546	7,308	6,452	7,067	7,275
Less tobacco tax		-3,277	-3,410	-2,910	-3,220	-3,428	-3,388	-2,895	-3,348	-3,519
<b>Sales</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>3,719</b>	<b>3,756</b>
Cost of goods sold		-2,215	-2,274	-1,995	-2,116	-2,222	-2,115	-1,872	-2,005	-2,011
<b>Gross profit</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>1,714</b>	<b>1,745</b>
Selling and administrative expenses		-765	-852	-791	-889	-808	-798	-745	-808	-745
Share of net profit/loss in associated companies	8	1	4	5	2	56	55	66	2	66
Sale of STG shares		-	-	131	-	648	-	560	-	-
Gain on fair value of STG shares		-	-	-	-	902	-	-	-	-
Sale of distribution facility		-	-	-	-	-	-	145	-	-
Capital gain from sale of land		-	-	107	-	-	-	-	-	-
<b>Operating profit</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>	<b>908</b>	<b>1,065</b>
Dividend from STG		-	65	-	-	-	-	-	-	-
Finance income		9	12	18	23	15	10	9	9	6
Finance costs		-101	-101	-98	-109	-165	-100	-116	-137	-111
Net finance cost		-91	-24	-80	-85	-149	-90	-107	-128	-106
<b>Profit before income tax</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>780</b>	<b>960</b>
Income tax expense		-244	-254	-223	-206	-239	-220	-200	-145	-219
<b>Profit for the period</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>636</b>	<b>741</b>
<i>Attributable to:</i>										
Equity holders of the Parent		753	812	930	662	2,306	751	1,404	636	741
Non-controlling interests		0	0	0	0	0	0	0	0	0
<b>Profit for the period</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>636</b>	<b>741</b>

### Sales by product area

MSEK	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15
Snus and moist snuff	1,377	1,406	1,293	1,356	1,338	1,338	1,245	1,318	1,311
Other tobacco products	1,142	1,252	1,120	1,092	1,166	1,031	994	955	958
Lights	308	302	340	347	346	318	303	334	312
Other operations	1,241	1,253	1,023	1,163	1,267	1,231	1,014	1,112	1,174
<b>Sales</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>3,719</b>	<b>3,756</b>

### Operating profit

MSEK	Note	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15
Snus and moist snuff		622	590	531	542	577	557	521	545	556
Other tobacco products		436	496	427	395	486	425	400	366	390
Lights		46	37	60	62	61	54	42	50	47
Other operations		-16	-32	-24	-45	-34	-29	-24	-53	-14
<b>Operating profit from product areas</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>	<b>908</b>	<b>979</b>
Share of net profit in STG	8	-	-	-	-	55	53	68	-	87
<b>Subtotal</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>	<b>908</b>	<b>1,065</b>
<i>Larger one-time items</i>										
Sale of STG shares		-	-	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>-</b>	<b>-</b>	<b>238</b>	<b>-</b>	<b>1,550</b>	<b>-</b>	<b>704</b>	<b>-</b>	<b>-</b>
<b>Operating profit</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>	<b>908</b>	<b>1,065</b>

### Operating margin by product area

<i>Percent</i>	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15
Snus and moist snuff	45.2	42.0	41.1	40.0	43.1	41.7	41.8	41.4	42.4
Other tobacco products	38.2	39.6	38.1	36.2	41.6	41.2	40.2	38.3	40.7
Lights	15.1	12.2	17.7	17.9	17.6	17.0	13.8	14.9	15.2
<b>Operating margin from product areas</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>	<b>24.4</b>	<b>26.1</b>

### EBITDA by product area

<i>MSEK</i>	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15
Snus and moist snuff	675	642	581	592	625	603	563	588	600
Other tobacco products	457	516	446	411	501	440	415	382	404
Lights	57	47	71	73	71	64	51	59	57
Other operations	-3	-20	-12	-32	-22	-16	-12	-42	-3
<b>EBITDA from product areas</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>	<b>987</b>	<b>1,058</b>

### EBITDA margin by product area

<i>Percent</i>	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15
Snus and moist snuff	49.0	45.7	44.9	43.7	46.7	45.1	45.2	44.6	45.7
Other tobacco products	40.0	41.2	39.8	37.7	43.0	42.6	41.8	39.9	42.2
Lights	18.4	15.6	20.9	21.1	20.6	20.1	16.9	17.8	18.2
<b>EBITDA margin from product areas</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>	<b>26.5</b>	<b>28.2</b>

### Depreciation, amortization and impairments

<i>MSEK</i>	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15
Property, plant and equipment	80	80	77	77	73	69	68	68	68
Intangible assets	16	15	15	14	14	14	11	11	11
<b>Total</b>	<b>96</b>	<b>95</b>	<b>91</b>	<b>91</b>	<b>86</b>	<b>83</b>	<b>79</b>	<b>79</b>	<b>79</b>

### Net finance cost

<i>MSEK</i>	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15
Interest income	9	12	18	23	12	8	9	6	5
Interest expense	-99	-97	-96	-103	-161	-98	-109	-135	-109
<b>Net interest expense</b>	<b>-90</b>	<b>-85</b>	<b>-78</b>	<b>-79</b>	<b>-149</b>	<b>-90</b>	<b>-100</b>	<b>-129</b>	<b>-104</b>
Dividend from STG	-	65	-	-	-	-	-	-	-
Other finance costs, net	-1	-4	-2	-6	0	0	-7	1	-2
<b>Total net finance cost</b>	<b>-91</b>	<b>-24</b>	<b>-80</b>	<b>-85</b>	<b>-149</b>	<b>-90</b>	<b>-107</b>	<b>-128</b>	<b>-106</b>

#### Contacts:

Lars Dahlgren, President and Chief Executive Officer  
Office +46 8 658 0441

Marlene Forsell, Senior Vice President and Chief Financial Officer  
Office +46 8 658 0489

Emmett Harrison, Senior Vice President Investor Relations and Corporate Sustainability  
Office +46 8 658 0173

Richard Flaherty, President US Division, US Investor Relations contact  
Office +1 804 787 5130

This information is information that Swedish Match AB (publ) is obliged to make public pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the agency of the contact persons set out above, at 08.15 a.m. CET on October 27, 2017.

---

Swedish Match develops, manufactures, and sells quality products with market-leading brands. Swedish Match's product areas are Snus and moist snuff, Other tobacco products (cigars and chewing tobacco), Lights (matches, lighters, and complementary products), and Other operations. Production is located in six 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.*

---

Swedish Match AB (publ), SE-118 85 Stockholm, Sweden  
Visiting address: Sveavägen 44, 8<sup>th</sup> Floor. Telephone: +46 8 658 0200  
Corporate Identity Number: 556015-0756  
[www.swedishmatch.com](http://www.swedishmatch.com)