Swedish Match

Q3 2018

Interim Report
JANUARY – SEPTEMBER 2018

Highlights from the third quarter

- **In local currencies, sales increased by 10 percent for the third quarter. Reported sales increased by 16 percent to 3,388 MSEK (2,915).**
- **In local currencies, operating profit from product segments[1)] increased by 13 percent for the third quarter. Reported operating profit from product segments increased by 19 percent to 1,317 MSEK (1,104).**
- **Operating profit amounted to 1,305 MSEK (1,088) for the third quarter.**
- **Profit after tax amounted to 959 MSEK (753) for the third quarter.**
- **Earnings per share increased by 32 percent to 5.55 SEK (4.22) for the third quarter.**

1) Operating profit for Swedish Match product segments, which excludes Other operations and larger one-time items.

CEO Lars Dahlgren comments:

Another quarter of solid growth

I am pleased to note that Swedish Match delivered another quarter of very strong financial results, with sales and operating profit in local currencies increasing for the two largest product segments – Snus and moist snuff, and Other tobacco products, while our Lights product segment had a relatively stable year-on-year performance.

Snus and moist snuff product segment sales grew by 12 percent and operating profit increased by 17 percent in local currencies, with strength coming from both our Scandinavian snus business and our snus and nicotine pouches outside Scandinavia.

Both the Swedish and Norwegian snus market grew at a robust pace compared to the prior year. In particular, we noted an acceleration of category volume growth in Sweden. Intense competitive activity and product innovations within the premium segment have been positive for the development of the snus category. We also believe that the exceptionally warm summer contributed to higher snus consumption this year. The changeover to plain packaging in Norway has gone smoothly, but it is still early to assess if there will be any longer-term category implications. We estimate that total Scandinavian snus market growth, measured on a volume basis, was close to 7 percent during the quarter. On balance we are relatively pleased with the performance of our more recent product introductions in the Scandinavian snus market, but overall our portfolios have lagged category growth in both Sweden and Norway during the quarter. Despite the loss in market share, we estimate that the underlying (excluding V2 Tobacco and Gotlandssnus) volume growth for our Scandinavian snus business reached 4 percent, a strong growth rate relative to historical levels.

For international snus and nicotine pouches, we have now for two consecutive quarters reported positive operating results, stemming from strong volume growth for *ZYN*, improved pricing, and reduced marketing spending for US snus. With the acquisitions of V2 Tobacco, and more recently Gotlandssnus, we have expanded our portfolio to include a range of unique snus products that not only provide growth opportunities in Scandinavia, but also present an ability to expand our international snus portfolio. In September, we introduced V2's *Thunder Xtreme*, a range of strong snus products in the US. Construction efforts directed towards our new *ZYN* production facility in Owensboro, Kentucky continue according to plan.

Other tobacco products (cigars and chewing tobacco) had another good quarter, with sales and profit growth in cigars more than offsetting declines in sales and profits for our US chewing tobacco business in local currencies. Cigar shipment growth continued to be driven by our rolled leaf assortment despite the price increase taken earlier in the year. Given the rapid growth within the rolled leaf segment, we are facing increasing challenges in securing certain tobacco supplies but we have implemented measures that we expect will improve the situation during the first half of 2019. The acquisitions of V2 Tobacco and Oliver Twist (with their chew bags and tobacco bits) delivered positive contributions to both sales and operating profit.

The financial performance of our Lights segment was relatively flat for both sales and operating profit, with operating margin on par with the prior year quarter. Volumes for matches grew while lighter volumes declined.

In summary, I believe that our solid third quarter results are a good testament to our ongoing strategy of pursuing opportunities to grow profitably in attractive market segments – meeting the changing demands of our consumers and delivering attractive returns to our shareholders.

Summary of consolidated income statement

MSEK	July-September 2018	Restated 2017[3]	Chg %	January-September 2018	Restated 2017[3]	Chg %	Restated Full year 2017[3]
Sales	3,388	2,915	16	9,664	8,800	10	11,751
Sales from product segments[1]	3,295	2,827	17	9,399	8,542	10	11,410
Operating profit from product segments[1]	1,317	1,104	19	3,690	3,248	14	4,345
Operating profit	1,305	1,088	20	3,616	3,414	6	4,592
Profit before income tax	1,232	997	24	3,397	3,218	6	4,353
Profit for the period	959	753	27	2,653	2,497	6	3,400
Operating margin from product segments, %[1]	40.0	39.1		39.3	38.0		38.1
Earnings per share, SEK	5.55	4.22		15.22	13.78		18.88
Adjusted earnings per share, SEK[2]	5.55	4.22		15.22	12.16		16.40

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

The third quarter

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

Sales

Group sales increased by 16 percent to 3,388 MSEK (2,915). Sales from product segments increased by 17 percent to 3,295 MSEK (2,827). Currency translation positively affected the comparability of sales from product segments by 183 MSEK. In local currencies, sales from product segments increased 10 percent and were higher across all product segments.

Earnings

Operating profit from product segments increased by 19 percent to 1,317 MSEK (1,104). In local currencies, operating profit from product segments was up by 13 percent and increased for the Snus and moist snuff and Other tobacco products product segments, while operating profit for Lights was slightly down for the quarter.

Group operating profit amounted to 1,305 MSEK (1,088). Currency translation has affected the comparison of the operating profit positively by 73 MSEK.

The Group's net finance cost amounted to 73 MSEK (91). The income tax expense amounted to 273 MSEK (244), and the effective corporate tax rate, excluding associated companies and larger one-time items, was 21.6 percent (24.5). The reduction in the Group's effective corporate tax rate is attributable to the lower corporate tax rate on our US businesses following the Tax Cuts and Jobs Act of 2017.

The Group's profit for the period amounted to 959 MSEK (753).

Earnings per share (EPS) for the third quarter amounted to 5.55 SEK (4.22).

The first nine months

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

Sales

Group sales increased by 10 percent to 9,664 MSEK (8,800). Currency translation affected the sales comparison negatively by 28 MSEK. In local currencies, sales from product segments increased by 10 percent.

Earnings

Operating profit from product segments increased by 14 percent to 3,690 MSEK (3,248). Operating profit increased for the two larger product segments Snus and moist snuff and Other tobacco products, while operating profit for Lights declined. In local currencies the operating profit from product segments increased by 13 percent.

Group operating profit, including Other operations, amounted to 3,616 MSEK (3,414). Group operating profit for the prior year included one-time items of 238 MSEK relating to capital gains on the sale of STG shares and from the sale of a parcel of land. Currency translation has affected the comparison of the operating profit positively by 15 MSEK.

The Group's net finance cost amounted to 219 MSEK (195). The 2017 net finance cost includes dividend income from STG of 65 MSEK. Income tax expense amounted to 744 MSEK (722), corresponding to an effective corporate tax rate of 21.9 percent (22.4). The effective corporate tax rate, excluding associated companies and larger one-time items, for the period was 21.7 percent (24.5).

The Group's profit for the period amounted to 2,653 MSEK (2,497).

EPS for the first nine months amounted to 15.22 SEK (13.78). Adjusted EPS, excluding income from STG and larger one-time items in 2017, increased by 25 percent to 15.22 SEK (12.16).

The *General* snus brand in the US

In September, *General* snus in the US refreshed its packaging, featuring bright modern colors, an updated shield and redesigned in-store signage.

Over the past several years, *General* has consistently delivered year-on-year growth. The look of the updated packaging was designed to continue this momentum by increasing brand recognition and visibility in retail stores. The enhancements will help consumers more easily select their preferred style of *General* and improve the already premium experience the product provides.

Snus and moist snuff

Third quarter highlights:

- Higher volumes, sales and operating profit in both Scandinavia and the US in local currencies
- Strong growth from our portfolio of snus and *ZYN* nicotine pouches outside Scandinavia
- Underlying organic volume growth for Swedish Match in Scandinavia estimated at 4 percent
- Acquisition of Gotlands Snus AB

Key data

MSEK	**July-September 2018**	**2017**	**Chg %**	**January-September 2018**	**2017**	**Chg %**	**Full year 2017**
Sales	1,601	1,377	16	4,495	4,078	10	5,484
Operating profit	752	622	21	2,066	1,746	18	2,358
Operating margin, %	47.0	45.2		46.0	42.8		43.0
EBITDA	810	674	20	2,230	1,900	17	2,563
EBITDA margin, %	50.6	49.0		49.6	46.6		46.7

The third quarter

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

Sales for Snus and moist snuff were up 16 percent. In local currencies, sales increased by 12 percent, led by snus in Scandinavia, as well as snus and nicotine pouches outside Scandinavia. Moist snuff sales in the US were marginally higher in local currency. Operating profit in local currencies improved in both Scandinavia and the US. The operating margin was higher than both the first half of 2018 and the third quarter of 2017, largely driven by the improvement for snus and nicotine pouches outside Scandinavia.

In Scandinavia, the Swedish and Norwegian markets demonstrated strong volume growth. Swedish Match estimates that the total Scandinavian market grew by close to 7 percent, with the acceleration in market growth partly attributable to favorable weather conditions relative to the third quarter of the prior year. Swedish Match shipment volumes including volumes from V2 Tobacco, acquired in 2017, were up by more than 7 percent. Swedish Match estimates that its underlying volumes (excluding V2 Tobacco and Gotlandssnus) were up by 4 percent. Sales and gross profit in Scandinavia increased on higher volumes and higher realized pricing.

Average selling prices increased as a result of price increases and a stronger NOK partially offset by negative mix effects.

In Norway, our total market share was down from the prior year period, from both a continued decline of the loose snus segment as a share of the total market, and from modest share declines for pouch products. In Sweden, competitive activity has been particularly intense within the premium segment and our market share declined more within the premium segment compared to the value segment.

For our US moist snuff business, volumes grew for pouches, but declined for our loose product portfolio, including tubs. Sales were flat, while operating profit was down on a local currency basis.

Volumes for snus and nicotine pouches outside Scandinavia increased sharply year on year, coming primarily from *ZYN* in the US, and further aided by the inclusion of V2 snus. The distribution of *ZYN* grew at a modest pace sequentially, and is now available in more than 13,000 stores primarily in the western region of the US. Average sales volume per store for *ZYN* in the US continued to increase.

During the quarter, Swedish Match acquired 95 percent of Gotlands Snus AB (Gotlandssnus), with annual sales of approximately 50 MSEK. The company sells popular brands such as *Jakobsson's* (snus) and *Qvitt* (pouch products with neither nicotine nor tobacco), and its production facility is located on Gotland, Sweden.

The first nine months

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

Sales for the product segment grew by 10 percent in local currencies. Operating profit increased to 2,066 MSEK (1,746) and included net operating result for snus and nicotine pouches outside Scandinavia of 27 MSEK (negative 144).

In Scandinavia, shipment volumes grew by close to 7 percent. Swedish Match estimates that its underlying Scandinavian snus volumes (excluding V2 Tobacco and Gotlandssnus) increased by between 3 and 4 percent. Operating profit for snus in Scandinavia grew on higher sales. In the US, sales and operating profit in local currency for moist snuff were essentially flat. For snus and nicotine pouches outside Scandinavia, the favorable financial development resulted from higher volumes and improved pricing for both snus and *ZYN* in the US, lower marketing costs for snus in the US, and the contribution from V2 Tobacco.

Swedish Match shipment volumes

Millions of cans	July-September 2018	July-September 2017	Chg %	January-September 2018	January-September 2017	Chg %	Full year 2017
Snus, Scandinavia[1)]	66.6	61.7	8	193.4	181.2	7	247.6
Moist snuff, US	31.7	33.6	-6	96.7	99.5	-3	127.4
Snus and nicotine pouches, outside Scandinavia[1)]	6.9	3.5	97	17.8	8.8	101	13.2

1) Includes snus volumes from date of acquisition for V2 Tobacco (August 31, 2017) and Gotlandssnus (August 22, 2018).

Swedish Match Scandinavian snus market shares[1)]

Percent	July-September 2018	July-September 2017	Chg ppts	January-September 2018	January-September 2017	Chg %	Full year 2017
Snus, Sweden, total	63.2	65.4	-2.2	63.9	65.8	-1.9	65.7
Snus, Sweden, premium	87.7	90.9	-3.1	88.7	91.7	-3.0	91.6
Snus, Sweden, value	34.4	36.2	-1.8	35.1	36.7	-1.6	36.5
Snus, Norway, total	51.0	52.1	-1.1	51.6	52.0	-0.4	52.2

1) Swedish Match estimates using Nielsen data (excluding tobacconists): 13 weeks to September 30, 2018 and October 1, 2017, respectively. All figures for the Swedish market have been restated to reflect changes in Nielsen store measurements. Data for both the current and prior year periods include brands acquired since 2017.

Other tobacco products

Third quarter highlights:

- Sales up 9 percent and operating profit up 7 percent in local currencies
- Higher sales and operating profit for US cigars on increased volumes and improved pricing/mix
- Continued growth in our niche chew bags/tobacco bits businesses with positive contribution from V2 Tobacco and House of Oliver Twist acquisitions

Key data

MSEK	July-September 2018	2017	Chg %	January-September 2018	2017	Chg %	Full year 2017
Sales	1,384	1,142	21	4,007	3,514	14	4,634
Operating profit	519	436	19	1,501	1,359	10	1,776
Operating margin, %	37.5	38.2		37.4	38.7		38.3
EBITDA	539	457	18	1,566	1,419	10	1,857
EBITDA margin, %	39.0	40.0		39.1	40.4		40.1

The third quarter

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

Sales and operating profit for Other tobacco products grew in local currencies by 9 percent and 7 percent respectively, with sales and operating profit growth coming from both cigars and chewing tobacco. In local currencies, sales and operating profit of our US chewing tobacco business declined, but these declines were offset by favorable performances from our chew bags and tobacco bits businesses.

Cigar volumes grew by 5 percent, driven by natural leaf varieties, and more specifically our rolled leaf offerings. Both sales and operating profit grew in US dollars on higher volumes as well as an improved price/mix.

Chewing tobacco shipments in the US (excluding contract manufacturing volumes) declined by 7 percent. 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 more modest pace than the overall category. Given the category shift to value products, adverse mix effects and volume declines outpaced higher list prices for the Swedish Match portfolio. Chew bags and tobacco bits, sold primarily in Europe, contributed positively to both sales and operating profit. The largest market for chew bags is Germany, where there are ongoing court proceedings in the Bavarian Administrative Court relating to the legality of V2's chewing tobacco assortment. The Bavarian court had asked for guidance from the European Court of Justice that issued its ruling on October 17, see Events after the reporting period on page 10.

The first nine months

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

In local currencies, sales for Other tobacco products were up by 14 percent, while operating profit was up by 10 percent, attributable to the strong performance for US cigars.

Cigar volumes increased by 7 percent and sales in US dollars increased at a faster rate due to higher average pricing for rolled leaf varieties, along with a portfolio shift toward natural leaf cigars. Operating profit was also higher despite increased FDA related fees and costs.

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

Swedish Match US shipment volumes

	July-September 2018	July-September 2017	Chg %	January-September 2018	January-September 2017	Chg %	Full year 2017
Cigars, millions of sticks	427	405	5	1,320	1,232	7	1,629
Chewing tobacco, thousands of pounds (excluding contract manufacturing volumes)	1,526	1,636	-7	4,744	4,989	-5	6,341

Lights

Third quarter highlights:

- Flat sales and operating profit
- Improved lighter operating profit performance, driven by favorable price/mix and currency effects
- Volume growth for matches

Key data

MSEK	July-September 2018	July-September 2017	Chg %	January-September 2018	January-September 2017	Chg %	Full year 2017
Sales	310	308	1	897	950	-6	1,291
Operating profit	46	46	0	123	143	-14	211
Operating margin, %	14.9	15.1		13.7	15.1		16.4
EBITDA	57	57	0	153	175	-12	253
EBITDA margin, %	18.2	18.4		17.1	18.4		19.6

The third quarter

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

Sales were flat, with modest sales growth for lighters offsetting sales declines for matches and complementary products. Price/mix and currency effects were favorable for lighters. For matches volume growth was more than offset by currency translation impacts.

Operating profit grew for both matches and lighters, substantially offsetting declines for complementary products. Lighters benefited from improved price/mix and positive currency effects. Matches benefited from the higher volumes as well as higher prices in certain export markets as a consequence of the weaker SEK.

The first nine months

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

Sales declined by 6 percent, primarily as a result of a particularly weak performance for lighters in the first quarter. Sales for lighters declined markedly on lower volumes, while sales for matches declined slightly due to negative currency effects partially offset by favorable price/mix effects. Operating profit declined, primarily attributable to complementary products, and to a lesser extent, lighters. Reported operating profit was affected by restructuring costs totaling 16 MSEK in the current year and 11 MSEK prior year.

Swedish Match shipment volumes, worldwide

	July-September		Chg	January-September		Chg	Full year
	2018	2017	%	2018	2017	%	2017
Matches, billion sticks	15.2	14.3	6	46.4	46.8	-1	65.0
Lighters, million units	89.3	93.9	-5	239.9	275.0	-13	368.1

Financing and cash flow

Cash flow from operating activities for the first nine months amounted to 2,614 MSEK (2,569). The stronger EBITDA development from product segments and working capital development during 2018 was offset, in part, by timing of income tax payments relative to the prior year period.

Investments in property, plant and equipment as well as intangible assets increased to 469 MSEK (237). Cash flow from investing activities in the current year has been impacted by the acquisitions of Oliver Twist and Gotlandssnus. Cash flow from investing activities in the prior year included the acquisition of V2 Tobacco, and was positively impacted by the net proceeds from the sale of STG shares, the sale of a parcel of land and dividend from STG.

Net finance cost for the first nine months increased to 219 MSEK (195). Excluding the dividend received from STG of 65 MSEK recognized in net finance cost during the second quarter 2017, the net finance cost improved by 42 MSEK. This improvement is mainly related to lower average interest rates which is partly offset by higher average debt levels.

During the first nine months 2018, new bond loans of 2,846 MSEK were issued and repayments of bond loans amounted to 1,250 MSEK. As of September 30, 2018, Swedish Match had 12,696 MSEK of interest bearing debt excluding retirement benefit obligations compared to 11,123 MSEK at December 31, 2017. During the remainder of 2018 none of this debt falls due for payment. For further detail on the maturity profile of the debt portfolio, please see the Company's website. Net retirement benefit obligations decreased to 835 MSEK as of September 30, 2018, from 1,058 MSEK at December 31, 2017 due to increases in discount rates and plan contributions.

As of September 30, 2018, Swedish Match had 1,500 MSEK in unutilized committed credit lines. Cash and cash equivalents amounted to 2,496 MSEK at the end of the period, compared to 3,998 MSEK at December 31, 2017.

The net debt as of September 30, 2018 amounted to 11,034 MSEK compared to 8,183 MSEK at December 31, 2017.

Shareholder distributions and the share

In the first nine months, Swedish Match paid a dividend totaling 2,911 MSEK, consisting of an ordinary dividend of 1,613 MSEK and a special dividend of 1,298 MSEK following the final sale of shares in STG. During the same period, Swedish Match repurchased 4.4 million shares for 1,958 MSEK at an average price of 441.31 SEK, following authorization from the Annual General Meetings held in 2017 and 2018. Total shares bought back by Swedish Match since the buyback program started have been repurchased at an average price of 129.03 SEK. As per September 30, 2018 Swedish Match held 4.5 million shares, corresponding to 2.54 percent of the total number of shares. The number of shares outstanding, net, as per September 30, 2018, amounted to 171.5 million.

Other events during the quarter

Acquisition of majority share in Gotlandssnus

On August 22, Swedish Match acquired 95 percent of Gotlands Snus AB (Gotlandssnus), a Swedish company located in Romakloster, on the island of Gotland, Sweden. Gotlandssnus develops, produces and sells both snus and pouch products with neither nicotine nor tobacco with sales in Sweden, the US, Asia and parts of Europe. The company's brands include J*akobsson's* and *Qvitt*. Gotlandssnus produces approximately 4 million cans per year with annual sales of approximately 50 MSEK. The company has approximately 40 employees. For further information, see Note 4.

Events after the reporting period

The European Court of Justice's ruling on chewing tobacco

In 2017, the Bavarian Administrative Court in Germany asked the ECJ to clarify the definition of chewing tobacco under the EU Tobacco Directive (Directive 2014/40/EU). Under this directive oral tobacco products (snus) are banned in the EU outside Sweden but products defined as chewing tobacco are allowed unless subject to specific national legislation. The German court had asked the ECJ to clarify a number of points relating to the definition of chewing tobacco, including the meaning and definition of "intended to be chewed". The ECJ published its ruling on October 17.

According to the ECJ, only products which can be consumed in the proper sense only by chewing, i.e. products which can release their essential ingredients in the mouth only by chewing, may be classified as chewing tobacco. The ECJ noted that the final determination of whether products can be consumed in the proper sense only by chewing is to be made by the national courts taking into account all relevant objective characteristics of the products such as their composition, consistency, method of dispensation and, where appropriate, their actual use by consumers.

Based on this guidance, the Bavarian Administrative Court in Germany shall now assess if V2 Tobacco's Thunder chew bag products as well as the Thunder loose chew products sold in Germany are to be regarded as chewing tobacco or not.

With regard to the statements in the ECJ judgement it is at this point of time difficult to predict the outcome in the Bavarian court. As Swedish Match has communicated previously, negative rulings in national courts related to chew bags could restrict Swedish Match from distributing and selling chew bags in their present form in the EU markets thereby negatively impacting the carrying value of Swedish Match's reported intangibles from the September 2017 acquisition of V2 Tobacco. For the nine months ending September 30, 2018, chew bag sales amounted to 136 MSEK (1.4 percent of total company sales) and chew bag operating profit amounted to 49 MSEK (1.4 percent of total company operating profit). Approximately half of Swedish Match's chew bag sales were in Germany.

Nominating Committee

In accordance with the instructions adopted by the Annual General Meeting 2018, a Nominating Committee has been appointed. In addition to Conny Karlsson (Chairman of the Board), Tal Klausner (GIC Asset Management Private Limited), Filippa Gerstädt (Nordea Funds), Johan Strandberg (SEB Investment Management AB) and Will James (Standard Life Aberdeen PLC), have been appointed members of the Nominating Committee.

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 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, the Philippines 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 nine months amounted to 34 MSEK (35). The loss before income tax amounted to -362 MSEK (profit 5,546) and net loss for the first nine months amounted to -281 MSEK (net profit 5,663). The loss for the first nine months mainly pertains to lower dividends from subsidiaries and higher impairment losses on shares in subsidiaries compared to the same period in previous year.

During the first nine months, the Parent Company received dividends of 1,246 MSEK (6,027) of which 630 MSEK related to a dividend-in-kind of shares in subsidiaries. The higher dividends in the prior year was attributable to proceeds from the sale of shares in STG. In addition, an additional purchase price payment of 107 MSEK was received last year which related to the sale of a parcel of land adjacent to the old headquarters building sold in 2007. An impairment loss on shares in subsidiaries amounting to 1,247 MSEK was recognized during the first nine months of 2018 which was primarily attributable to reduced equity in the subsidiaries following the payment of dividends from such subsidiaries. During the period, capital contributions of 114 MSEK to subsidiaries have been made.

The reported increase in administration costs is primarily due to a one-time gain in the prior year from surplus pension assets relating to insurance contracts purchased in previous years to settle certain defined benefit obligations in Sweden.

Part of the Group's treasury operations are within the operations of the Parent Company, including the major part of the Group's external borrowings. Substantially all of these loans have fixed interest rates.

During the first nine months, repayment of bond loans amounted to 1,250 MSEK and new bond loans of 2,846 MSEK were issued.

During the first nine months, the Parent Company made share repurchases of 4.4 million (7.2) shares for 1,958 MSEK (2,081).

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

Forward-looking information

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

Additional information

This report has not been reviewed by the Company's auditors. The full year 2018 report will be released on February 13, 2019.

Stockholm, October 26, 2018

Lars Dahlgren
President and CEO

Product segments summary and key ratios

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

Sales

MSEK	Note	July-September 2018	Restated 2017	Chg %	January-September 2018	Restated 2017	Chg %	Restated Full year 2017
Snus and moist snuff		1,601	1,377	16	4,495	4,078	10	5,484
Other tobacco products		1,384	1,142	21	4,007	3,514	14	4,634
Lights		310	308	1	897	950	-6	1,291
Sales from product segments	3	**3,295**	**2,827**	**17**	**9,399**	**8,542**	**10**	**11,410**
Other operations	3	93	88	6	266	258	3	342
Sales		**3,388**	**2,915**	**16**	**9,664**	**8,800**	**10**	**11,751**

Operating profit

MSEK	Note	July-September 2018	Restated 2017	Chg %	January-September 2018	Restated 2017	Chg %	Restated Full year 2017
Snus and moist snuff		752	622	21	2,066	1,746	18	2,358
Other tobacco products		519	436	19	1,501	1,359	10	1,776
Lights		46	46	0	123	143	-14	211
Operating profit from product segments	3	**1,317**	**1,104**	**19**	**3,690**	**3,248**	**14**	**4,345**
Other operations	3	-12	-16		-74	-73		-126
Income from defined benefit plan amendment		-	-		-	-		69
Capital gain from sale of land		-	-		-	107		107
Sale of STG shares		-	-		-	131		197
Operating profit		**1,305**	**1,088**	**20**	**3,616**	**3,414**	**6**	**4,592**

Operating margin by product segment

Percent	July-September 2018	Restated 2017	January-September 2018	Restated 2017	Restated Full year 2017
Snus and moist snuff	47.0	45.2	46.0	42.8	43.0
Other tobacco products	37.5	38.2	37.4	38.7	38.3
Lights	14.9	15.1	13.7	15.1	16.4
Operating margin from product segments	**40.0**	**39.1**	**39.3**	**38.0**	**38.1**

EBITDA by product segment

MSEK	July-September 2018	Restated 2017	Chg %	January-September 2018	Restated 2017	Chg %	Restated Full year 2017
Snus and moist snuff	810	674	20	2,230	1,900	17	2,563
Other tobacco products	539	457	18	1,566	1,419	10	1,857
Lights	57	57	0	153	175	-12	253
EBITDA from product segments	**1,406**	**1,188**	**18**	**3,950**	**3,493**	**13**	**4,673**

EBITDA margin by product segment

Percent	July-September 2018	Restated 2017	January-September 2018	Restated 2017	Restated Full year 2017
Snus and moist snuff	50.6	49.0	49.6	46.6	46.7
Other tobacco products	39.0	40.0	39.1	40.4	40.1
Lights	18.2	18.4	17.1	18.4	19.6
EBITDA margin from product segments	**42.7**	**42.0**	**42.0**	**40.9**	**41.0**

Key ratios

	January-September		Restated	Restated
	2018	Restated 2017	12 months ended Sep 30, 2018	Full year 2017
Operating margin from product segments, %	39.3	38.0	39.0	38.1
Operating margin, %	37.4	38.8	38.0	39.1
Net debt, MSEK	11,034	10,096	11,034	8,183
Investments in property, plant and equipment, MSEK	464	231	603	369
EBITA, MSEK[1)]	3,663	3,222	4,720	4,278
EBITA interest cover	17.3	12.7	15.8	12.6
Net debt/EBITA	-	-	2.3	1.9
Share data				
Number of shares outstanding at end of period	171,472,705	177,489,796	171,472,705	175,910,538
Average number of shares outstanding	174,337,322	181,177,367	174,966,656	180,096,690

1) Excluding larger one-time items.

Financial statements

Condensed consolidated income statement

MSEK	Note	July-September 2018	July-September Restated 2017	Chg %	January-September 2018	January-September Restated 2017	Chg %	Restated Full year 2017
Sales, including tobacco tax		4,217	3,689		12,146	11,240		15,025
Less tobacco tax		-828	-775		-2,482	-2,440		-3,273
Sales		**3,388**	**2,915**	**16**	**9,664**	**8,800**	**10**	**11,751**
Cost of goods sold		-1,231	-1,062		-3,589	-3,226		-4,356
Gross profit		**2,157**	**1,852**	**16**	**6,076**	**5,574**	**9**	**7,396**
Selling and admin. expenses		-853	-765		-2,462	-2,408		-3,187
Share of profit/loss in associated companies		1	1		2	9		10
Capital gain from sale of land		-	-		-	107		107
Sale of STG shares		-	-		-	131		197
Income from defined benefit plan amendment		-	-		-	-		69
Operating profit		**1,305**	**1,088**	**20**	**3,616**	**3,414**	**6**	**4,592**
Dividend from STG		-	-		-	65		107
Finance income		16	9		46	39		49
Finance costs		-89	-101		-266	-300		-396
Net finance cost		-73	-91		-219	-195		-240
Profit before income tax		**1,232**	**997**	**24**	**3,397**	**3,218**	**6**	**4,353**
Income tax expense		-273	-244		-744	-722		-952
Profit for the period		**959**	**753**	**27**	**2,653**	**2,497**	**6**	**3,400**
Attributable to:								
Equity holders of the Parent		959	753		2,653	2,497		3,400
Non-controlling interests		0	0		0	0		0
Profit for the period		**959**	**753**	**27**	**2,653**	**2,497**	**6**	**3,400**
Earnings per share, basic and diluted, SEK	6	5.55	4.22		15.22	13.78		18.88

Condensed consolidated statement of comprehensive income

MSEK	July-September 2018	July-September Restated 2017	January-September 2018	January-September Restated 2017	Restated Full year 2017
Profit for the period	**959**	**753**	**2,653**	**2,497**	**3,400**
Other comprehensive income that may be reclassified to the income statement					
Translation differences related to foreign operations	-103	-73	280	-318	-301
Translation differences included in profit and loss	0	-	-2	-	-6
Effective portion of changes in fair value of cash flow hedges	22	-9	-15	-42	-126
Reclassification of gains/losses on cash flow hedges included in profit and loss	-	-	-	-	22
Change in fair value of STG shares	-	70	-	-93	-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	-4	-8	0	18	23
Sub-total, net of tax for the period	**-86**	**-20**	**262**	**-573**	**-697**
Other comprehensive income that will not be reclassified to the income statement					
Actuarial gains/losses attributable to pensions, incl. payroll tax	80	17	249	34	116
Income tax relating to non-reclassifiable components of other comprehensive income	-18	-6	-67	-8	-133
Sub-total, net of tax for the period	**62**	**11**	**182**	**25**	**-17**
Total comprehensive income for the period	**935**	**744**	**3,098**	**1,949**	**2,686**
Attributable to:					
Equity holders of the Parent	935	744	3,098	1,949	2,686
Non-controlling interests	0	0	0	0	0
Total comprehensive income for the period	**935**	**744**	**3,098**	**1,949**	**2,686**

Condensed consolidated balance sheet

MSEK	Note	September 30, 2018	Restated December 31, 2017
Intangible assets		2,698	2,088
Property, plant and equipment		2,842	2,558
Investments in associated companies		23	22
Other non-current assets and operating receivables	5	19	22
Other non-current financial assets and receivables	5,7	1,683	1,254
Total non-current assets		**7,266**	**5,944**
Other current financial receivables	5,7	733	263
Current operating assets and receivables	5	3,330	3,171
Cash and cash equivalents	5	2,496	3,998
Total current assets		**6,559**	**7,432**
Total assets		**13,825**	**13,376**
Equity attributable to equity holders of the Parent		-5,974	-4,202
Non-controlling interests		16	1
Total equity		**-5,958**	**-4,201**
Non-current financial provisions		1,199	1,200
Non-current loans	5	12,283	10,277
Other non-current financial liabilities	5,7	1,110	1,218
Other non-current operating liabilities	5	420	368
Total non-current liabilities		**15,013**	**13,063**
Current loans	5	1,235	1,253
Other current financial liabilities	5,7	822	534
Other current operating liabilities	5	2,713	2,727
Total current liabilities		**4,770**	**4,514**
Total liabilities		**19,783**	**17,577**
Total equity and liabilities		**13,825**	**13,376**

Condensed consolidated cash flow statement

MSEK	Note	January-September 2018	Restated 2017
Operating activities			
Profit before income taxes		**3,397**	**3,218**
Share of profit/loss in associated companies		-2	-9
Dividend received from associated companies		3	0
Other non-cash items and other		203	80
Income tax paid		-798	-461
Cash flow from operating activities before changes in working capital		**2,802**	**2,830**
Changes in working capital		-188	-261
Net cash generated from operating activities		**2,614**	**2,569**
Investing activities			
Purchase of property, plant and equipment		-464	-231
Proceeds from sale of property, plant and equipment		1	5
Purchase of intangible assets		-5	-7
Acquisition of subsidiaries	4	-541	-929
Proceeds from sale of land		-	107
Divestments of associated companies		-	1,355
Dividend received from STG		-	65
Changes in financial receivables etc.		0	0
Net cash used in/from investing activities		**-1,009**	**366**
Financing activities			
Proceeds from borrowings		2,846	1,099
Repayment of borrowings		-1,250	-
Dividend paid to equity holders of the Parent		-2,911	-2,908
Repurchase of own shares		-1,958	-2,081
Realized exchange gain/losses on financial instruments		104	-267
Other		0	-1
Net cash used in financing activities		**-3,170**	**-4,158**
Net decrease in cash and cash equivalents		**-1,565**	**-1,223**
Cash and cash equivalents at the beginning of the period		3,998	3,364
Effect of exchange rate fluctuations on cash and cash equivalents		63	-78
Cash and cash equivalents at the end of the period		**2,496**	**2,064**

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		2,497	0	2,497
Other comprehensive income, net of tax for the period		-548	0	-548
Total comprehensive income for the period		**1,949**	**0**	**1,949**
Dividend		-2,908	0	-2,908
Repurchase of own shares		-2,081	-	-2,081
Cancellation of shares		-14	-	-14
Bonus issue		14	-	14
Equity at September 30, 2017		**-4,430**	**1**	**-4,428**
Equity at January 1, 2018		**-4,202**	**1**	**-4,201**
Profit for the period		2,653	0	2,653
Other comprehensive income, net of tax for the period		445	0	445
Total comprehensive income for the period		**3,098**	**0**	**3,098**
Dividend		-2,911	0	-2,911
Repurchase of own shares		-1,958	-	-1,958
Cancellation of shares		-13	-	-13
Bonus issue		13	-	13
Acquisition of non-controlling interests		-	15	15
Equity at September 30, 2018		**-5,974**	**16**	**-5,958**

Swedish Match

Condensed Parent Company income statement

MSEK	January-September	
	2018	**2017**
Sales	34	35
Administrative expenses	-166	-120
Operating loss	**-133**	**-85**
Result from participation in Group companies	-2	6,085
Finance income	-	1
Finance costs	-228	-454
Net finance cost	-228	-454
Profit/Loss before income tax	**-362**	**5,546**
Income tax	81	117
Profit/Loss for the period	**-281**	**5,663**

Condensed Parent Company statement of comprehensive income

MSEK	January-September	
	2018	**2017**
Profit/Loss for the period	**-281**	**5,663**
Other comprehensive income that may be reclassified to the income statement		
Effective portion of changes in fair value of cash flow hedges	-15	-30
Income tax relating to components of other comprehensive income[1)]	0	7
Other comprehensive income, net of tax for the period	**-16**	**-23**
Total comprehensive income for the period	**-297**	**5,640**

1) 2018 has been impacted by the recently enacted change in Swedish income tax regulations.

Condensed Parent Company balance sheet

MSEK	**September 30, 2018**	**September 30, 2017**	**December 31, 2017**
Intangible and tangible assets	1	2	1
Non-current financial assets	31,660	50,540	32,002
Current assets	1,488	1,307	4,394
Total assets	**33,149**	**51,849**	**36,397**
Equity	**14,055**	**19,085**	**19,221**
Untaxed reserves	**1,330**	**995**	**1,330**
Provisions	56	99	86
Non-current liabilities	12,280	26,147	10,349
Current liabilities	5,427	5,522	5,409
Total liabilities	**17,764**	**31,768**	**15,845**
Total equity and liabilities	**33,149**	**51,849**	**36,397**

Note 1 – Accounting principles

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

New standards, amendments and interpretations applied in 2018

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

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

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

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

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

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

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

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

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

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

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

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

Accordingly, inventory relating to the third party tobacco products for which the Swedish distribution function is acting as an agent when arranging for the delivery to retail and has limited control over such inventory has not been recognized in Swedish Match's balance sheet.

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

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

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

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

Condensed consolidated balance sheet

MSEK	Dec 31, 2016	IFRS 15 transition effects adjustments: Reclassification from principal to agent	IFRS 15 transition effects adjustments: 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 nine months 2017

Condensed consolidated income statement

MSEK	Jan-Sep 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-Sep 2017
Sales	**12,057**	**-3,259**	**2**	**8,800**
Cost of goods sold	-6,485	3,259	-	-3,226
Gross profit	**5,573**	**-**	**2**	**5,574**
Selling and admin. expenses	-2,408	-	-	-2,408
Share of profit/loss in associated companies	9	-	-	9
Larger one-time items	238	-	-	238
Operating profit	**3,412**	**-**	**2**	**3,414**
Net finance cost	-195	-	-	-195
Profit before income tax	**3,217**	**-**	**2**	**3,218**
Income tax expense	-721	-	0	-722
Profit for the period	**2,495**	**-**	**1**	**2,497**
Attributable to:				
Equity holders of the Parent	2,495	-	1	2,497
Non-controlling interests	0	-	-	0
Profit for the period	**2,495**	**-**	**1**	**2,497**
Earnings per share, SEK	13.77	-	0.01	13.78

Condensed consolidated balance sheet

MSEK	Sep 30, 2017	IFRS 15 transition effects adjustments: Reclassification from principal to agent	IFRS 15 transition effects adjustments: Provision for goods returned	Restated Sep 30, 2017
Total non-current assets	7,554	-	-	7,554
Total current assets	5,759	-272	-	5,487
Total assets	**13,314**	**-272**	**-**	**13,041**
Equity attributable to equity holders of the Parent	-4,408	-	-22	-4,430
Non-controlling interests	1	-	-	1
Total equity	**-4,406**	**-**	**-22**	**-4,428**
Total non-current liabilities	10,996	-	-	10,996
Total current liabilities	6,724	-272	22	6,473
Total liabilities	**17,720**	**-272**	**22**	**17,470**
Total equity and liabilities	**13,314**	**-272**	**-**	**13,041**

New IFRSs and interpretations which have not yet been applied

IFRS 16 Leases will become effective in 2019 and replace IAS 17 Leases and the related Interpretations. We are currently assessing the impact from IFRS 16 on the Group's financial statements, which is not expected to have a material impact on the Group's financial statements. Under IFRS 16, each lease contract shall be recognized as a right-of-use asset and a lease liability measured at the present value of future lease payments. In the income statement, depreciation on the right-of-use asset and interest expense on the lease liability will be recognized instead of the lease payments recognized as cost when incurred. Lease contracts within the Group mainly pertain to real estate leases, such as office premises, warehouses and storages, which currently are reported as operating leases under the rules of IAS 17.

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

Note 2 – Disaggregation of revenue

The main revenue streams for the Swedish Match Group arise from sale of goods manufactured by the Group. Within Lights, a minority part of the revenue also pertains to the distribution 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 – July to September

MSEK	Segments											
	Snus and moist snuff		Other tobacco products		Lights		Total segments		Other operations		Group	
Primary geographical markets	July-Sep		July-Sep		July-Sep		July-Sep		July-Sep		July-Sep	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Scandinavia	1,117	1,009	33	4	11	12	1,161	1,024	93	88	1,254	1,112
The US	476	365	1,313	1,123	12	8	1,801	1,496	-	-	1,801	1,496
Other markets	8	3	38	15	287	289	333	307	-	-	333	307
Total sales	**1,601**	**1,377**	**1,384**	**1,142**	**310**	**308**	**3,295**	**2,827**	**93**	**88**	**3,388**	**2,915**

Sales – January to September

MSEK	Segments											
	Snus and moist snuff		Other tobacco products		Lights		Total segments		Other operations		Group	
Primary geographical markets	Jan-Sep		Jan-Sep		Jan-Sep		Jan-Sep		Jan-Sep		Jan-Sep	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Scandinavia	3,186	2,952	57	9	33	35	3,277	2,995	266	258	3,542	3,253
The US	1,287	1,118	3,831	3,488	31	32	5,148	4,638	-	-	5,148	4,638
Other markets	22	8	119	18	833	883	974	909	-	-	974	909
Total sales	**4,495**	**4,078**	**4,007**	**3,514**	**897**	**950**	**9,399**	**8,542**	**266**	**258**	**9,664**	**8,800**

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. For further information regarding segment data, please see table on page 13.

Note 4 – Business combinations

On August 22, 2018, Swedish Match acquired 95 percent of the shares in Gotlands Snus AB (Gotlandssnus). The consideration amounted to 283 MSEK and was partly paid in cash upon the acquisition date. The remaining part of the consideration is classified as a vendor loan expected to be paid during 2020.

As reported in the interim report for the second quarter, Swedish Match acquired 100 percent of the shares in House of Oliver Twist A/S (Oliver Twist) on April 3, for an amount of 306 MSEK (221 MDKK), paid in cash.

Sales attributable to these two acquisitions for the nine-months ended September 30, 2018 from the day of each acquisition amounted to 45 MSEK and are included in the Group's net sales. The acquisitions also contributed profit after tax of 9 MSEK over the same period. If the two acquisitions had been consolidated as of January 1, 2018 their impact on the Group's net sales is estimated to have been 98 MSEK and about 19 MSEK on profit after tax for the first nine months.

The table below presents the acquired assets and liabilities at fair values recognized in the Group's balance sheet at the acquisition date for each of the acquisitions, including goodwill, and also the effect from the acquisitions on the Group's cash flow:

MSEK	**Fair value reported in the Group[1)]**
Property, plant and equipment	27
Intangible assets	200
Long-term receivables and other non-current assets	0
Inventory	39
Trade receivables and other current assets	25
Total liquid funds	17
Long-term liabilities	7
Trade liabilities and other current liabilities	23
Deferred tax liabilities	43
Net identifiable assets and liabilities	**237**
Group goodwill	367
Non-controlling interests[2)]	-15
Total consideration	**589**
Less acquired liquid funds	-17
Less considerations not yet paid	-31
Effect on the Group's cash and cash equivalents	**541**

1) The acquired fair values reported as per September 30, 2018 are preliminary for the acquisition of Gotlandssnus and can be changed when the final acquisition analysis has been finalized.
2) Non-controlling interest has been recognized at fair value.

The goodwill associated to the acquisitions of Gotlandssnus and Oliver Twist represents the opportunity for Swedish Match to reach new consumers and also to broaden our product offerings in line with our vision. No part of the goodwill value is expected to be deductible for tax purposes.

Total acquisition costs for the two acquisitions amounted to 2.6 MSEK and mainly pertain to consultancy fees relating to the due diligence process. Acquisition costs are recognized in profit and loss as administration costs.

No contingent liabilities arising from any of the two acquisitions has been identified.

Note 5 – Carrying value and fair value

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

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

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

Carrying value and fair value transition effects

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

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

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

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

Carrying value and fair value

MSEK	Other measured at FVTPL	Hold to collect	Other financial liabilities	Cash flow hedges	Other receivables and liabilities	Total carrying value	Estimated fair value
Trade receivables	-	1,493	-	-	-	1,493	1,493
Other non-current financial receivables	-	-	-	434	743	1,177	1,177
Other current assets and financial receivables	10	-	-	134	216	360	360
Prepaid expenses and accrued income[1)]	-	-	-	1	107	108	108
Cash and cash equivalents	-	2,496	-	-	-	2,496	2,496
Total assets	**10**	**3,989**	**-**	**569**	**1,066**	**5,634**	**5,634**
Loans and borrowings	-	-	13,518	-	-	13,518	13,584
Other non-current financial liabilities	-	-	31	1	59	92	92
Other current liabilities	17	-	-	-	1,542	1,559	1,559
Accrued expenses and deferred income[1)]	-	-	86	26	755	868	868
Trade payables	-	-	319	-	-	319	319
Total liabilities	**17**	**-**	**13,954**	**27**	**2,356**	**16,356**	**16,422**

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	-	579	-	579
Derivative financial liabilities	-	44	-	44

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

Carrying value and fair value

MSEK	Items carried at fair value via the income statement	Loans and receiv-ables	Available for sale financial assets	Other financial liabilities	Cash flow hedges	Other receivables and liabilities	Total carrying value	Estimated fair value
Trade receivables	-	1,473	-	-	-	-	1,473	1,473
Other non-current financial assets	-	-	1,313	-	-	-	1,313	1,313
Other non-current financial receivables	-	-	-	-	253	443	696	696
Other current assets and financial receivables	35	-	-	-	48	194	277	277
Prepaid expenses and accrued income[1)]	-	-	-	-	1	84	85	85
Cash and cash equivalents	-	2,064	-	-	-	-	2,064	2,064
Total assets	**35**	**3,537**	**1,313**	**-**	**302**	**721**	**5,908**	**5,908**
Loans and borrowings	-	-	-	11,288	-	-	11,288	11,536
Other non-current financial liabilities	-	-	-	-	73	76	149	149
Other current liabilities	-	-	-	-	7	1,385	1,392	1,392
Accrued expenses and deferred income[1)]	-	-	-	125	27	734	886	886
Trade payables	-	-	-	608	-	-	608	608
Total liabilities	**-**	**-**	**-**	**12,021**	**107**	**2,195**	**14,323**	**14,571**

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	1,313	-	-	1,313
Derivative financial assets	-	337	-	337
Derivative financial liabilities	-	107	-	107

For the third 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 third 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 9,090 MSEK (9,470) of which 7,196 MSEK (7,999) is in cash flow hedges consisting of cross currency and interest rate swaps related to bond loans. The remaining 1,894 MSEK (1,471) 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 – Earnings per share

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

Earnings per share

Basic and diluted	July-September		January-September		Restated
		Restated		Restated	Full year
	2018	2017	2018	2017	2017
Profit for the period attributable to equity holders of the Parent, MSEK	959	753	2,653	2,497	3,400
Profit for the period attributable to equity holders of the Parent, excluding income from STG and larger one-time items, MSEK	959	753	2,653	2,203	2,953
Weighted average number of shares outstanding, basic and diluted	**172,597,848**	**178,651,043**	**174,337,322**	**181,177,367**	**180,096,690**

Earnings per share, basic and diluted, SEK	July-September		January-September		Restated
		Restated		Restated	Full year
	2018	2017	2018	2017	2017
Earnings per share	5.55	4.22	15.22	13.78	18.88
Adjusted earnings per share[1)]	5.55	4.22	15.22	12.16	16.40

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

Note 7 – 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.
ADJUSTED EARNINGS PER SHARE	Profit for the period, excluding income from STG and larger one-time items / Average number of shares outstanding	Used as an alternative measure of earnings per share which is not affected by items which impact comparability between periods.

Larger one-time items

MSEK	January-September 2018	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 in operating profit	**-**	**238**	**373**
Dividend from STG	-	65	107
Total larger one-time items	**-**	**303**	**480**

Net debt

MSEK	January-September 2018	2017	Full year 2017
Non-current loans	12,283	7,973	10,277
Current loans	1,235	3,315	1,253
Components of derivatives (liabilities)[1)]	17	7	40
Net provision for pensions and similar obligations[2)]	1,077	1,402	1,146
Cash and cash equivalents and other short-term investments	-2,496	-2,064	-3,998
Net asset for pensions and similar receivables[3)]	-243	-102	-88
Components of derivatives (assets)[4)]	-839	-435	-446
Net debt	**11,034**	**10,096**	**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.

Quarterly data

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

Consolidated income statement in summary

MSEK	Q3/18	Q2/18	Q1/18	Q4/17	Q3/17
Sales, including tobacco tax	4,217	4,179	3,750	3,784	3,689
Less tobacco tax	-828	-844	-810	-833	-775
Sales	**3,388**	**3,336**	**2,941**	**2,951**	**2,915**
Cost of goods sold	-1,231	-1,251	-1,107	-1,130	-1,062
Gross profit	**2,157**	**2,085**	**1,834**	**1,821**	**1,852**
Selling and administrative expenses	-853	-823	-786	-780	-765
Share of net profit/loss in associated companies	1	1	-1	2	1
Income from defined benefit plan amendment	-	-	-	69	-
Sale of STG shares	-	-	-	66	-
Operating profit	**1,305**	**1,263**	**1,047**	**1,178**	**1,088**
Dividend from STG	-	-	-	42	-
Finance income	16	17	14	10	9
Finance costs	-89	-90	-87	-96	-101
Net finance cost	-73	-73	-73	-44	-91
Profit before income tax	**1,232**	**1,190**	**974**	**1,134**	**997**
Income tax expense	-273	-263	-208	-231	-244
Profit for the period	**959**	**928**	**766**	**904**	**753**
Attributable to:					
Equity holders of the Parent	959	928	766	904	753
Non-controlling interests	0	0	0	0	0
Profit for the period	**959**	**928**	**766**	**904**	**753**

Quarterly data by product segment

Sales

MSEK	Q3/18	Q2/18	Q1/18	Q4/17	Q3/17
Snus and moist snuff	1,601	1,509	1,386	1,407	1,377
Other tobacco products	1,384	1,433	1,190	1,120	1,142
Lights	310	302	285	341	308
Sales from product segments	**3,295**	**3,244**	**2,860**	**2,867**	**2,827**
Other operations	93	92	81	84	88
Sales	**3,388**	**3,336**	**2,941**	**2,951**	**2,915**

Operating profit

MSEK	Q3/18	Q2/18	Q1/18	Q4/17	Q3/17
Snus and moist snuff	752	691	623	612	622
Other tobacco products	519	557	425	417	436
Lights	46	46	31	68	46
Operating profit from product segments	**1,317**	**1,293**	**1,079**	**1,096**	**1,104**
Other operations	-12	-30	-31	-53	-16
Income from defined benefit plan amendment	-	-	-	69	-
Sale of STG shares	-	-	-	66	-
Operating profit	**1,305**	**1,263**	**1,047**	**1,178**	**1,088**

Operating margin by product segment

Percent	Q3/18	Q2/18	Q1/18	Q4/17	Q3/17
Snus and moist snuff	47.0	45.8	45.0	43.5	45.2
Other tobacco products	37.5	38.8	35.7	37.2	38.2
Lights	14.9	15.1	10.9	19.9	15.1
Operating margin from product segments	**40.0**	**39.9**	**37.7**	**38.2**	**39.1**

EBITDA by product segment

MSEK	Q3/18	Q2/18	Q1/18	Q4/17	Q3/17
Snus and moist snuff	810	744	675	663	674
Other tobacco products	539	581	446	438	457
Lights	57	56	41	78	57
EBITDA from product segments	**1,406**	**1,381**	**1,162**	**1,180**	**1,188**

EBITDA margin by product segment

Percent	Q3/18	Q2/18	Q1/18	Q4/17	Q3/17
Snus and moist snuff	50.6	49.3	48.7	47.2	49.0
Other tobacco products	39.0	40.5	37.5	39.1	40.0
Lights	18.2	18.5	14.4	23.0	18.4
EBITDA margin from product segments	**42.7**	**42.6**	**40.6**	**41.1**	**42.0**

Additional quarterly data

Depreciation, amortization and impairments

MSEK	Q3/18	Q2/18	Q1/18	Q4/17	Q3/17
Property, plant and equipment	85	84	81	85	80
Intangible assets	16	16	16	13	16
Total	**101**	**100**	**97**	**98**	**96**

Net finance cost

MSEK	Q3/18	Q2/18	Q1/18	Q4/17	Q3/17
Interest income	16	17	14	10	9
Interest expense	-87	-86	-86	-97	-99
Net interest expense	**-71**	**-69**	**-72**	**-87**	**-90**
Dividend from STG	-	-	-	42	-
Other finance costs, net	-2	-4	-1	1	-1
Total net finance cost	**-73**	**-73**	**-73**	**-44**	**-91**

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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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