

Half Year Report JANUARY – JUNE 2017

Highlights from the second quarter

- Sales increased by 8 percent to 4,214 MSEK (3,920) for the second quarter. In local currencies, sales increased by 4 percent.
- Operating profit from product areas¹⁾ increased by 8 percent to 1,091 MSEK (1,008) for the second quarter. In local currencies, operating profit from product areas increased by 4 percent.
- Operating profit amounted to 1,091 MSEK (1,061) for the second quarter.
- Profit for the period amounted to 812 MSEK (752) for the second quarter.
- Earnings per share amounted to 4.49 SEK (4.01) for the second quarter. Earnings per share excluding a dividend from STG in 2017 and share of net profit in STG in 2016 amounted to 4.18 SEK (3.72).
- The outlook has been updated based on the developments during the first six months.

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:

Strong portfolio of innovative smokeless products, and another solid quarter for cigars

As noted in the first quarter commentary, we have been active with product innovation and positioning for our smokeless products. In the US, we continued to experience good growth within our portfolio of snus and ZYN nicotine pouch products. In June, we took the decision to scale up our US smokeless production facility to accommodate larger scale ZYN production. This will be an important project for the remainder of the year, and also for 2018. In Scandinavia, we are gaining traction with modern snus products, like *G.3 Volt* in Norway and Sweden.

Also in other countries in Europe, we see potential for smokeless products. In June, within our Other tobacco products area, we launched chew bags in Germany. Germany is our latest addition for chew bags in the EU, where we already have had some presence in Denmark, Slovenia, and the Czech Republic. Expanding our offerings of innovative smokeless products in line with our strategy provides greater consumer choice in both existing and new markets.

Sales and profit growth from product areas accelerated from the first quarter. The second quarter delivered solid results for all product areas except Lights, where we saw a pullback after a strong second half in 2016 and a good start to this year. Overall operating profit grew at a healthy pace, despite headwind from FDA user fees for cigars. Second quarter profit growth was led by cigars, but also aided by snus in Scandinavia. Shipment volumes grew sharply for cigars, and we saw growth for snus in Sweden, Norway, and the US. With regard to market presence, I am encouraged to see that our share declines for our pouch products in Norway continued to moderate, and that we further expanded our presence in the pouch segment of the US moist snuff category. We have also recently noted a small uptick in the growth rate of the overall Swedish snus market.

The Norwegian government has now issued their regulations on plain packaging, applicable for cigarettes and snus, but not for products like electronic cigarettes. For snus, we believe that these regulations are not justifiable, as they ignore the demonstrably lower risk profile for snus, and the lifesaving potential of people making an informed choice to use snus instead of cigarettes. We have therefore filed a petition to challenge these regulations. It is important to note however, that we are well prepared for any regulatory environment, given our broad portfolio of high quality products and trusted brands.

For Other tobacco products, we continued to deliver impressive growth within our cigar business, particularly in the category's fastest growing segment, natural leaf cigars. The second quarter represented yet another record period in volume terms, and our cigar profits were notably higher. Volumes within our US chewing tobacco business were soft reflecting the market dynamics and competitive challenges within the category.

Our Lights business had a difficult quarter, following a strong year on year performance in the first quarter. For the half year, reported results for our Lights business are roughly in line with the first half of 2016.

Summary of consolidated income statement

MSEK	April-June		Chg %	January-June		Chg %	Full year 2016
	2017	2016		2017	2016		
Sales	4,214	3,920	8	7,989	7,477	7	15,551
Operating profit from product areas	1,091	1,008	8	2,085	1,947	7	3,990
Operating profit	1,091	1,061	3	2,323	2,772	-16	6,420
Profit before income tax	1,067	971	10	2,219	2,575	-14	5,988
Profit for the period	812	752	8	1,742	2,155	-19	5,123
Operating margin from product areas, %	25.9	25.7		26.1	26.0		25.7
Earnings per share, SEK ¹⁾	4.49	4.01		9.55	11.45		27.38
Earnings per share, excl. STG, SEK ¹⁾	4.18	3.72		9.25	10.81		26.44
Earnings per share, excl. STG, adjusted, SEK ¹⁾	4.18	3.72		7.94	7.07		14.39

1) See Note 5.

The second quarter

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

Sales

Sales grew by 8 percent to 4,214 MSEK (3,920). Currency translation positively affected the sales comparison by 140 MSEK. In local currencies, sales increased 4 percent and were up for all product areas except for Lights.

Earnings

Operating profit from product areas increased by 8 percent to 1,091 MSEK (1,008). Operating profit increased for our largest product areas, Snus and moist snuff and Other tobacco products, but declined for Lights. In local currencies, operating profit from product areas was up 4 percent.

Operating profit amounted to 1,091 MSEK (1,061). Operating profit included income from associated companies of 4 MSEK (55) of which 0 (53) MSEK related to STG. Currency translation has affected the comparison of the operating profit positively by 48 MSEK.

During the 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 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 24 MSEK (90). The income tax expense amounted to 254 MSEK (220) and the tax rate excluding associated companies, a dividend from STG and larger one-time items amounted to 24.5 percent.

Profit for the period amounted to 812 MSEK (752).

Earnings per share (EPS) for the second quarter amounted to 4.49 SEK (4.01). EPS excluding a dividend from STG in 2017 and share of net profit in STG in 2016 amounted to 4.18 SEK (3.72).

The first six months

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

Sales

Sales increased by 7 percent to 7,989 MSEK (7,477). Currency translation affected the sales comparison positively by 264 MSEK. In local currencies, sales increased by 3 percent.

Earnings

Operating profit from product areas amounted to 2,085 MSEK (1,947). Operating profit increased for all product areas except Other operations. In local currencies the operating profit from product areas increased by 2 percent.

Operating profit, including larger one-time items, amounted to 2,323 MSEK (2,772). Operating profit included income from associated companies of 8 MSEK (122) of which 0 MSEK (121) related to STG. The first six 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 six months of 2016 included larger one-time items of 704 MSEK relating to capital gains on sale of shares in STG and the sale of a distribution real estate in Sweden. All of these larger one-time items were tax exempt and recognized in the first quarter of the respective years. Currency translation has affected the comparison of the operating profit positively by 91 MSEK.

The Group's net finance cost including a dividend from STG of 65 MSEK in 2017 amounted to 104 MSEK (197) and income tax expense amounted to 477 MSEK (420), corresponding to a tax rate of 21.5 percent (16.3). 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 1,742 MSEK (2,155).

EPS for the first six months amounted to 9.55 SEK (11.45). EPS increased by 12 percent to 7.94 SEK (7.07) when adjusted for larger one-time items, a dividend from STG in 2017 and share of net profit in STG in 2016.



Kronan

In March the *Kronan* brand, available on the Swedish market, was upgraded with a new design and packaging, including the white portion pouches now placed in Swedish Match's characteristic star formation. *Kronan* has a dark and robust tobacco flavor with hints of violet, citrus and green herbs. *Kronan* is available in 4 different portion pouch varieties: White, Strong White, Original, and Strong Original as well as in Loose format.

G.3 Volt

At the end of April a new snus, *G.3 Volt Super Strong*, reached full distribution on the Norwegian market. *G.3 Volt Super Strong* has a peppermint flavor and is available in the discrete Slim White Dry format. The lower moisture content enables the snus to have an increased nicotine strength by 30 percent compared to G.3 Extra Strong.



Snus and moist snuff

Second quarter highlights:

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

Key data

MSEK	April-June		Chg %	January-June		Chg %	Full year 2016
	2017	2016		2017	2016		
Sales	1,406	1,338	5	2,699	2,584	4	5,277
Operating profit	590	557	6	1,122	1,078	4	2,197
Operating margin, %	42.0	41.7		41.6	41.7		41.6
EBITDA	642	603	6	1,223	1,166	5	2,383
EBITDA margin, %	45.7	45.1		45.3	45.1		45.2

The second quarter

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

Sales for Snus and moist snuff were up 2 percent in local currencies. In local currencies, sales and the operating result improved for snus in Scandinavia and for snus and nicotine pouches outside Scandinavia but declined for US moist snuff.

In Scandinavia, the market continued to grow at a similar pace as in the previous quarter. Swedish Match estimates that the total Scandinavian market grew by more than 2 percent, with higher market volumes in both Norway and Sweden. Adjusted for slightly positive calendar effects, 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).

For the US moist snuff business, pouches continued to deliver higher volumes, partially offsetting declines for traditional loose varieties. Tub volumes declined versus prior year primarily due to promotional phasing. Sales declined on lower volumes partly offset by higher realized pricing.

The total net operating loss for snus and nicotine pouches outside Scandinavia decreased to 51 MSEK (57), attributable to improved gross profit from higher volumes and improved pricing. Distribution of the ZYN nicotine pouch was further expanded during the quarter in the western US.

The first six months

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

Sales for the product area grew by 2 percent in local currencies. Operating profit increased to 1,122 MSEK (1,078) and included net operating result for snus and nicotine pouches outside Scandinavia of negative 93 MSEK (negative 106).

In Scandinavia, shipment volumes grew by 1 percent. Swedish Match estimates that its underlying volumes (adjusted for calendar effects and prior year trade destocking) on the Scandinavian market were flat. 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 flat. For snus and nicotine pouches outside Scandinavia, both sales and gross profit increased.

Swedish Match shipment volumes

<i>Millions of cans</i>	April-June		Chg %	January-June		Chg %	Full year 2016
	2017	2016		2017	2016		
Snus, Scandinavia	63.0	62.1	1	119.5	118.4	1	241.3
Moist snuff, US	31.3	34.0	-8	65.9	68.5	-4	131.4
Snus and nicotine pouches, outside Scandinavia	2.9	1.9	49	5.4	3.6	50	7.8

Swedish Match Scandinavian snus market shares¹⁾

<i>Percent</i>	April-June		Chg ppts	January-June		Chg ppts	Full year 2016
	2017	2016		2017	2016		
Snus, Sweden, total	65.6	67.9	-2.3	65.6	67.9	-2.3	67.4
Snus, Sweden, premium	91.6	93.1	-1.5	91.8	93.1	-1.3	92.7
Snus, Sweden, value	36.5	38.5	-2.0	36.5	38.8	-2.3	38.0
Snus, Norway, total	51.5	53.6	-2.1	51.9	54.1	-2.2	53.5

1) Swedish Match estimates using Nielsen data (excluding tobaccoconists): 13 weeks and YTD to July 2, 2017 and July 3, 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)

Second quarter highlights:

- Continued strong sales and volume growth for cigars in the US, led by natural leaf cigars
- Declining sales and volumes for US chewing tobacco
- Increased operating profit in local currency despite costs for FDA user fees for cigars

Key data

MSEK	April-June		Chg %	January-June		Chg %	Full year 2016
	2017	2016		2017	2016		
Sales	1,252	1,031	21	2,373	2,026	17	4,283
Operating profit	496	425	17	923	825	12	1,705
Operating margin, %	39.6	41.2		38.9	40.7		39.8
EBITDA	516	440	17	962	855	13	1,768
EBITDA margin, %	41.2	42.6		40.6	42.2		41.3

The second quarter

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

Sales and operating profit for Other tobacco products grew both as reported and in local currency. In local currency, sales increased by 13 percent and operating profit increased by 9 percent. 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 second quarter.

Cigar volumes were up by 19 percent, with increased volumes most notably for our natural leaf cigars, but also for HTL cigars. In local currency, sales for cigars increased somewhat more than volumes due to portfolio mix effects. Operating profit increased despite the negative effect from the FDA fees.

Chewing tobacco shipments in the US (excluding contract manufacturing volumes) declined by 9 percent, in line with overall market declines. Sales and operating profit for US chewing tobacco declined in local currency as a result of the lower volumes. Chew bags were launched on a limited scale in June in Germany, following launches over the past year in Denmark, the Czech Republic, and Slovenia. Chew bag products are not currently being shipped into Switzerland, due to unclear regulation.

The first six months

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

In local currency, sales for Other tobacco products were up by 10 percent, while operating profit was up by 5 percent, attributable to the strong performance for US cigars.

Cigar volumes increased by 18 percent and sales in US dollars increased almost in line with volumes. Operating profit was also higher despite 5 MUSD of FDA user fees incurred in 2017.

For chewing tobacco, sales and operating profit in local currency declined, with lower volumes partly compensated by higher prices. Operating profit was somewhat negatively impacted by investments related to chew bags.

Swedish Match US shipment volumes

	April-June		Chg %	January-June		Chg %	Full year 2016
	2017	2016		2017	2016		
Cigars, millions of sticks	428	361	19	826	703	18	1,472
Chewing tobacco, thousands of pounds (excluding contract manufacturing volumes)	1,690	1,857	-9	3,353	3,534	-5	6,709



Lights (matches, lighters and complementary products)

Second 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	April-June		Chg %	January-June		Chg %	Full year 2016
	2017	2016		2017	2016		
Sales	302	318	-5	642	621	3	1,314
Operating profit	37	54	-32	97	96	1	219
Operating margin, %	12.2	17.0		15.1	15.5		16.7
EBITDA	47	64	-26	118	115	3	259
EBITDA margin, %	15.6	20.1		18.4	18.5		19.7

The second quarter

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

Sales declined as lower volumes for both matches and lighters were partly offset by increased sales for complementary products and positive currency effects. Following a strong first quarter, second quarter operating profit declined on lower matches and lighter volumes as well as unfavorable cost development.

The first six months

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

Sales grew by 3 percent, led by growth for both matches and complementary products. 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 from a stronger Brazilian real compared to the first half of 2016. Operating profit for the product area increased slightly.

Swedish Match shipment volumes, worldwide

	April-June		Chg %	January-June		Chg %	Full year 2016
	2017	2016		2017	2016		
Matches, billion sticks	14.7	18.2	-19	32.5	35.9	-10	72.0
Lighters, million units	85.9	100.4	-15	181.2	196.0	-8	399.2

Other operations

Other operations consist of the distribution of tobacco products on the Swedish market and corporate overhead costs.

The second quarter

Sales in Other operations for the second quarter amounted to 1,253 MSEK (1,231). Operating loss for Other operations was 32 MSEK (29).

The first six months

Sales for the first six months amounted to 2,276 MSEK (2,246). Operating loss for the first six months was 57 MSEK (52). 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 six months amounted to 1,781 MSEK (1,872). Adjusted for the dividend received from STG in the prior year, the cash flow from operating activities increased by 100 MSEK to 1,781 MSEK (1,681). The positive cash flow from improved EBITDA was partly offset by negative cash flow from working capital.

During the first half of the year, 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 178 MSEK (347), 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 in line with prior year.

Net finance cost for the first six months declined to 104 MSEK (197). Excluding the dividend received from STG of 65 MSEK recognized in the finance net during this year's second quarter, the net finance cost improved by 28 MSEK. This improvement is related to higher interest income from the strong cash position in the beginning of the year. Interest expenses were on a similar level as prior year with the effect of higher average debt being offset by lower interest rates.

During the first six months of 2017, new bond loans of 500 MSEK were issued while no repayments of bond loans were made during the period. As of June 30, 2017 Swedish Match had 10,350 MSEK of interest bearing debt excluding retirement benefit obligations compared to 9,854 MSEK at December 31, 2016. Following the close of the second quarter, new bond loans of 600 MSEK were issued. During the remainder of 2017, 2,061 MSEK of debt fall due for payment. For further detail of the maturity profile of the debt portfolio please see the Swedish Match website. Retirement benefit obligations decreased to 1,381 MSEK as of June 30, 2017, from 1,452 MSEK at December 31, 2016.

As of June 30, 2017, Swedish Match had 1,500 MSEK in unutilized committed credit lines. Cash and cash equivalents amounted to 2,506 MSEK at the end of the period, compared to 3,364 MSEK at December 31, 2016.

Net debt as of June 30, 2017 amounted to 9,226 MSEK compared to 7,941 MSEK at December 31, 2016.

Shareholder distributions

During the first six months of 2017 Swedish Match has distributed a total of 4,300 MSEK (4,213) to its shareholders in the form of ordinary and special dividends as well as share repurchases.

In the first half of the year, 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 4.8 million shares for 1,392 MSEK at an average price of 291.32 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 120.36 SEK.

As of June 30, 2017 Swedish Match held 1.9 million shares, corresponding to 1.05 percent of the total number of shares. The number of shares outstanding, net, as of June 30, 2017, amounted to 179.9 million.

Swedish Match has a share repurchase program running for the period June 20, 2017 to July 21, 2017 for a total amount of up to 250 MSEK. The program is being carried out in accordance with the Market Abuse Regulation (EU) No 596/2014 ("MAR") and the Commission Delegated Regulation (EU) No 2016/1052 (the "Safe Harbour Regulation"). As part of this program, after the close of the reporting period (June 30, 2017) up until July 20, 2017, another 0.4 million shares have been repurchased for 131 MSEK at an average price of 293.61 SEK.

Event after the reporting period

Swedish Match challenges the plain packaging regulation with regard to snus in Norway

The Norwegian plain packaging legislation for tobacco products entered into force on July 1, 2017, with effect for new products as of this date and for existing products from July 1, 2018. On July 7, 2017, Swedish Match initiated legal proceedings to challenge the legality of the legislation for snus. Swedish Match is of the opinion that it is both disproportionate and discriminatory to treat snus equal to cigarettes considering the lower health risk of snus.

Outlook (from the first quarter report)

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 in 2017.

For cigars in the US, Swedish Match expects the market to continue to grow in 2017 but to remain highly competitive. Swedish Match has the ambition to continue to grow cigar volumes in the US market in 2017. Costs of goods per cigar are expected to increase due to both the full year effect of FDA fees as well as higher raw material costs. 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 in 2017. We expect continued growth in volumes and sales. Market related costs are expected to increase somewhat primarily related to the expansion of ZYN in the US market. Operating loss for snus and nicotine pouches outside Scandinavia is expected to be broadly in line with 2016.

The effective corporate tax rate in 2017, excluding associated companies 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 to whether the impact would be positive or negative for the Company.

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

Updated outlook (changes noted in italics)

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 to whether the impact would be positive or negative 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.

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 22 MSEK (26). Profit before income tax amounted to 3,530 MSEK (411) and net profit for the first six months amounted to 3,607 MSEK (497). The higher net profit for the first six months largely pertains to higher dividends from subsidiaries compared to the same period previous year.

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 six months, new bond loans of 500 MSEK were issued. No repayments of bond loans have been made. During the first six months, the Parent Company made share repurchases of 4.8 million (1.6) shares for 1,392 MSEK (449).

No capital expenditures on tangible or intangible assets have been recognized during the first six months of 2017 or 2016.

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 January-September 2017 report will be released on October 27, 2017.

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 21, 2017

Conny Karlsson
Chairman of the Board

Andrew Cripps
Deputy Chairman

Charles A. Blixt
Board member

Patrik Engelbrektsson
Board member

Jacqueline Hoogerbrugge
Board member

Eva Larsson
Board member

Pauline Lindwall
Board member

Dragan Popovic
Board member

Wenche Rolfsen
Board member

Joakim Westh
Board member

Lars Dahlgren
President and CEO

Product area summary and key ratios

Sales by product area

MSEK	April-June		Chg %	January-June		Chg %	Full year 2016
	2017	2016		2017	2016		
Snus and moist snuff	1,406	1,338	5	2,699	2,584	4	5,277
Other tobacco products	1,252	1,031	21	2,373	2,026	17	4,283
Lights	302	318	-5	642	621	3	1,314
Other operations	1,253	1,231	2	2,276	2,246	1	4,676
Sales	4,214	3,920	8	7,989	7,477	7	15,551

Operating profit

MSEK	April-June		Chg %	January-June		Chg %	Full year 2016
	2017	2016		2017	2016		
Snus and moist snuff	590	557	6	1,122	1,078	4	2,197
Other tobacco products	496	425	17	923	825	12	1,705
Lights	37	54	-32	97	96	1	219
Other operations	-32	-29		-57	-52		-132
Operating profit from product areas	1,091	1,008	8	2,085	1,947	7	3,990
Share of net profit in STG ¹⁾	-	53		-	121		176
Subtotal	1,091	1,061	3	2,085	2,068	1	4,166
<i>Larger one-time items</i>							
Sale of STG shares	-	-		131	560		1,208
Gain on fair value of STG shares	-	-		-	-		902
Sale of distribution facility	-	-		-	145		145
Capital gain from sale of land	-	-		107	-		-
Total larger one-time items	-	-		238	704		2,254
Operating profit	1,091	1,061	3	2,323	2,772	-16	6,420

1) See Note 6.

Operating margin by product area

Percent	April-June		January-June		Full year 2016
	2017	2016	2017	2016	
Snus and moist snuff	42.0	41.7	41.6	41.7	41.6
Other tobacco products	39.6	41.2	38.9	40.7	39.8
Lights	12.2	17.0	15.1	15.5	16.7
Operating margin from product areas	25.9	25.7	26.1	26.0	25.7

EBITDA by product area

MSEK	April-June		Chg %	January-June		Chg %	Full year 2016
	2017	2016		2017	2016		
Snus and moist snuff	642	603	6	1,223	1,166	5	2,383
Other tobacco products	516	440	17	962	855	13	1,768
Lights	47	64	-26	118	115	3	259
Other operations	-20	-16		-32	-28		-82
EBITDA from product areas	1,186	1,091	9	2,271	2,109	8	4,329

EBITDA margin by product area

Percent	April-June		January-June		Full year 2016
	2017	2016	2017	2016	
Snus and moist snuff	45.7	45.1	45.3	45.1	45.2
Other tobacco products	41.2	42.6	40.6	42.2	41.3
Lights	15.6	20.1	18.4	18.5	19.7
EBITDA margin from product areas	28.1	27.8	28.4	28.2	27.8

Key ratios

		January-June	12 months ended	Full year
	2017	2016	June 30, 2017	2016
Operating margin from product areas, %	26.1	26.0	25.7	25.7
Operating capital, MSEK ¹⁾	3,881	3,602	3,881	3,888
Return on operating capital, % ¹⁾			110.3	111.0
Net debt, MSEK	9,226	8,757	9,226	7,941
Investments in property, plant and equipment, MSEK	172	225	484	537
EBITA from product areas, MSEK	2,115	1,972	4,186	4,043
EBITA interest cover ¹⁾	13.0	10.4	10.7	9.7
Net debt/EBITA from product areas			2.2	2.0
<i>Share data</i>				
Number of shares outstanding at end of period	179,893,310	187,309,868	179,893,310	184,672,687
Average number of shares outstanding	182,440,382	188,236,948	184,218,191	187,116,474

1) Prior year periods restated to exclude STG.

Financial statements

Condensed consolidated income statement

MSEK	April-June		Chg %	January-June		Chg %	12 months ended		Full year	Chg %
	2017	2016		2017	2016		June 30, 2017	2016		
Sales, including tobacco tax	7,624	7,308		14,310	13,760		29,032	28,482		
Less tobacco tax	-3,410	-3,388		-6,321	-6,283		-12,969	-12,932		
Sales	4,214	3,920	8	7,989	7,477	7	16,063	15,551		3
Cost of goods sold	-2,274	-2,115		-4,269	-3,987		-8,607	-8,325		
Gross profit	1,940	1,804	8	3,719	3,489	7	7,456	7,226		3
Selling and admin. expenses	-852	-798		-1,643	-1,543		-3,339	-3,240		
Share of profit/loss in associated companies ¹⁾	4	55		8	122		66	180		
Sale of STG shares	-	-		131	560		779	1,208		
Gain on fair value of STG shares	-	-		-	-		902	902		
Sale of distribution facility	-	-		-	145		-	145		
Capital gain from sale of land	-	-		107	-		107	-		
Operating profit	1,091	1,061	3	2,323	2,772	-16	5,971	6,420		-7
Dividend from STG	65	-		65	-		65	-		
Finance income	12	10		30	18		65	53		
Finance costs	-101	-100		-199	-215		-469	-484		
Net finance cost	-24	-90		-104	-197		-338	-431		
Profit before income tax	1,067	971	10	2,219	2,575	-14	5,632	5,988		-6
Income tax expense	-254	-220		-477	-420		-922	-865		
Profit for the period	812	752	8	1,742	2,155	-19	4,710	5,123		-8
<i>Attributable to:</i>										
Equity holders of the Parent	812	751		1,742	2,155		4,710	5,123		
Non-controlling interests	0	0		0	0		0	0		
Profit for the period	812	752	8	1,742	2,155	-19	4,710	5,123		-8
Earnings per share, SEK ²⁾	4.49	4.01		9.55	11.45		25.57	27.38		

1) See Note 6.

2) See Note 5.

Condensed consolidated statement of comprehensive income

MSEK	April-June		January-June		12 months	Full year
	2017	2016	2017	2016	ended June 30, 2017	2016
Profit for the period	812	752	1,742	2,155	4,710	5,123
<i>Other comprehensive income that may be reclassified to the income statement</i>						
Translation differences related to foreign operations	-180	344	-246	273	39	558
Translation differences included in profit and loss	-	-	-	-6	-137	-143
Effective portion of changes in fair value of cash flow hedges	-2	19	-33	22	-136	-81
Reclassification of gains/losses on cash flow hedges included in profit and loss	-	-	-	0	15	16
Share of other comprehensive income in associated companies ¹⁾	-	-99	-	-44	24	-20
Share of other comprehensive income in associated companies included in profit and loss	-	-	-	-194	-315	-509
Change in fair value of STG shares	-177	-	-164	-	146	310
Change in fair value of STG shares included in profit and loss	0	-	-138	-	-138	-
Income tax relating to reclassifiable components of other comprehensive income	22	-4	27	-5	46	14
Subtotal, net of tax for the period	-337	260	-553	47	-456	144
<i>Other comprehensive income that will not be reclassified to the income statement</i>						
Actuarial gains/losses attributable to pensions, incl. payroll tax	-54	-153	17	-364	231	-150
Share of other comprehensive income in associated companies ¹⁾	-	0	-	-2	0	-2
Income tax relating to non-reclassifiable components of other comprehensive income	26	49	-3	124	-87	39
Subtotal, net of tax for the period	-27	-104	14	-243	144	-113
Total comprehensive income for the period	448	907	1,203	1,960	4,398	5,155
<i>Attributable to:</i>						
Equity holders of the Parent	448	907	1,203	1,960	4,398	5,155
Non-controlling interests	0	0	0	0	0	0
Total comprehensive income for the period	448	907	1,203	1,960	4,398	5,155

1) See Note 6.

Condensed consolidated balance sheet

MSEK	June 30, 2017	December 31, 2016
Intangible assets	1,191	1,250
Property, plant and equipment	2,477	2,543
Investments in associated companies	131	122
Other non-current assets and operating receivables	22	23
Other non-current financial assets and receivables ¹⁾²⁾	2,854	4,450
Total non-current assets	6,676	8,387
Other current financial receivables ²⁾³⁾	277	251
Current operating assets and receivables	3,523	3,333
Cash and cash equivalents	2,506	3,364
Total current assets	6,306	6,948
Total assets	12,982	15,335
Equity attributable to equity holders of the Parent	-4,463	-1,366
Non-controlling interests	1	1
Total equity	-4,462	-1,365
Non-current financial provisions	1,128	1,168
Non-current loans	8,173	8,169
Other non-current financial liabilities ²⁾⁴⁾	1,564	1,613
Other non-current operating liabilities	364	369
Total non-current liabilities	11,229	11,318
Current loans	2,589	2,047
Other current financial liabilities ²⁾⁵⁾	526	321
Other current operating liabilities	3,099	3,013
Total current liabilities	6,214	5,382
Total liabilities	17,444	16,700
Total equity and liabilities	12,982	15,335

1) Includes shares in STG of 1,246 MSEK (2,761), pension assets of 101 MSEK (90) and certain non-current components of derivatives of 368 MSEK (391).

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

3) Includes certain current components of derivatives of 49 MSEK (33).

4) Includes pension liabilities of 1,482 MSEK (1,542) and certain non-current components of derivatives of -30 MSEK (-4).

5) Includes certain current components of derivatives of 35 MSEK (65).

Condensed consolidated cash flow statement

MSEK	2017	January-June 2016
<i>Operating activities</i>		
Profit before income taxes	2,219	2,575
Share of profit/loss in associated companies	-8	-122
Dividend received from associated companies	0	192
Other non-cash items and other	15	-452
Income tax paid	-270	-309
Cash flow from operating activities before changes in working capital	1,957	1,884
Changes in working capital	-176	-12
Net cash generated from operating activities	1,781	1,872
<i>Investing activities</i>		
Purchase of property, plant and equipment	-172	-225
Proceeds from sale of property, plant and equipment	0	145
Purchase of intangible assets	-6	-122
Proceeds from sale of land ¹⁾	107	-
Divestments in associated companies ²⁾	1,355	2,172
Investments in associated companies ³⁾	-	-5
Dividend from STG	65	-
Changes in financial receivables etc.	0	0
Net cash from investing activities	1,349	1,965
<i>Financing activities</i>		
Proceeds from borrowings	500	497
Repayment of borrowings	-	-363
Dividend paid to equity holders of the Parent	-2,908	-3,764
Repurchase of own shares	-1,392	-449
Realized exchange gain/losses on financial instruments	-135	-28
Other	-2	1
Net cash used in financing activities	-3,937	-4,106
Net increase in cash and cash equivalents	-807	-269
Cash and cash equivalents at the beginning of the period	3,364	1,732
Effect of exchange rate fluctuations on cash and cash equivalents	-51	12
Cash and cash equivalents at the end of the period	2,506	1,475

1) The cash flow from sale of land is related to the final payment on the sale of land in 2007.

2) Divestments in associated companies pertain to sale of shares in STG.

3) Investments in associated companies pertain to additional investments in EB Road Cargo AB of 5 MSEK in 2016.

Condensed consolidated statement of changes in equity

MSEK	Equity attributable to holders of the Parent	Non-controlling interests	Total equity
Equity at January 1, 2016	251	1	252
Profit for the period	2,155	0	2,155
Other comprehensive income, net of tax for the period	-196	0	-196
Total comprehensive income for the period	1,960	0	1,960
Dividend	-3,764	0	-3,764
Repurchase of own shares	-449	-	-449
Cancellation of shares	-15	-	-15
Bonus issue	15	-	15
Equity at June 30, 2016	-2,002	1	-2,001
Equity at January 1, 2017	-1,366	1	-1,365
Profit for the period	1,742	0	1,742
Other comprehensive income, net of tax for the period	-539	0	-539
Total comprehensive income for the period	1,203	0	1,203
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	-4,463	1	-4,462

Condensed Parent Company income statement

MSEK	January-June	
	2017	2016
Sales	22	26
Administrative expenses	-78	-146
Operating loss	-56	-120
Result from participation in Group companies	3,883	856
Net finance cost	-298	-325
Profit before income tax	3,530	411
Income tax	77	86
Profit for the period	3,607	497

Condensed Parent Company statement of comprehensive income

MSEK	January-June	
	2017	2016
Profit for the period	3,607	497
<i>Other comprehensive income that may be reclassified to the income statement</i>		
Effective portion of changes in fair value of cash flow hedges	-33	22
Reclassification for gains/losses on cash flow hedges included in profit and loss	-	0
Income tax relating to components of other comprehensive income	7	-5
Other comprehensive income, net of tax for the period	-26	18
Total comprehensive income for the period	3,581	515

Condensed Parent Company balance sheet

MSEK	June 30, 2017	June 30, 2016	December 31, 2016
Intangible and tangible assets	2	2	2
Non-current financial assets ¹⁾	49,665	49,826	49,719
Current assets ¹⁾	793	209	3,311
Total assets	50,460	50,038	53,032
Equity	17,715	17,517	18,434
Untaxed reserves	995	675	995
Provisions	97	92	100
Non-current liabilities ¹⁾	26,355	26,457	26,338
Current liabilities ¹⁾	5,298	5,295	7,165
Total liabilities	31,749	31,845	33,603
Total equity and liabilities	50,460	50,038	53,032

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 – 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 the end of the first half of 2017, receivables from these companies amounted to 17 MSEK (35) and total payables to these companies amounted to 2 MSEK (9). During the first six months 2017, total sales to associated companies amounted to 39 MSEK (90) and total purchases from associated companies amounted to 1 MSEK (41).

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

Note 3 – Carrying value and fair value

The following table shows carrying value and fair value for financial instruments per June 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 ¹⁾	Non-financial instruments	Total carrying value	Estimated fair value	Fair value level 1	Fair value level 2
Trade receivables	-	1,627	-	-	-	-	1,627	1,627		
Other non-current financial assets	-	-	1,246	-	-	-	1,246	1,246	1,246	
Other non-current financial receivables	-	-	-	-	312	445	757	757		312
Other current assets and financial receivables	-	-	-	-	41	200	241	241		41
Accrued interest income/expense	-	-	-	-	-16	-	-16	-16		-16
Other prepaid expenses and accrued income	-	-	-	-	-	84	84	84		
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		11,020
Other non-current financial liabilities	-	-	-	-	82	54	136	136		82
Other current liabilities	35	-	-	-	-	1,632	1,667	1,667		35
Accrued interest expense/income	-	-	-	117	26	-	143	143		26
Other accrued expenses and deferred income	-	-	-	-	-	669	669	669		
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*.

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.

No transfer in or out of level 2 has been made during the second 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 8,210 MSEK of which 7,053 MSEK is in cash flow hedges consisting of cross currency and interest rate swaps related to bond loans. The remaining 1,157 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 to the 2016 annual report.

Note 4 – 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
OPERATING PROFIT (EBIT)	Earnings excluding net finance cost and taxes	Used as a measure of operating performance, excluding the impact of financing and corporate income tax.
OPERATING PROFIT/LOSS (EBIT) FROM PRODUCT AREAS	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.
OPERATING MARGIN (%)	$100 \times \text{Operating profit} \div \text{Sales}$	Used as a measure of operational profitability.
OPERATING MARGIN FROM PRODUCT AREAS (%)	$100 \times \text{Operating profit from product areas} \div \text{Sales}$	Used as a measure of operational profitability of the ongoing business.
LARGER ONE-TIME ITEMS	Larger one-time items are separately disclosed non-recurring income and cost	Used to provide information regarding items which impact comparability between periods.
EBITDA	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.
EBITDA FROM PRODUCT AREAS	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.
EBITDA MARGIN (%)	$100 \times \text{EBITDA} \div \text{Sales}$	Used as an alternative measure of operating profitability.
EBITDA MARGIN FROM PRODUCT AREAS (%)	$100 \times \text{EBITDA from product areas} \div \text{Sales}$	Used as an alternative measure of operating profitability for the ongoing business.
PROFIT FOR THE PERIOD, EXCLUDING STG	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.
PROFIT FOR THE PERIOD, EXCLUDING STG AND LARGER ONE-TIME ITEMS	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.
EBITA	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.
EBITA FROM PRODUCT AREAS	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.
EBITA INTEREST COVERAGE RATIO (EBITA INTEREST COVER)	$\text{EBITA from product areas} \div (\text{Interest expense} - \text{interest income})$	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 FROM PRODUCT AREAS	$\text{NET DEBT} \div \text{EBITA from product areas}$	Used as an indication of the duration (in years) required to fund existing net financial obligations with free cash flows from the ongoing business.
OPERATING CAPITAL	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.
RETURN ON OPERATING CAPITAL (%)	$100 \times \text{Operating profit, excluding larger one-time items} \div \text{Average operating capital}$	Used as a measure of how efficiently capital is employed within the operations.

Note 5 – Earnings per share

The following table provides the components used in calculating earnings per share.

Earnings per share					
<i>Basic and diluted</i>					
	2017	April-June 2016	2017	January-June 2016	Full year 2016
Profit for the period attributable to equity holders of the Parent, MSEK	812	751	1,742	2,155	5,123
Profit for the period attributable to equity holders of the Parent, excluding STG, MSEK	757	698	1,687	2,034	4,947
Profit for the period attributable to equity holders of the Parent, excluding STG and larger one-time items, MSEK	757	698	1,449	1,330	2,693
Weighted average number of shares outstanding, basic and diluted	181,225,363	187,865,679	182,440,382	188,236,948	187,116,474

<i>Earnings per share, basic and diluted, SEK</i>					
	2017	April-June 2016	2017	January-June 2016	Full year 2016
Earnings per share	4.49	4.01	9.55	11.45	27.38
Earnings per share, excl. STG	4.18	3.72	9.25	10.81	26.44
Earnings per share, excl. STG, adjusted ¹⁾	4.18	3.72	7.94	7.07	14.39

1) Adjusted for Swedish Match larger one-time items.

Note 6 – 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	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15
Sales, including tobacco tax	7,624	6,686	7,177	7,546	7,308	6,452	7,067	7,275	6,907
Less tobacco tax	-3,410	-2,910	-3,220	-3,428	-3,388	-2,895	-3,348	-3,519	-3,263
Sales	4,214	3,775	3,957	4,118	3,920	3,557	3,719	3,756	3,644
Cost of goods sold	-2,274	-1,995	-2,116	-2,222	-2,115	-1,872	-2,005	-2,011	-1,929
Gross profit	1,940	1,780	1,841	1,896	1,804	1,685	1,714	1,745	1,715
Selling and administrative expenses	-852	-791	-889	-808	-798	-745	-808	-745	-771
Share of net profit/loss in associated companies ¹⁾	4	5	2	56	55	66	2	66	119
Sale of STG shares	-	131	-	648	-	560	-	-	-
Gain on fair value of STG shares	-	-	-	902	-	-	-	-	-
Sale of distribution facility	-	-	-	-	-	145	-	-	-
Relocation of distribution facilities	-	-	-	-	-	-	-	-	-42
Capital gain from sale of land	-	107	-	-	-	-	-	-	-
Operating profit	1,091	1,232	954	2,694	1,061	1,711	908	1,065	1,021
Dividend from STG	65	-	-	-	-	-	-	-	-
Finance income	12	18	23	15	10	9	9	6	4
Finance costs	-101	-98	-109	-165	-100	-116	-137	-111	-119
Net finance cost	-24	-80	-85	-149	-90	-107	-128	-106	-115
Profit before income tax	1,067	1,153	868	2,545	971	1,604	780	960	906
Income tax expense	-254	-223	-206	-239	-220	-200	-145	-219	-200
Profit for the period	812	930	662	2,306	752	1,404	636	741	705
<i>Attributable to:</i>									
Equity holders of the Parent	812	930	662	2,306	751	1,404	636	741	705
Non-controlling interests	0	0	0	0	0	0	0	0	0
Profit for the period	812	930	662	2,306	752	1,404	636	741	705

1) See Note 6.

Sales by product area

MSEK	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15
Snus and moist snuff	1,406	1,293	1,356	1,338	1,338	1,245	1,318	1,311	1,271
Other tobacco products	1,252	1,120	1,092	1,166	1,031	994	955	958	982
Lights	302	340	347	346	318	303	334	312	318
Other operations	1,253	1,023	1,163	1,267	1,231	1,014	1,112	1,174	1,073
Sales	4,214	3,775	3,957	4,118	3,920	3,557	3,719	3,756	3,644

Operating profit

MSEK	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15
Snus and moist snuff	590	531	542	577	557	521	545	556	514
Other tobacco products	496	427	395	486	425	400	366	390	414
Lights	37	60	62	61	54	42	50	47	36
Other operations	-32	-24	-45	-34	-29	-24	-53	-14	-28
Operating profit from product areas	1,091	994	954	1,089	1,008	939	908	979	937
Share of net profit in STG ¹⁾	-	-	-	55	53	68	-	87	126
Subtotal	1,091	994	954	1,144	1,061	1,007	908	1,065	1,063
<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	-	-	-
Relocation of distribution facilities	-	-	-	-	-	-	-	-	-42
Capital gain from sale of land	-	107	-	-	-	-	-	-	-
Total larger one-time items	-	238	-	1,550	-	704	-	-	-42
Operating profit	1,091	1,232	954	2,694	1,061	1,711	908	1,065	1,021

1) See Note 6.

Operating margin by product area

<i>Percent</i>	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15
Snus and moist snuff	42.0	41.1	40.0	43.1	41.7	41.8	41.4	42.4	40.5
Other tobacco products	39.6	38.1	36.2	41.6	41.2	40.2	38.3	40.7	42.2
Lights	12.2	17.7	17.9	17.6	17.0	13.8	14.9	15.2	11.4
Operating margin from product areas	25.9	26.3	24.1	26.5	25.7	26.4	24.4	26.1	25.7

EBITDA by product area

<i>MSEK</i>	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15
Snus and moist snuff	642	581	592	625	603	563	588	600	559
Other tobacco products	516	446	411	501	440	415	382	404	429
Lights	47	71	73	71	64	51	59	57	46
Other operations	-20	-12	-32	-22	-16	-12	-42	-3	-17
EBITDA from product areas	1,186	1,085	1,045	1,175	1,091	1,018	987	1,058	1,017

EBITDA margin by product area

<i>Percent</i>	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15
Snus and moist snuff	45.7	44.9	43.7	46.7	45.1	45.2	44.6	45.7	44.0
Other tobacco products	41.2	39.8	37.7	43.0	42.6	41.8	39.9	42.2	43.7
Lights	15.6	20.9	21.1	20.6	20.1	16.9	17.8	18.2	14.5
EBITDA margin from product areas	28.1	28.7	26.4	28.5	27.8	28.6	26.5	28.2	27.9

Depreciation, amortization and impairments

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

Net finance cost

<i>MSEK</i>	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15
Interest income	12	18	23	12	8	9	6	5	4
Interest expense	-97	-96	-103	-161	-98	-109	-135	-109	-118
Net interest expense	-85	-78	-79	-149	-90	-100	-129	-104	-114
Dividend from STG	65	-	-	-	-	-	-	-	-
Other finance costs, net	-4	-2	-6	0	0	-7	1	-2	-1
Total net finance cost	-24	-80	-85	-149	-90	-107	-128	-106	-115

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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.*

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