Swedish Match

Q1 2018

Interim Report
JANUARY – MARCH 2018

Highlights from the first quarter

- **In local currencies, sales increased by 10 percent for the first quarter. Reported sales increased by 4 percent to 2,941 MSEK (2,833).**
- **In local currencies, operating profit from product segments[1)] increased by 11 percent for the first quarter. Reported operating profit from product segments increased by 6 percent to 1,079 MSEK (1,021).**
- **Operating profit[2)] amounted to 1,047 MSEK (1,235) for the first quarter. The first quarter 2017 included larger one-time items of 238 MSEK relating to capital gains from the sale of STG shares and from the sale of a parcel of land.**
- **Profit after tax amounted to 766 MSEK (932) for the first quarter.**
- **Earnings per share amounted to 4.36 SEK (5.07) for the first quarter. Adjusted earnings per share[3)] increased by 15 percent to 4.36 SEK (3.78).**
- **As of January 1, 2018, Swedish Match implemented the new revenue recognition standard, IFRS 15. This implementation has a significant effect on the recognition of net sales, but an immaterial impact on profit. Consequently, the Group's reportable segments have changed. Financial statements of 2017 have been restated to reflect the recognition of revenue according to the new standard. Further information is given in Note 1, Accounting principles.**

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

CEO Lars Dahlgren comments:

A strong start to the year

The first quarter represented a strong start to the year. In local currencies, sales increased by 10 percent and operating profit from product segments, excluding larger one-time items, increased by 11 percent. While our financial results were favorably influenced by calendar and shipment timing effects, I am pleased with our underlying performance for the quarter. Sales and profits grew in local currencies for the Snus and moist snuff product segment – with profit improvements in local currencies for snus in Scandinavia, moist snuff in the US, and international snus/*ZYN*. Other tobacco products (cigars and chewing tobacco) also delivered increased sales and operating profit in local currencies, supported, in part, by the acquisition of V2 Tobacco in the latter half of 2017. Our strategy to develop markets and volumes for innovative products is proceeding with good traction, and we have broadened our portfolio in Europe for chewing tobacco with the recently announced acquisition of Oliver Twist.

Our growth in sales and operating profit was led by the Snus and moist snuff product segment. Excluding calendar effects, the underlying volume performance for our snus business in Scandinavia (excluding V2 Tobacco) was up by more than 2 percent. Losses behind international snus and *ZYN* have been further reduced, and for the full year these losses should be noticeably improved from 2017 levels. Also, trade and consumer responses to our all white products, with and without tobacco (*G.4* and *ZYN*) in Scandinavia have been encouraging. For Norway, the changeover to plain packaging at retail from July 1st will present challenges with regard to production and inventory management over the coming months. I am confident, however, that our production and sales teams will do their utmost to manage these challenges well with minimum disruption for our operations and our consumers.

Our product segment Other tobacco products also contributed to sales and profit growth on a local currency basis. The profitability within our cigar business was adversely impacted by product mix shifts and costs associated with packaging and point-of-sale changes called for by regulatory changes in August of this year. Despite these challenges, cigar sales and profits grew in local currencies, with volumes up by 8 percent. Our chewing tobacco businesses delivered a good financial performance in the quarter, aided by our European niche chew bags business, following the acquisition of V2 Tobacco last year. Our recent Oliver Twist acquisition will be a nice complement in our efforts to provide a range of niche chewing products in Europe.

The lights businesses had a weak performance in the quarter, even when recognizing that the first quarter of 2017 was strong. Currency factors, such as the weaker Brazilian real, and certain costs of a temporary nature played a part, but the lighter business was particularly soft, and the market situation for both matches and lighters remains challenging.

A few weeks ago, the Advocate General of the European Court of Justice provided his opinion that the ban on the sale and distribution of snus within the EU is valid, despite what we believe to be very compelling scientific evidence in support of removing the ban. We are firmly of the view that if snus were to be available in the EU outside of Sweden, thousands of lives could be saved as cigarette consumers would have the possibility of switching over to a dramatically less harmful alternative in snus.

Swedish Match remains firmly committed to its vision of a world without cigarettes, with its underlying focus on expanding our portfolios beyond traditional products, while continuing to offer our loyal consumers excellent choices for products and brands they have enjoyed for many years.

Summary of consolidated income statement

MSEK	Note	January-March 2018	Restated 2017	Chg %	Restated Full year 2017
Sales		2,941	2,833	4	11,751
Sales from product segments[1]	3	2,860	2,756	4	11,410
Operating profit from product segments[1]	3	1,079	1,021	6	4,345
Operating profit		1,047	1,235	-15	4,592
Profit before income tax		974	1,156	-16	4,353
Profit for the period		766	932	-18	3,400
Operating margin from product segments, %[1]		37.7	37.1		38.1
Earnings per share, SEK	7	4.36	5.07		18.88
Adjusted earnings per share, SEK[2]	7	4.36	3.78		16.40

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

The first quarter

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

Sales

Sales increased by 4 percent to 2,941 MSEK (2,833). Sales from product segments increased by 4 percent to 2,860 MSEK (2,756). Currency translation negatively affected the comparability of sales from product segments by 175 MSEK. In local currencies, sales from product segments increased 10 percent. Sales were up for the reporting segments, Snus and moist snuff and Other tobacco products but down for Lights. V2 Tobacco, which was acquired in the third quarter of 2017, contributed to both higher sales and operating profit.

Earnings

Operating profit from product segments increased by 6 percent to 1,079 MSEK (1,021). In local currencies, operating profit from product segments was up by 11 percent and increased for both the Other tobacco products and Snus and moist snuff product segments.

Operating profit amounted to 1,047 MSEK (1,235). The first quarter 2017 included larger one-time items of 238 MSEK relating to capital gains from the sale of STG shares and from the sale of a parcel of land.

The Group's net finance cost amounted to 73 MSEK (80). The income tax expense amounted to 208 MSEK (224), and the tax rate, excluding non-taxable one-time items was 21.4 percent (24.5). The reduction in the Group's underlying tax rate is attributable to the lower corporate tax rate on our US businesses following the Tax Cuts and Job Act of 2017.

Profit for the period amounted to 766 MSEK (932).

Earnings per share (EPS) for the first quarter amounted to 4.36 SEK (5.07). Adjusted EPS, excluding income from STG and larger one-time items in 2017, increased by 15 percent to 4.36 SEK (3.78).

Tradition and innovation

Göteborgs Rapé, introduced in 1919, is one of Sweden's best-known snus brands. *Göteborgs Rapé* has a subtle, somewhat sweet character, with a hint of fresh herbs and juniper.

Building on its strong tradition, today's portfolio of *Göteborgs Rapé* includes traditional loose snus as well as traditional and innovative portion varieties.

Snus and moist snuff

First quarter highlights:

- Higher volumes, sales and operating profit in both Scandinavia and the US in local currencies
- Strong growth and improved result from our portfolio of snus and *ZYN* nicotine pouches outside Scandinavia
- Underlying organic volume growth for Swedish Match was more than 2 percent in Scandinavia

Key data

MSEK	January-March 2018	January-March 2017	Chg %	Full year 2017
Sales	1,386	1,296	7	5,484
Operating profit	623	534	17	2,358
Operating margin, %	45.0	41.2		43.0
EBITDA	675	584	16	2,563
EBITDA margin, %	48.7	45.1		46.7

The first quarter

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

Sales for Snus and moist snuff were up 10 percent in local currencies. In local currencies, sales improved for snus in Scandinavia, and for snus and nicotine pouches outside Scandinavia, while moist snuff sales were flat. Operating profit in local currencies improved in all areas, including moist snuff. The operating margin was higher than in the first quarter of 2017, driven by the improvement for snus and nicotine pouches outside Scandinavia, price/mix, and phasing of marketing and trade activities.

In Scandinavia, market volumes increased in both Sweden and Norway. Swedish Match estimates that the total Scandinavian market grew by more than 4 percent. Easter, as well as 2016 year-end hoarding effects, favorably impacted shipment volumes relative to the prior year's first quarter. Swedish Match shipment volumes including volumes from V2 Tobacco, acquired in 2017, were up by 9 percent. Swedish Match estimates that its underlying volumes (excluding V2 Tobacco as well as Easter/calendar effects) were up by more than 2 percent. Sales and gross profits in Scandinavia increased on higher volumes. Average selling prices were somewhat higher than the prior year with the effect of price increases being partially offset by negative mix and currency effects.

In Norway, our total market share was only slightly down compared to the prior year period, while our share within the pouch segment grew year on year. In Sweden, our market share declined in both the premium and value segments.

For the US moist snuff business, volumes grew for pouches, substantially offsetting continued volume declines within our traditional loose product portfolio. Sales were flat, while operating profit grew modestly on a local currency basis.

The total net operating loss for snus and nicotine pouches outside Scandinavia decreased to 3 MSEK (42), attributable to higher gross profit from higher volumes and improved pricing as well as lower marketing costs in the quarter. Snus is available in about 18,000 stores in the US. *ZYN* is available in approximately 10,000 stores and velocity per store continued to increase. Volumes for both snus and nicotine pouches outside Scandinavia grew.

Swedish Match shipment volumes

Millions of cans	**January-March**		**Chg**	**Full year**
	2018	**2017**	**%**	**2017**
Snus, Scandinavia[1)]	61.5	56.5	9	247.6
Moist snuff, US	34.0	34.6	-2	127.4
Snus and nicotine pouches, outside Scandinavia[1)]	4.8	2.5	95	13.2

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

Swedish Match Scandinavian snus market shares[1)]

Percent	**January-March**		**Chg**	**Full year**
	2018	**2017**	**ppts**	**2017**
Snus, Sweden, total	64.1	65.8	-1.7	65.4
Snus, Sweden, premium	89.3	92.0	-2.7	91.2
Snus, Sweden, value	35.2	36.8	-1.6	36.3
Snus, Norway, total	52.2	52.3	-0.1	52.1

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

Other tobacco products

First quarter highlights:

- Sales up 16 percent and operating profit up 9 percent in local currencies
- Higher volumes, sales and operating profit for US cigars
- Continued growth in our niche chew bag business with positive contribution from V2 Tobacco acquisition
- Operating margin lower due to cigar portfolio mix and FDA-related costs

Key data

MSEK	January-March		Chg	Full year
	2018	**2017**	**%**	**2017**
Sales	1,190	1,120	6	4,634
Operating profit	425	427	0	1,776
Operating margin, %	35.7	38.1		38.3
EBITDA	446	446	0	1,857
EBITDA margin, %	37.5	39.8		40.1

The first quarter

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

Sales for Other tobacco products grew by 16 percent in local currencies while operating profit grew by 9 percent. Operating profit grew for both cigars and our US chewing tobacco business and was further supported by the addition of V2 Tobacco. The operating margin was negatively impacted by somewhat higher FDA-related costs versus the prior year and mix shifts within our natural leaf cigar portfolio.

Cigar volumes grew by 8 percent, or 11 percent on a constant trading day basis, driven by natural leaf varieties. Both sales and operating profit grew in US dollars on higher volumes, with operating profit growth negatively impacted by the factors referred to above.

Chewing tobacco shipments in the US (excluding contract manufacturing volumes) declined by 6 percent, or 3 percent on a constant trading day basis. Volumes for traditional premium varieties declined, while they grew for value brands. Based on distributor shipments to retail, Swedish Match's volumes declined at a rate less than the overall category. US chewing tobacco sales declined marginally, while operating profit grew slightly in US dollars on somewhat lower operating expenses. Given the category shift to value products, adverse mix effects within our portfolio continued to outpace higher list prices.

Chew bags contributed positively to both sales and operating profit. With the acquisition of V2 Tobacco on August 31, 2017, the combined Swedish Match and V2 portfolio in this niche category now includes *General Cut*, *Thunder*, and *Offroad*, available through e-commerce as well as in several European markets. After the quarter, Swedish Match acquired Oliver Twist which has a small but well-established presence in the niche chewing tobacco market in Europe, and is a natural complement to our chewing products portfolio.

Swedish Match US shipment volumes

	January-March		Chg	Full year
	2018	**2017**	**%**	**2017**
Cigars, millions of sticks	429	398	8	1,629
Chewing tobacco, thousands of pounds (excluding contract manufacturing volumes)	1,568	1,663	-6	6,341

Lights

First quarter highlights:

- Very weak start to the year for volumes, most notably for lighters
- Operating profit burdened by restructuring costs in Brazil

Key data

MSEK	January-March 2018	January-March 2017	Chg %	Full year 2017
Sales	285	340	-16	1,291
Operating profit	31	60	-49	211
Operating margin, %	10.9	17.7		16.4
EBITDA	41	71	-42	253
EBITDA margin, %	14.4	20.9		19.6

The first quarter

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

Sales declined by 16 percent, driven by a particularly weak performance for lighters. Lighter volumes declined notably in Russia and Asia, partly attributable to temporary factors. Sales for matches and complementary products also declined predominantly due to currency translation effects. Lower volumes for both lighters and matches and negative currency effects were only partly compensated by higher pricing and positive mix. Operating profit declined on lower volumes and higher costs, including restructuring costs amounting to approximately 12 MSEK in Brazil.

Swedish Match shipment volumes, worldwide

	January-March 2018	January-March 2017	Chg %	Full year 2017
Matches, billion sticks	15.8	17.7	-11	65.0
Lighters, million units	73.1	95.3	-23	368.1

Financing and cash flow

Cash flow from operating activities for the first quarter amounted to 899 MSEK (826).

Investments in property, plant and equipment as well as intangible assets increased to 116 MSEK (87). Total cash provided from investing activities in the prior year quarter included 1,462 MSEK relating to the net proceeds from the sale of STG shares and from the sale of a parcel of land.

Net finance cost for the first quarter declined to 73 MSEK (80), primarily due to lower interest rates on debt.

During the first quarter, new bond loans of 1,248 MSEK were issued and repayments of bond loans amounting to 500 MSEK have been made. As of March 31, 2018, Swedish Match had 11,802 MSEK of interest bearing debt excluding retirement benefit obligations compared to 11,123 MSEK at December 31, 2017 and 9,816 MSEK at March 31, 2017. During the remainder of 2018, 750 MSEK of this debt falls due for payment. For further detail of the maturity profile of the debt portfolio please see the Company website.

As of March 31, 2018, Swedish Match had 1,500 MSEK in unutilized committed credit lines. Cash and cash equivalents amounted to 5,327 MSEK at the end of the period, compared to 3,998 MSEK at December 31, 2017.

The net debt as of March 31, 2018 amounted to 7,478 MSEK compared to 8,183 MSEK at December 31, 2017 and 6,422 MSEK at March 31, 2017.

During the first quarter, Swedish Match made share repurchases of 200 MSEK.

Shareholder distributions and the share

In April 2018, Swedish Match paid dividends totaling 2,911 MSEK, consisting of an ordinary dividend of 1,613 MSEK and a special dividend of 1,298 MSEK following the final sale of shares in STG.

During the first quarter, Swedish Match repurchased 0.5 million shares for 200 MSEK at an average price of 365.72 SEK, following authorization from the Annual General Meeting held in 2017. Total shares bought back by Swedish Match since the buyback program started have been repurchased at an average price of 123.87 SEK.

As per March 31, 2018 Swedish Match held 6.4 million shares, corresponding to 3.54 percent of the total number of shares. The number of shares outstanding, net, as per March 31, 2018, amounted to 175.4 million.

Other events during the quarter

Swedish proposition on extended regulation on tobacco and similar products

The Swedish Government has submitted a proposal to the Parliament on March 9, 2018 for new legislation on tobacco and similar products. The proposal is that the new legislation would take effect from January 1, 2019. Proposed measures include an outdoor smoking ban in certain public places and restaurants, a ban on consumer self-service for all tobacco products at point of sale, a ban on tobacco advertising at point of sale other than in specialty tobacco shops and, for snus, a minimum of 20 pouches per can. The proposal also includes the EU mandated track and trace system for tobacco products but detailed instructions for such implementation will be announced at a later date.

The European Court of Justice - the legality of the EU ban on snus and the definition of chewing tobacco

In the European Court of Justice (ECJ) an oral hearing regarding the ban on the sale and distribution of snus within the European Union was held in January 2018. On April 12, the Advocate General of the ECJ issued his opinion on the snus ban. Although he finds that snus is less hazardous than cigarettes he does not recommend the ECJ to find the EU ban invalid. A ruling by the court is expected earliest in the second quarter of 2018. The ECJ is also expected to hear a case referred by a court in Germany regarding the definition of chewing tobacco during the second or third quarter of 2018. The court's conclusions in this respect will be relevant for evaluating whether various non-combustible oral tobacco products shall be defined as chewing tobacco and thereby allowed within the European Union. A negative ruling could impact Swedish Match's sale of chew bags on certain European markets.

Plain packaging legislation in Norway

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

Tax cases in Sweden

The Swedish Tax Agency has performed tax audits of a number of Swedish Match's Swedish group companies. After completing the audits, the Swedish Tax Agency has notified Swedish Match that deductions of certain costs in two cases have been denied. The Tax Agency is claiming total income tax and penalties of approximately 300 MSEK. Swedish Match does not agree with the Tax Agency's assessment and has filed its appeals to the Agency's decisions in March 2018. No provision has been recognized for potential losses associated with these cases.

Events after the reporting period

Acquisition of Oliver Twist

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

Annual General Meeting and repurchase of own shares

The Annual General Meeting held on April 11, 2018, re-elected Charles A. Blixt, Andrew Cripps, Jacqueline Hoogerbrugge, Conny Karlsson, Pauline Lindwall, Wenche Rolfsen, and Joakim Westh as members of Swedish Match's Board of Directors. Conny Karlsson was re-elected Chairman of the Board and Andrew Cripps was re-elected Deputy Chairman of the Board.

The Annual General Meeting approved the Board's proposal of an ordinary dividend in the amount of 9.20 SEK per share and a special dividend of 7.40 SEK per share, in total 16.60 SEK per share. The dividend totaled 2,911 MSEK and was paid to the shareholders in April. In addition, the Meeting resolved to reduce the share capital by means of withdrawal of 5,850,000 shares in the Company, held in treasury, with a simultaneous bonus issue, without issuing any new shares, of a corresponding amount to restore the share capital. The total number of registered shares in the Company is 175,950,000 as per May 4, 2018. The number of treasury shares as per May 4, 2018 amounts to 587,462.

The 2018 Annual General Meeting further authorized the Board of Directors to acquire the Company's own shares, including the possibility to implement a repurchase program in accordance with the Market Abuse Regulation (EU) No 596/2014 ("MAR") and the Commission Delegated Regulation (EU) No 2016/1052 (the "Safe Harbour Regulation"), a mandate which the Board now utilizes. The repurchase of own shares shall meet the following conditions. The shares shall be acquired on Nasdaq Stockholm in accordance with the rules regarding purchase of own shares as set out in MAR and in the Safe Harbour Regulation (if applicable) as well as in the Nasdaq Stockholm's Rule Book for Issuers. Further, the shares may be acquired on one or several occasions from May 4, 2018 up until the next Annual General Meeting, provided that the Company's holding does not at any time exceed 10 percent of all shares in the Company. In one day, a maximum of 25 percent of the average daily volume may be purchased. Repurchases shall be made at a price within the price interval registered at any given time, i.e. the interval between the highest bid price and lowest selling price. The price may not exceed the higher of the price of the last independent trade and the highest current independent bid price. Payment for the shares shall be in cash. The purpose of the repurchasing right is to enable Swedish Match to adapt its capital structure to its capital needs over time, and thereby contribute to an increased shareholder value.

The Annual General Meeting authorized the Board of Directors to resolve on transfer of the Company's own shares, on one or several occasions prior to the next Annual General Meeting. The shares may only be transferred in conjunction with the financing of company acquisitions and other types of strategic investments and acquisitions, and the transfers may not exceed the maximum number of treasury shares held by the Company at any given time. Transfer of own shares shall be made either on Nasdaq Stockholm or in another manner.

Furthermore, the Annual General Meeting approved the Board of Directors' proposal that it be authorized to, for the period until the end of the next Annual General Meeting, to issue new ordinary shares on one or more occasions, with or without deviation from shareholders' preferential rights and against payment in cash, in kind or by set-off. The number of shares that may be issued may not exceed a maximum dilution effect of 10 percent of the share capital and votes at the time of the Annual General Meeting 2018.

Outlook

Swedish Match expects that the trend of increased interest from consumers, industry players and regulators in less harmful alternatives to cigarettes will continue. Swedish Match takes pride in paving the way with its vision of a world without cigarettes. By providing products that are recognized as safer alternatives to cigarettes, our ambition is to create value for both shareholders and the society.

For 2018, on a full year basis, Swedish Match expects the Scandinavian snus market to continue to grow and to remain highly competitive. In the US moist snuff market, we expect continued good growth for pouches. Swedish Match also expects the US snus/nicotine pouch market to grow. For US chewing tobacco we expect continued market declines, while for chew bags in Europe we expect continued market growth.

We will continue to invest in growth for snus and nicotine pouches outside Scandinavia. We will also increase the availability of nicotine pouches to Swedish consumers and explore new market opportunities for chew bags. The operating loss for snus and nicotine pouches outside Scandinavia is expected to be noticeably lower in 2018 than in 2017. The decision to invest in *ZYN* production capacity in the US will predominantly affect capital expenditures in 2018.

For the full year, Swedish Match expects continued growth in the US cigar market. Swedish Match expects the US cigar market to remain highly competitive.

The effective corporate tax rate in 2018, excluding associated companies and any non-taxable larger one-time items, is expected to be around 21.5 percent (23.8). The expected reduction in tax rate is a consequence of the US corporate income tax reform effective January 1, 2018.

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

Risk factors

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

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

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

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

Swedish Match AB (publ)

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

Sales in the Parent Company for the first quarter amounted to 12 MSEK (10). Loss before income tax amounted to -27 MSEK (profit 3,649) and net loss for the quarter amounted to -0 MSEK (net profit 3,689). The loss for the first quarter mainly pertains to lower dividends from subsidiaries compared to the same quarter previous year.

During the first quarter, the Parent Company received dividends of 96 MSEK compared to 3,733 MSEK in prior year. The higher dividend last year was attributable to proceeds relating to the sale of shares in STG.

During the first quarter of the previous year, an additional purchase price payment of 107 MSEK was received which related to the sale of a parcel of land adjacent to the old headquarters building sold in 2007.

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 quarter, repayment of bond loans amounted to 500 MSEK and new bond loans of 1,248 MSEK were issued.

During the first quarter, the Parent Company made share repurchases of 0.5 million (2.6) shares for 200 MSEK (739).

No capital expenditures on tangible or intangible assets have been recognized during the first quarter of 2018, nor during the first quarter 2017.

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-June 2018 report will be released on July 19, 2018.

Stockholm, May 4, 2018

Lars Dahlgren
President and CEO

Product segments summary and key ratios

The segment reporting is shown according to the new recognition of the Group's reportable segments.

Sales

MSEK	Note	January-March 2018	Restated 2017	Chg %	Restated Full year 2017
Snus and moist snuff		1,386	1,296	7	5,484
Other tobacco products		1,190	1,120	6	4,634
Lights		285	340	-16	1,291
Sales from product segments	3	**2,860**	**2,756**	**4**	**11,410**
Other operations	3	81	77	5	342
Sales		**2,941**	**2,833**	**4**	**11,751**

Operating profit

MSEK	Note	January-March 2018	Restated 2017	Chg %	Restated Full year 2017
Snus and moist snuff		623	534	17	2,358
Other tobacco products		425	427	0	1,776
Lights		31	60	-49	211
Operating profit from product segments	3	**1,079**	**1,021**	**6**	**4,345**
Other operations	3	-31	-24		-126
Income from defined benefit plan amendment		-	-		69
Capital gain from sale of land		-	107		107
Sale of STG shares		-	131		197
Operating profit		**1,047**	**1,235**	**-15**	**4,592**

Operating margin by product segment

Percent	January-March 2018	Restated 2017	Restated Full year 2017
Snus and moist snuff	45.0	41.2	43.0
Other tobacco products	35.7	38.1	38.3
Lights	10.9	17.7	16.4
Operating margin from product segments	**37.7**	**37.1**	**38.1**

EBITDA by product segment

MSEK	January-March 2018	Restated 2017	Chg %	Restated Full year 2017
Snus and moist snuff	675	584	16	2,563
Other tobacco products	446	446	0	1,857
Lights	41	71	-42	253
EBITDA from product segments	**1,162**	**1,100**	6	**4,673**

EBITDA margin by product segment

Percent	January-March 2018	Restated 2017	Restated Full year 2017
Snus and moist snuff	48.7	45.1	46.7
Other tobacco products	37.5	39.8	40.1
Lights	14.4	20.9	19.6
EBITDA margin from product segments	**40.6**	**39.9**	**41.0**

Key ratios

	January-March		Restated	Restated
	2018	Restated 2017	12 months ended March 31, 2018	Full year 2017
Operating margin from product segments, %	37.7	37.1	38.2	38.1
Operating margin, %	35.6	43.6	37.1	39.1
Net debt, MSEK	7,478	6,422	7,478	8,183
Investments in property, plant and equipment, MSEK	115	83	401	369
EBITA, MSEK[1)]	1,063	1,012	4,330	4,278
EBITA interest cover	14.7	13.0	12.9	12.6
Net debt/EBITA			1.7	1.9
Share data				
Number of shares outstanding at end of period	175,362,538	182,088,810	175,362,538	175,910,538
Average number of shares outstanding	175,841,864	183,655,401	178,143,305	180,096,690

1) Excluding larger one-time items.

Financial statements

Condensed consolidated income statement

MSEK	Note	January-March 2018	Restated 2017	Chg %	Restated Full year 2017
Sales, including tobacco tax		3,750	3,653		15,025
Less tobacco tax		-810	-821		-3,273
Sales		**2,941**	**2,833**	**4**	**11,751**
Cost of goods sold		-1,107	-1,050		-4,356
Gross profit		**1,834**	**1,783**	**3**	**7,396**
Selling and admin. expenses		-786	-791		-3,187
Share of profit/loss in associated companies		-1	5		10
Capital gain from sale of land		-	107		107
Sale of STG shares		-	131		197
Income from defined benefit plan amendment		-	-		69
Operating profit		**1,047**	**1,235**	**-15**	**4,592**
Dividend from STG		-	-		107
Finance income		14	18		49
Finance costs		-87	-98		-396
Net finance cost		-73	-80		-240
Profit before income tax		**974**	**1,156**	**-16**	**4,353**
Income tax expense		-208	-224		-952
Profit for the period		**766**	**932**	**-18**	**3,400**
Attributable to:					
Equity holders of the Parent		766	932		3,400
Non-controlling interests		0	0		0
Profit for the period		**766**	**932**	**-18**	**3,400**
Earnings per share, basic and diluted, SEK	7	4.36	5.07		18.88

Condensed consolidated statement of comprehensive income

MSEK	January-March		Restated
		Restated	Full year
	2018	2017	2017
Profit for the period	**766**	**932**	**3,400**
Other comprehensive income that may be reclassified to the income statement			
Translation differences related to foreign operations	129	-66	-301
Translation differences included in profit and loss	-	-	-6
Effective portion of changes in fair value of cash flow hedges	-34	-31	-126
Reclassification of gains/losses on cash flow hedges included in profit and loss	-	-	22
Change in fair value of STG shares	-	14	-80
Change in fair value of STG shares included in profit and loss	-	-138	-230
Income tax relating to reclassifiable components of other comprehensive income	7	4	23
Sub-total, net of tax for the period	**102**	**-216**	**-697**
Other comprehensive income that will not be reclassified to the income statement			
Actuarial gains/losses attributable to pensions, incl. payroll tax	91	71	116
Income tax relating to non-reclassifiable components of other comprehensive income	-23	-29	-133
Sub-total, net of tax for the period	**68**	**42**	**-17**
Total comprehensive income for the period	**937**	**757**	**2,686**
Attributable to:			
Equity holders of the Parent	937	758	2,686
Non-controlling interests	0	0	0
Total comprehensive income for the period	**937**	**757**	**2,686**

Condensed consolidated balance sheet

MSEK	Note	March 31, 2018	Restated December 31, 2017
Intangible assets		2,123	2,088
Property, plant and equipment		2,613	2,558
Investments in associated companies		22	22
Other non-current assets and operating receivables		23	22
Other non-current financial assets and receivables	6	1,449	1,254
Total non-current assets		**6,230**	**5,944**
Other current financial receivables	6	338	263
Current operating assets and receivables		3,238	3,171
Cash and cash equivalents		5,327	3,998
Total current assets		**8,904**	**7,432**
Total assets		**15,134**	**13,376**
Equity attributable to equity holders of the Parent		-3,466	-4,202
Non-controlling interests		1	1
Total equity		**-3,465**	**-4,201**
Non-current financial provisions		1,188	1,200
Non-current loans		11,643	10,277
Other non-current financial liabilities	6	1,096	1,218
Other non-current operating liabilities		380	368
Total non-current liabilities		**14,307**	**13,063**
Current loans		953	1,253
Other current financial liabilities	6	690	534
Other current operating liabilities		2,649	2,727
Total current liabilities		**4,292**	**4,514**
Total liabilities		**18,598**	**17,577**
Total equity and liabilities		**15,134**	**13,376**

Condensed consolidated cash flow statement

MSEK	January-March	
	2018	Restated 2017
Operating activities		
Profit before income taxes	**974**	**1,156**
Share of profit/loss in associated companies	1	-5
Other non-cash items and other	141	-125
Income tax paid	-98	-97
Cash flow from operating activities before changes in working capital	**1,018**	**929**
Changes in working capital	-118	-103
Net cash generated from operating activities	**899**	**826**
Investing activities		
Purchase of property, plant and equipment	-115	-83
Proceeds from sale of property, plant and equipment	0	-
Purchase of intangible assets	-1	-4
Proceeds from sale of land	-	107
Divestments of associated companies	-	1,355
Changes in financial receivables etc.	0	0
Net cash used in/from investing activities	**-116**	**1,375**
Financing activities		
Proceeds from borrowings	1,248	-
Repayment of borrowings	-500	-
Repurchase of own shares	-200	-739
Realized exchange gain/losses on financial instruments	-30	-83
Other	-1	-2
Net cash used in/from financing activities	**517**	**-824**
Net increase in cash and cash equivalents	**1,300**	**1,377**
Cash and cash equivalents at the beginning of the period	3,998	3,364
Effect of exchange rate fluctuations on cash and cash equivalents	29	36
Cash and cash equivalents at the end of the period	**5,327**	**4,777**

Condensed consolidated statement of changes in equity

MSEK	Note	Equity attributable to holders of the Parent	Non-controlling interests	Total equity
Equity at January 1, 2017		**-1,366**	**1**	**-1,365**
Change in accounting principle	1	-23	-	-23
Adjusted equity at January 1, 2017		**-1,389**	1	**-1,388**
Profit for the period		932	0	932
Other comprehensive income, net of tax for the period		-175	0	-174
Total comprehensive income for the period		**757**	**0**	**758**
Dividend		-	0	0
Repurchase of own shares		-739	-	-739
Equity at March 31, 2017		**-1,371**	**1**	**-1,370**
Equity at January 1, 2018		**-4,202**	**1**	**-4,201**
Profit for the period		766	0	766
Other comprehensive income, net of tax for the period		170	0	170
Total comprehensive income for the period		**937**	**0**	**937**
Repurchase of own shares		-200	-	-200
Equity at March 31, 2018		**-3,466**	**1**	**-3,465**

Condensed Parent Company income statement

MSEK	January-March	
	2018	**2017**
Sales	12	10
Administrative expenses	-59	-55
Operating loss	**-47**	**-44**
Result from participation in Group companies	96	3,840
Net finance cost	-76	-147
Profit/Loss before income tax	**-27**	**3,649**
Income tax	27	40
Profit/Loss for the period	**-0**	**3,689**

Condensed Parent Company statement of comprehensive income

MSEK	January-March	
	2018	**2017**
Profit/Loss for the period	**-0**	**3,689**
Other comprehensive income that may be reclassified to the income statement		
Effective portion of changes in fair value of cash flow hedges	-34	-31
Income tax relating to components of other comprehensive income	7	7
Other comprehensive income, net of tax for the period	**-26**	**-24**
Total comprehensive income for the period	**-27**	**3,665**

Condensed Parent Company balance sheet

MSEK	March 31, 2018	March 31, 2017	December 31, 2017
Intangible and tangible assets	1	2	1
Non-current financial assets	32,221	49,732	32,002
Current assets	3,137	2,356	4,394
Total assets	**35,359**	**52,090**	**36,397**
Equity	**18,994**	**21,359**	**19,221**
Untaxed reserves	**1,330**	**995**	**1,330**
Provisions	67	99	86
Non-current liabilities	11,644	25,866	10,349
Current liabilities	3,323	3,770	5,409
Total liabilities	**15,035**	**29,735**	**15,845**
Total equity and liabilities	**35,359**	**52,090**	**36,397**

Note 1 – Accounting principles

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

New standards, amendments and interpretations applied in 2018

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

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

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

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

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

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

IFRS 9 Financial Instruments brings about new principles regarding classification and measurement of financial assets and liabilities, introduces a new expected credit loss model for calculating impairment on financial assets, and implies new requirements for general hedge accounting aimed at simplifying and aligning with the Group's risk management strategies.

IFRS 9 does not have a significant impact on the Group's financial statement, as Swedish Match's classification and measurement policies are consistent with the new standard, credit loss amounts are immaterial, and hedge accounting transactions are to be treated in a similar manner under the new standard as before.

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

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

The main principle of IFRS 15 is that revenue shall be recognized when the control of the promised good or service is transferred to the customer at the expected consideration for such delivery. To apply the standard, an entity needs to understand what has been promised and when the promise is satisfied. In determining the expected consideration, the expected outcome of variable considerations as well as expected reimbursements of goods returned need to be considered.

Under IFRS 15, Swedish Match evaluated the customer contracts together with all relevant facts and circumstances of the Swedish distribution function, and concluded that for most of the transactions, the Swedish distribution function is acting as an agent. Under IAS 18 the conclusion had been that the Swedish distribution function was acting as a principal for all its transactions. In determining the nature of the promise IAS 18 applies a "risks and rewards" approach whereas IFRS 15 instead emphasizes the transfer of control.

The Swedish distribution function provides logistics services to third party suppliers of tobacco products on the Swedish market. In summary, the services provided include transportation to retail, order taking and invoicing.

According to IAS 18, the Swedish distribution function was considered a principal in this set-up based on the fact that the Swedish distribution function takes legal title to the products while arranging for the delivery of the tobacco products to retail and is subject to the credit risk of the gross amount of consideration payable by the retail customers. IAS 18 specifically points out credit risk as an indicator of an entity being a principal under the "risks and rewards" approach. Under IFRS 15 credit risk is not deemed an indicator of control of the specified products or services. In applying IFRS 15 under a transfer of control perspective, Swedish Match has concluded that based on the nature of the services provided and the lack of control of the products delivered to retail, the Swedish distribution function should be considered an agent in its arrangement of these services. The contractual terms with the third party suppliers clearly conveys very limited control of the products to the Swedish distribution function.

The consequences of adopting IFRS 15 has resulted in a reduction in sales and cost of goods sold attributed to distributed third party tobacco products compared to how Swedish Match previously reported such sales and cost of sales under IAS 18. Under IFRS 15, for the transactions where the Swedish distribution function is acting as an agent, the revenue recognized now represents the amount of the fee received from the principals (the manufacturers of the goods) for arranging for the goods delivered to retail. This fee equals the gross profit previously recognized for these transactions under IAS 18, i.e. the net amount retained from the consideration received from retail customers after paying the principals. Recognizing the fee instead of the gross invoiced amount materially reduced the net sales of Swedish Match but does not alter operating profit.

Changes to the presentation of the balance sheet presentation follows the agent/principal presentation of the income statement. Under IFRS 15, inventory relating to the third party tobacco products for which the Swedish distribution function is acting as an agent when arranging for the delivery to retail has not been recognized in Swedish Match's balance sheet. The Swedish distribution function has limited control over such inventory and thereby, does not recognize it as an asset.

The new standard also had an effect on the timing of revenue recognition from goods returned within the reportable segment Snus and moist snuff. The IFRS 15 transition effect from the timing of returns amounted to negative 23 MSEK and has been reported as an adjustment to the Group's retained earnings as per January 1, 2017.

The new standard is applied retrospectively with the cumulative transition effects recognized as an adjustment to the opening balance of retained earnings of the annual reporting period starting January 1, 2017. Financial statements of 2017 have been restated in this interim report reflecting the recognition of revenue according to the new standard.

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

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

Condensed consolidated balance sheet

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

Summary of the effects from the adoption of IFRS 15 for the first quarter 2017

Condensed consolidated income statement

MSEK	Jan-Mar 2017	IFRS 15 transition effects adjustments: Reclassification from principal to agent	IFRS 15 transition effects adjustments: Net change in provision for goods returned	Restated Jan-Mar 2017 IFRS 15
Sales	**3,775**	**-946**	**3**	**2,833**
Cost of goods sold	-1,995	946	-	-1,050
Gross profit	**1,780**	**-**	**3**	**1,783**
Selling and admin. expenses	-791	-	-	-791
Share of profit/loss in associated companies	5	-	-	5
Larger one-time items	238	-	-	238
Operating profit	**1,232**	**-**	**3**	**1,235**
Net finance cost	-80	-	-	-80
Profit before income tax	**1,153**	**-**	**3**	**1,156**
Income tax expense	-223	-	-1	-224
Profit for the period	**930**	**-**	**2**	**932**
Attributable to:				
Equity holders of the Parent	930	-	2	932
Non-controlling interests	0	-	-	0
Profit for the period	**930**	**-**	**2**	**932**
Earnings per share, SEK	5.06	-	0.01	5.07

Condensed consolidated balance sheet

MSEK	Mar 31, 2017	IFRS 15 transition effects adjustments: Reclassification from principal to agent	IFRS 15 transition effects adjustments: Provision for goods returned	Restated Mar 31, 2017 IFRS 15
Total non-current assets	6,997	-	-	6,997
Total current assets	8,248	-212	-	8,036
Total assets	**15,245**	**-212**	**-**	**15,034**
Equity attributable to equity holders of the Parent	-1,350	-	-21	-1,371
Non-controlling interests	1	-	-	1
Total equity	**-1,349**	**-**	**-21**	**-1,370**
Total non-current liabilities	10,773	-	-	10,773
Total current liabilities	5,822	-212	21	5,631
Total liabilities	**16,595**	**-212**	**21**	**16,404**
Total equity and liabilities	**15,245**	**-212**	**-**	**15,034**

Note 2 – Disaggregation of revenue

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

Sales

MSEK	Segments											
	Snus and moist snuff		Other tobacco products		Lights		Total segments		Other operations		Group	
Primary geographical markets	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Scandinavia	987	909	7	2	13	13	1,007	924	81	77	1,088	1,001
The US	392	384	1,143	1,116	8	14	1,543	1,515	-	-	1,543	1,515
Other markets	6	2	40	2	264	312	310	317	-	-	310	317
Total sales	**1,386**	**1,296**	**1,190**	**1,120**	**285**	**340**	**2,860**	**2,756**	**81**	**77**	**2,941**	**2,833**
Timing of revenue recognition												
Goods and services transferred at a point in time	**1,386**	**1,296**	**1,190**	**1,120**	**285**	**340**	**2,860**	**2,756**	**81**	**77**	**2,941**	**2,833**

Note 3 – Descriptive information on segments

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

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

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

Note 4 – 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 March 31, 2018, receivables from these companies amounted to 14 MSEK (21) and total payables to these companies amounted to 2 MSEK (2). During the first quarter 2018, total sales to associated companies amounted to 14 MSEK (21) and total purchases from associated companies amounted to 0 MSEK (1).

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

Note 5 – Carrying value and fair value

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

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

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

Carrying value and fair value transition effects

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

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

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

The following table shows carrying value and fair value for financial instruments applying IFRS 9 per March 31, 2018.

Carrying value and fair value

MSEK	Other measured at FVTPL	Hold to collect	Other financial liabilities	Cash flow hedges	Non-financial instruments	Total carrying value	Estimated fair value
Trade receivables	-	1,531	-	-	-	1,531	1,531
Other non-current financial receivables	-	-	-	484	431	915	915
Other current assets and financial receivables	31	-	-	-	191	223	223
Prepaid expenses and accrued income[1)]	-	-	-	2	78	80	80
Cash and cash equivalents	-	5,327	-	-	-	5,327	5,327
Total assets	**31**	**6,858**	**-**	**486**	**700**	**8,076**	**8,076**
Loans and borrowings	-	-	12,596	-	-	12,596	12,735
Other non-current financial liabilities	-	-	-	2	81	83	83
Other current liabilities	0	-	-	-	1,696	1,696	1,696
Accrued expenses and deferred income[1)]	-	-	126	40	613	779	779
Trade payables	-	-	-38	-	-	-38	-38
Total liabilities	**0**	**-**	**12,684**	**42**	**2,390**	**15,116**	**15,255**

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

Fair value measurement by level

MSEK	Level 1	Level 2	Level 3	Total
Derivative financial assets	-	517	-	517
Derivative financial liabilities	-	42	-	42

The following table shows carrying value and fair value for financial instruments applying IAS 39 per March 31, 2017.

Carrying value and fair value

MSEK	Items carried at fair value via the income statement	Loans and receiv-ables	Available for sale financial assets	Other financial liabilities	Cash flow hedges	Non-financial instruments	Total carrying value	Estimated fair value
Trade receivables	-	1,373	-	-	-	-	1,373	1,373
Other non-current financial assets	-	-	1,417	-	-	-	1,417	1,417
Other non-current financial receivables	-	-	-	-	331	458	789	789
Other current assets and financial receivables	24	-	-	-	13	164	201	201
Prepaid expenses and accrued income[1)]	-	-	-	-	-23	78	55	55
Cash and cash equivalents	-	4,777	-	-	-	-	4,777	4,777
Total assets	**24**	**6,150**	**1,417**	**-**	**321**	**700**	**8,612**	**8,612**
Loans and borrowings	-	-	-	10,242	-	-	10,242	10,554
Other non-current financial liabilities	-	-	-	-	108	54	162	162
Other current liabilities	8	-	-	-	-	1,480	1,488	1,488
Accrued expenses and deferred income[1)]	-	-	-	129	17	604	750	750
Trade payables	-	-	-	644	-	-	644	644
Total liabilities	**8**	**-**	**-**	**11,015**	**125**	**2,138**	**13,286**	**13,598**

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

Fair value measurement by level

MSEK	Level 1	Level 2	Level 3	Total
Other non-current financial assets	1,417	-	-	1,417
Derivative financial assets	-	345	-	345
Derivative financial liabilities	-	133	-	133

For the first quarter 2017, the fair value designated as level 1 and quoted in an active market consists of available for sale financial assets which reflect the investment in STG. These assets were sold in the fourth quarter 2017. No transfer in or out of level 2 has been made during the first quarter 2018. The recognized amounts are regarded as reasonable estimates for all items measured at carrying value in the balance sheet, except for loans and borrowings, as these amounts have a long time to maturity. The fair value of loans and borrowings differ from their carrying value as a consequence of changes in the market interest rates. Items not valued at fair value in the balance sheet are measured at amortized cost. The total nominal amount of outstanding derivatives is 9,201 MSEK (9,986) of which 7,196 MSEK (7,053) is in cash flow hedges consisting of cross currency and interest rate swaps related to bond loans. The remaining 2,005 MSEK (2,933) consist of currency swaps related to the conversion of surplus cash in US dollars to Swedish kronor. Methodologies utilized in the valuation of financial instruments can be found in Note 1 in the 2017 annual report.

Note 6 – Alternative performance measures

Swedish Match presents several financial measures that are outside IFRS definitions (Alternative performance measures, according to ESMA's guidelines) with the aim of enabling effective evaluation of the company's financial position and performance for investors and for the company's management. This means that these measures are not always comparable with measures used by other companies and shall therefore be considered as a complement to measures defined according to IFRS. Swedish Match applies these alternative key ratios consistently over time. The key ratios are alternative performance measures according to ESMA guidelines unless otherwise stated.

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

Larger one-time items

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

Net debt

MSEK	January-March 2018	January-March 2017	Full year 2017
Non-current loans	11,643	7,659	10,277
Current loans	953	2,584	1,253
Components of derivatives (liabilities)[1]	0	8	40
Net provision for pensions and similar obligations[2]	1,094	1,479	1,146
Cash and cash equivalents and other short-term investments	-5,327	-4,777	-3,998
Net asset for pensions and similar receivables[3]	-91	-96	-88
Components of derivatives (assets)[4]	-794	-434	-446
Net debt	**7,478**	**6,422**	**8,183**

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

Note 7 – Earnings per share

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

Earnings per share

Basic and diluted	January-March 2018	January-March Restated 2017	Restated Full year 2017
Profit for the period attributable to equity holders of the Parent, MSEK	766	932	3,400
Profit for the period attributable to equity holders of the Parent, excluding income from STG and larger one-time items, MSEK	766	694	2,953
Weighted average number of shares outstanding, basic and diluted	**175,841,864**	**183,655,401**	**180,096,690**

Earnings per share, basic and diluted, SEK	January-March 2018	January-March Restated 2017	Restated Full year 2017
Earnings per share	4.36	5.07	18.88
Adjusted earnings per share[1]	4.36	3.78	16.40

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

Quarterly data

Financial information for 2017 in the tables below have been restated to reflect recognition of revenue in accordance with IFRS 15. The segment reporting is shown according to the new recognition of the Group's reportable segments.

Consolidated income statement in summary

MSEK	**Q1/18**	**Q4/17**	**Q3/17**	**Q2/17**	**Q1/17**
Sales, including tobacco tax	3,750	3,784	3,689	3,898	3,653
Less tobacco tax	-810	-833	-775	-845	-821
Sales	**2,941**	**2,951**	**2,915**	**3,053**	**2,833**
Cost of goods sold	-1,107	-1,130	-1,062	-1,114	-1,050
Gross profit	**1,834**	**1,821**	**1,852**	**1,939**	**1,783**
Selling and administrative expenses	-786	-780	-765	-852	-791
Share of net profit/loss in associated companies	-1	2	1	4	5
Income from defined benefit plan amendment	-	69	-	-	-
Capital gain from sale of land	-	-	-	-	107
Sale of STG shares	-	66	-	-	131
Operating profit	**1,047**	**1,178**	**1,088**	**1,091**	**1,235**
Dividend from STG	-	42	-	65	-
Finance income	14	10	9	12	18
Finance costs	-87	-96	-101	-101	-98
Net finance cost	-73	-44	-91	-24	-80
Profit before income tax	**974**	**1,134**	**997**	**1,066**	**1,156**
Income tax expense	-208	-231	-244	-254	-224
Profit for the period	**766**	**904**	**753**	**812**	**932**
Attributable to:					
Equity holders of the Parent	766	904	753	812	932
Non-controlling interests	0	0	0	0	0
Profit for the period	**766**	**904**	**753**	**812**	**932**

Quarterly data by product segment

Sales

MSEK	**Q1/18**	**Q4/17**	**Q3/17**	**Q2/17**	**Q1/17**
Snus and moist snuff	1,386	1,407	1,377	1,405	1,296
Other tobacco products	1,190	1,120	1,142	1,252	1,120
Lights	285	341	308	302	340
Sales from product segments	**2,860**	**2,867**	**2,827**	**2,960**	**2,756**
Other operations	81	84	88	93	77
Sales	**2,941**	**2,951**	**2,915**	**3,053**	**2,833**

Operating profit

MSEK	**Q1/18**	**Q4/17**	**Q3/17**	**Q2/17**	**Q1/17**
Snus and moist snuff	623	612	622	590	534
Other tobacco products	425	417	436	496	427
Lights	31	68	46	37	60
Operating profit from product segments	**1,079**	**1,096**	**1,104**	**1,123**	**1,021**
Other operations	-31	-53	-16	-32	-24
Income from defined benefit plan amendment	-	69	-	-	-
Capital gain from sale of land	-	-	-	-	107
Sale of STG shares	-	66	-	-	131
Operating profit	**1,047**	**1,178**	**1,088**	**1,091**	**1,235**

Operating margin by product segment

Percent	Q1/18	Q4/17	Q3/17	Q2/17	Q1/17
Snus and moist snuff	45.0	43.5	45.2	42.0	41.2
Other tobacco products	35.7	37.2	38.2	39.6	38.1
Lights	10.9	19.9	15.1	12.2	17.7
Operating margin from product segments	**37.7**	**38.2**	**39.1**	**37.9**	**37.1**

EBITDA by product segment

MSEK	Q1/18	Q4/17	Q3/17	Q2/17	Q1/17
Snus and moist snuff	675	663	674	642	584
Other tobacco products	446	438	457	516	446
Lights	41	78	57	47	71
EBITDA from product segments	**1,162**	**1,180**	**1,188**	**1,205**	**1,100**

EBITDA margin by product segment

Percent	Q1/18	Q4/17	Q3/17	Q2/17	Q1/17
Snus and moist snuff	48.7	47.2	49.0	45.6	45.1
Other tobacco products	37.5	39.1	40.0	41.2	39.8
Lights	14.4	23.0	18.4	15.6	20.9
EBITDA margin from product segments	**40.6**	**41.1**	**42.0**	**40.7**	**39.9**

Additional quarterly data

Depreciation, amortization and impairments

MSEK	Q1/18	Q4/17	Q3/17	Q2/17	Q1/17
Property, plant and equipment	81	85	80	80	77
Intangible assets	16	13	16	15	15
Total	**97**	**98**	**96**	**95**	**91**

Net finance cost

MSEK	Q1/18	Q4/17	Q3/17	Q2/17	Q1/17
Interest income	14	10	9	12	18
Interest expense	-86	-97	-99	-97	-96
Net interest expense	**-72**	**-87**	**-90**	**-85**	**-78**
Dividend from STG	-	42	-	65	-
Other finance costs, net	-1	1	-1	-4	-2
Total net finance cost	**-73**	**-44**	**-91**	**-24**	**-80**

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

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

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