Swedish Match

Q4 2018

# Full Year Report
## JANUARY – DECEMBER 2018

## Q4: Strong sales and volumes for smokeless products

- **In local currencies, sales increased by 7 percent for the fourth quarter and by 9 percent for the full year. Reported sales increased by 12 percent to 3,301 MSEK (2,951) for the fourth quarter and by 10 percent to 12,966 MSEK (11,751) for the full year.**
- **In local currencies, operating profit from product segments[1)] increased by 8 percent for the fourth quarter and by 12 percent for the full year. Reported operating profit from product segments increased by 14 percent to 1,246 MSEK (1,096) for the fourth quarter and by 14 percent to 4,936 MSEK (4,345) for the full year.**
- **Operating profit amounted to 1,196 MSEK (1,178) for the fourth quarter and to 4,812 MSEK (4,592) for the full year.[2)]**
- **Profit after tax amounted to 925 MSEK (904) for the fourth quarter and to 3,578 MSEK (3,400) for the full year.**
- **Earnings per share increased by 6 percent to 5.41 SEK (5.10) for the fourth quarter and by 9 percent to 20.63 SEK (18.88) for the full year. Adjusted earnings per share[3)] increased by 28 percent to 5.41 SEK (4.24) for the fourth quarter and by 26 percent to 20.63 SEK (16.40) for the full year.**
- **During 2018, Swedish Match distributed 5,423 MSEK to its shareholders in the form of an ordinary dividend, a special dividend and share repurchases.**
- **The Board proposes an increased dividend of 10.50 SEK per share.**
- **The outlook for 2019 can be found on page 12.**

1) Operating profit for Swedish Match product segments, which excludes Other operations and larger one-time items.
2) The full year 2017 included larger one-time items of 373 MSEK relating to capital gains from the sale of Scandinavian Tobacco Group (STG) shares and from the sale of a parcel of land as well as an income from a defined benefit plan amendment. The fourth quarter of 2017 included larger one-time items of 135 MSEK relating to a capital gain from the sale of STG shares and an income from a defined benefit plan amendment.
3) Earnings per share adjusted to exclude income from STG and larger one time-items.

## CEO Lars Dahlgren comments:

### 2018 – Making strides toward our vision

2018 was a successful year for Swedish Match with very healthy growth in sales and operating profit from product segments. While our base businesses in our two largest product segments performed well, our growth initiatives continued to demonstrate very promising developments, with exceptional momentum for *ZYN* in the US. More and more, we see evidence of a trend where the global consumption of nicotine products is shifting away from traditional combustible cigarettes, and the best alternatives to cigarettes lie in smokeless products. While we continue to believe that the global regulatory stance towards smokeless products is disproportionate given the role that such products can play in harm reduction, we are encouraged to see positive regulatory developments in the smokeless arena and our strategy and focus position us well to compete in pursuit of our vision.

During the year, we made substantial investments in the long-term strength and geographical reach of the Group. Our *ZYN* factory expansion project in the US is progressing according to plan and we expect capacity to be gradually increased throughout 2019 with a planned national launch of *ZYN* in the US during the second quarter. The very strong demand that we have experienced for *ZYN* in the western region has prompted us, again, to decide to scale up the investment in manufacturing capacity for *ZYN*. The opportunity for *ZYN* extends beyond the US and the product has now also been launched on a small scale in Denmark and in the Czech Republic. In addition to investments in the business, we also made acquisitions during the year. Oliver Twist and Gotlandssnus are smokeless tobacco companies that are excellent complements to our product portfolio providing new dimensions to our offerings.

In terms of the Group's financial performance during 2018, the Snus and moist snuff product segment had a strong year, with higher sales and operating profit, both as reported and in local currencies. Sales and operating profit grew in both Scandinavia and the US.

In Scandinavia, market growth was robust during the year, and the growth in both Sweden and Norway continued throughout the fourth quarter, albeit at a slower pace than in the unusually strong third quarter. Our volume growth did, however, lag overall market growth. We remain committed to actively competing in the attractive growing segments of the market while balancing operating efficiency and profit growth.

In Sweden, increased consumer interest, intense competitive activity, product innovation within the premium segment, and the exceptionally warm summer were drivers of the market growth in 2018. There was continued stability in terms of price segmentation with the premium segment's share of the total market increasing somewhat – a dynamic that is generally favorable to Swedish Match in terms of market share development. However, our market share declined notably during the year, particularly during the second half. The structural decline in the loose segment, highly competitive activity within both the premium and value segment, and the shift in the market toward all-white nicotine pouch products were all drivers behind our market share loss. In the nicotine pouch segment, we have seen good growth for *ZYN* and will continue our efforts to increase this brand's presence on the market.

In Norway, while it is still early to assess the longer-term category implications of the plain packaging legislation, we have not seen a notable impact on consumption volumes in the market. Our market share declined during the year in Norway, principally reflecting segment shifts in the market. The loose segment showed relatively steep declines and the all-white nicotine pouch segment continued to grow and now accounts for more than 11 percent of the total Norwegian market volumes according to Nielsen.

Sales and operating profit for US moist snuff grew during the year, both as reported and in local currency, as higher pricing more than offset the slight volume decline. We continue to focus on the faster growing segments in the market, and it is encouraging to see that we once again outperformed the market growth rate for the pouch segment.

After several years of investment behind snus and nicotine pouches without tobacco in the US, 2018 represents our first profitable year from these products in this market. Volume growth for *ZYN* was extraordinary, coming both from increased velocity per store and expanded distribution. Volumes also grew for *General* snus despite a significant reduction in marketing spending. As encouraged by the FDA, we refiled our Modified Risk Tobacco Product application for *General* snus during the fourth quarter and on February 6 of this year, TPSAC, the tobacco products scientific advisory panel to the FDA held a meeting to discuss the

Swedish Match application. We are particularly pleased with the balanced comments by the FDA and look forward to the Agency's final decision.

Within Other tobacco products (cigars and chewing tobacco), cigars continued to perform well during the year, driven by growth in small natural leaf and rolled leaf cigars. Growth was however constrained in the final months of the year due to the shortage of tobacco supplies for rolled leaf cigars. The issue with procuring cigar wrapper for our rolled leaf portfolio is temporary but will persist until the new crop arrives, which is anticipated late in the Spring of 2019. Based on our measure of distributor shipments to retail, we noted that the cigar category declined slightly during the fourth quarter, most notably in HTL (including HTL value) varieties. We are well positioned in the cigar market with a skew towards the faster growing segments, and we were one of the few manufacturers that experienced volume growth during the fourth quarter compared to the prior year period based on this distributor shipment measure. As volume growth in our cigar business slowed during the year, it is encouraging to see that favorable price/mix developments within our portfolio supported the financial performance of this business, following the price increases taken in the first half of the year within the rolled leaf assortment of our portfolio.

US chewing tobacco had a good year with a slight increase in operating profit in local currency. We continued to successfully balance our portfolio in line with the market shift toward value products and outperformed market volume trends within all segments based on distributor shipments to retail. In Europe, the chew bag market continued to grow, and we expanded our presence in several markets. The acquisitions of V2 Tobacco in 2017 and Oliver Twist in 2018 with their chew bags and tobacco bits contributed positively to both Group sales and operating profit.

Our Lights business had a difficult year as nylon prices impacted the financial performance of lighters. Portfolio price/mix effects for matches were favorable, helping to offset the effects of somewhat lower volumes.

During the year, we distributed strong cash returns to our shareholders through dividends and share repurchases. We paid 2,911 MSEK in dividends consisting of both an ordinary dividend and a special dividend following the final sale of shares in STG. We also repurchased shares for 2,512 MSEK. At the upcoming Annual General Meeting, the Board of Directors will be proposing an ordinary dividend of 10.50 SEK.

***In summary,*** 2018 was a very successful year for Swedish Match, with a strong financial performance from our two largest product segments. We continued to make strides toward our vision and made substantial investments in the long-term strength of the Group. We look forward to an eventful 2019 and are committed to face the challenges ahead with determination and hard work in order to continue to deliver attractive returns to our shareholders.

## Summary of consolidated income statement

| MSEK | October-December | | | Full year | | |
|---|---|---|---|---|---|---|
| | 2018 | Restated 2017[4)] | Chg % | 2018 | Restated 2017[3)] | Chg % |
| Sales | 3,301 | 2,951 | 12 | 12,966 | 11,751 | 10 |
| Sales from product segments[1)] | 3,214 | 2,867 | 12 | 12,612 | 11,410 | 11 |
| Operating profit from product segments[1)] | 1,246 | 1,096 | 14 | 4,936 | 4,345 | 14 |
| Operating profit, excluding larger one-time items[2)] | 1,196 | 1,043 | 15 | 4,812 | 4,219 | 14 |
| Operating profit | 1,196 | 1,178 | 2 | 4,812 | 4,592 | 5 |
| Profit before income tax | 1,134 | 1,134 | 0 | 4,531 | 4,353 | 4 |
| Profit for the period | 925 | 904 | 2 | 3,578 | 3,400 | 5 |
| Operating margin from product segments, %[1)] | 38.8 | 38.2 | | 39.1 | 38.1 | |
| Earnings per share, SEK | 5.41 | 5.10 | | 20.63 | 18.88 | |
| Adjusted earnings per share, SEK[3)] | 5.41 | 4.24 | | 20.63 | 16.40 | |

1) Excluding Other operations and larger one-time items – see Note 8 on page 31.
2) In 2017, larger one-time items of 135 MSEK in the fourth quarter and 373 MSEK for the full year were recognized.
3) Excluding income from STG and larger one-time items.
4) Restated to reflect implementation of IFRS 15 – see Note 1 on page 21.

## The fourth quarter

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

### Sales

Group sales and sales from product segments both increased by 12 percent to 3,301 MSEK (2,951) and 3,214 MSEK (2,867), respectively. Currency translation positively affected the comparability of sales from product segments by 155 MSEK, and in local currencies, sales from product segments increased by 7 percent. While sales were higher for all product segments, the Snus and moist snuff product segment was the principal contributor to sales growth during the quarter.

### Earnings

Operating profit from product segments increased by 14 percent to 1,246 MSEK (1,096). In local currencies, operating profit from product segments was up by 8 percent driven by higher operating profit for the Snus and moist snuff product segment.

Group operating profit amounted to 1,196 MSEK (1,178). Group operating profit for the same period prior year included one-time items of 135 MSEK relating to a capital gain on the sale of STG shares and an income from a defined benefit plan amendment. Currency translation has affected the comparison of the operating profit positively by 61 MSEK.

The Group's net finance cost amounted to 62 MSEK (44). The fourth quarter 2017 net finance cost included dividend income from STG of 42 MSEK. The income tax expense amounted to 209 MSEK (231), and the effective corporate tax rate, excluding associated companies and larger one-time items, was 20.3 percent (21.8). 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 925 MSEK (904).

Earnings per share (EPS) for the fourth quarter amounted to 5.41 SEK (5.10). Adjusted EPS, excluding income from STG and larger one-time items in 2017, increased by 28 percent to 5.41 SEK (4.24).

## The full year

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

### Sales

Group sales increased by 10 percent to 12,966 MSEK (11,751) while sales from product segments increased by 11 percent to 12,612 MSEK (11,410). Currency translation affected the sales comparison positively by 127 MSEK. In local currencies, sales from product segments increased by 9 percent with a balanced contribution of sales growth from both the Other tobacco products and Snus and moist snuff product segments.

## Earnings

Operating profit from product segments increased by 14 percent to 4,936 MSEK (4,345). 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 12 percent.

Group operating profit amounted to 4,812 MSEK (4,592). Group operating profit for the prior year included one-time items of 373 MSEK relating to capital gains on the sale of STG shares and from the sale of a parcel of land as well as an income from a defined benefit plan amendment. Currency translation has affected the comparison of the operating profit positively by 76 MSEK.

The Group's net finance cost amounted to 281 MSEK (240). The full year 2017 net finance cost included dividend income from STG of 107 MSEK. Income tax expense amounted to 953 MSEK (952), corresponding to an effective corporate tax rate of 21.0 percent (21.9). The effective corporate tax rate, excluding associated companies and larger one-time items, for the period was 21.7 percent (23.8).

The Group's profit for the period amounted to 3,578 MSEK (3,400).

EPS for the year amounted to 20.63 SEK (18.88). Adjusted EPS, excluding income from STG and larger one-time items in 2017, increased by 26 percent to 20.63 SEK (16.40).

# More choice, adapted to personal tastes

At Swedish Match, we know that different consumers have different preferences, and we are continually working to deliver on our efforts to offer the best quality smokeless products, be it snus, chewing tobacco, moist snuff, or tobacco free products – with or without nicotine.

The pictured products are just a small sample of Swedish Match offerings available on the Swedish market, including recent additions to our family of products – *Oliver Twist* tobacco bits, and *Jakobsson's* snus. *ZYN* is sold in Sweden in two formats. *ZYN* slim (pictured) nicotine pouches have a softer, fuller mouth feel when compared to *ZYN* dry (not pictured) which offers a thinner and more discreet pouch.


## Snus and moist snuff

### Fourth 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 1 percent

**Key data**

| *MSEK* | **October-December 2018** | **2017** | **Chg %** | **Full year 2018** | **2017** | **Chg %** |
|---|---|---|---|---|---|---|
| Sales | 1,632 | 1,407 | 16 | 6,127 | 5,484 | 12 |
| Operating profit | 725 | 612 | 18 | 2,791 | 2,358 | 18 |
| Operating margin, % | 44.4 | 43.5 | | 45.6 | 43.0 | |
| EBITDA | 795 | 663 | 20 | 3,025 | 2,563 | 18 |
| EBITDA margin, % | 48.7 | 47.2 | | 49.4 | 46.7 | |

### The fourth quarter

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

Sales for Snus and moist snuff were up 16 percent. In local currencies, sales increased by 12 percent, driven by a balanced contribution from both Scandinavia snus and snus and nicotine pouches outside Scandinavia. Moist snuff sales in the US were also higher in local currency. Operating profit in local currencies improved in both Scandinavia and the US. The operating margin was higher than in the fourth quarter of 2017, primarily driven by the improvement for snus and nicotine pouches outside Scandinavia.

In Scandinavia, the Swedish and Norwegian markets demonstrated continued volume growth, albeit at a slower pace than the unusually strong third quarter, which was, in part, attributable to favorable weather conditions in that quarter. Swedish Match estimates that the total Scandinavian market grew by 6 percent. Swedish Match shipment volumes, including volumes from V2 Tobacco, acquired in the third quarter 2017, and Gotlandssnus, acquired in the third quarter 2018, were up by close to 5 percent. Swedish Match estimates that its underlying organic volumes (excluding Gotlandssnus and calendar effects) were up by 1 percent. Sales and gross profit in Scandinavia increased on higher volumes (including Gotlandssnus) and higher realized pricing, partially offset by increased manufacturing costs. Average selling prices increased as a result of price increases and a stronger NOK partially offset by negative mix effects.

In Sweden, competitive activity has been intense both within the premium and value segments and our market share declined in both segments. 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 market share losses in the pouch segment.

For our US moist snuff business, volumes grew across all formats – pouches, tubs, and loose moist snuff in standard cans – in large part due to promotional phasing. Both sales and operating profit were higher on a local currency basis reflecting the benefit of increased volumes and improved pricing.

Volumes for snus and nicotine pouches outside Scandinavia increased sharply, stemming primarily from *ZYN* in the US. The distribution of *ZYN* grew at a modest pace sequentially and is now available in more than 13,500 stores primarily in the western region of the US. Average sales volume per store for *ZYN* in the US continued to increase.

## The full year

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

Sales for the product segment grew by 10 percent in local currencies. Operating profit increased to 2,791 MSEK (2,358) and included net operating result for snus and nicotine pouches outside Scandinavia of 61 MSEK (negative 167).

In Scandinavia, shipment volumes grew by more than 6 percent. Swedish Match estimates that its underlying organic Scandinavian snus volumes (excluding V2 Tobacco up to the end of August, and Gotlandssnus) increased by approximately 3 percent. Operating profit for snus in Scandinavia grew on increased volumes and improved pricing offset somewhat by higher manufacturing costs. In the US, sales and operating profit in local currency for moist snuff increased. For snus and nicotine pouches outside Scandinavia, the favorable financial development resulted primarily from higher volumes and improved pricing for both snus and *ZYN* in the US, but also benefited from lower marketing costs for snus in the US.

### Swedish Match shipment volumes

| *Millions of cans* | October-December | | Chg | Full year | | Chg |
|---|---|---|---|---|---|---|
| | **2018** | **2017** | **%** | **2018** | **2017** | **%** |
| Snus, Scandinavia[1)] | 69.6 | 66.4 | 5 | 263.4 | 247.6 | 6 |
| Moist snuff, US | 29.6 | 27.9 | 6 | 126.3 | 127.4 | -1 |
| Snus and nicotine pouches, outside Scandinavia[1)] | 7.4 | 4.4 | 69 | 25.2 | 13.2 | 91 |

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* | October-December | | Chg | Full year | | Chg |
|---|---|---|---|---|---|---|
| | **2018** | **2017** | **ppts** | **2018** | **2017** | **ppts** |
| Snus, Sweden, total | 61.9 | 65.3 | -3.4 | 63.4 | 65.7 | -2.3 |
| Snus, Sweden, premium | 87.0 | 91.1 | -4.1 | 88.3 | 91.6 | -3.2 |
| Snus, Sweden, value | 33.2 | 35.7 | -2.5 | 34.6 | 36.5 | -1.8 |
| Snus, Norway, total | 50.5 | 52.6 | -2.1 | 51.3 | 52.2 | -0.8 |

1) Swedish Match estimates using Nielsen data (excluding tobacconists): 13 weeks and YTD to December 30, 2018 and December 31, 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

### Fourth quarter highlights:

- Sales and operating profit flat in local currencies
- US cigar shipment volumes down 4 percent largely attributable to shortage of cigar leaf for rolled leaf cigars
- US cigar sales marginally down, while operating profit improved in USD on improved pricing
- Solid quarter for US chewing tobacco, with flat volumes year on year

**Key data**

| *MSEK* | October-December 2018 | 2017 | Chg % | Full year 2018 | 2017 | Chg % |
|---|---|---|---|---|---|---|
| Sales | 1,233 | 1,120 | 10 | 5,240 | 4,634 | 13 |
| Operating profit | 456 | 417 | 9 | 1,956 | 1,776 | 10 |
| Operating margin, % | 37.0 | 37.2 | | 37.3 | 38.3 | |
| EBITDA | 480 | 438 | 9 | 2,046 | 1,857 | 10 |
| EBITDA margin, % | 38.9 | 39.1 | | 39.0 | 40.1 | |

### The fourth quarter

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

Sales and operating profit for Other tobacco products were essentially flat with prior year in local currencies.

Cigar volumes declined by 4 percent. Growth for small natural leaf varieties more than offset declines for HTL varieties. For rolled leaf varieties, Swedish Match shipment volumes declined by more than 30 percent versus the same period prior year and by more than 40 percent compared to third quarter 2018 shipment volumes. As previously indicated, leaf shortages for rolled leaf cigars have severely constrained our production capacity for this format. The availability of cigar leaf for rolled leaf cigars is expected to improve with the next crop which is anticipated to be available late in the spring of 2019. Based on our measure of distributor shipments to retail, total cigar category volumes declined in the quarter, most notably within the HTL small and HTL value segments, while Swedish Match volumes were up slightly due to our portfolio positioning within natural leaf cigars.

Chewing tobacco shipments in the US (excluding contract manufacturing volumes) during the quarter were flat with the fourth quarter of the prior year. 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. Sales and operating profit for US chewing tobacco benefited from price increases, partly offset by adverse mix effects given the category shift to value products. Chew bags and tobacco bits, sold primarily in Europe, contributed positively to both sales and operating profit, but were burdened during the quarter with costs of establishing our own sales force in Denmark. 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, see Other events during the quarter on page 11.

## The full year

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

In local currencies, sales for Other tobacco products were up by 11 percent, while operating profit was up by 8 percent, attributable to the strong performance for US cigars – from both rolled leaf and small natural leaf varieties.

Cigar volumes increased by 5 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. Despite the volume decline in the fourth quarter, Swedish Match shipment volumes of rolled leaf cigars for the full year grew by 24 percent. 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. US chewing tobacco volumes declined by 4 percent, a more modest decline rate than the overall market.

**Swedish Match US shipment volumes**

| | October-December | | Chg | Full year | | Chg |
|---|---|---|---|---|---|---|
| | **2018** | **2017** | **%** | **2018** | **2017** | **%** |
| Cigars, millions of sticks | 383 | 398 | -4 | 1,703 | 1,629 | 5 |
| Chewing tobacco, thousands of pounds (excluding contract manufacturing volumes) | 1,349 | 1,352 | 0 | 6,093 | 6,341 | -4 |


## Lights

### Fourth quarter highlights:

- Higher sales for both lighters and complementary products, largely offset by sales declines for matches
- Volume growth and positive mix for lighters, but increased nylon costs burdened operating profit
- Match volumes down slightly, with a less favorable market mix

**Key data**

| *MSEK* | October-December | | Chg | Full year | | Chg |
|---|---|---|---|---|---|---|
| | **2018** | **2017** | **%** | **2018** | **2017** | **%** |
| Sales | 349 | 341 | 2 | 1,246 | 1,291 | -4 |
| Operating profit | 66 | 68 | -3 | 189 | 211 | -11 |
| Operating margin, % | 18.9 | 19.9 | | 15.2 | 16.4 | |
| EBITDA | 76 | 78 | -3 | 230 | 253 | -9 |
| EBITDA margin, % | 21.8 | 23.0 | | 18.4 | 19.6 | |

## The fourth quarter

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

Sales were slightly higher, with sales growth for lighters and complementary products partially offset by sales declines for matches. Currency developments were favorable for lighters but adverse for both matches and complementary products. Lighters benefited from both higher volumes and improved price/mix. Matches sales were negatively impacted by both lower volumes and a weaker price/mix.

Operating profit declined for both matches and lighters, while for complementary products operating profit increased. Lighters benefited from improved price/mix and positive currency effects, but this was more than offset by significantly higher costs of goods sold, with higher nylon pricing being a major contributing factor. The decline in operating profit for matches was in large part due to portfolio price/mix effects.

## The full year

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

Sales declined by 4 percent, primarily as a result of a particularly weak performance for this reporting segment 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. More than half of the full year volume decline in lighter shipments was attributable to the discontinuance of shipments of third-party manufactured lower priced lighters to the UK market. Operating profit declined, principally attributable to the soft performance for lighters. Reported operating profit was affected by restructuring costs totaling 18 MSEK in the current year and 11 MSEK in the prior year.

**Swedish Match shipment volumes, worldwide**

| | October-December | | Chg | Full year | | Chg |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | % | 2018 | 2017 | % |
| Matches, billion sticks | 18.1 | 18.2 | -1 | 64.5 | 65.0 | -1 |
| Lighters, million units | 93.9 | 93.1 | 1 | 333.9 | 368.1 | -9 |

# Financing and cash flow

Cash flow from operating activities for the year amounted to 3,705 MSEK (3,402). The stronger EBITDA development from product segments was offset by the increased cash outflow from working capital and by timing of income tax payments relative to the prior year.

Investments in property, plant and equipment increased to 649 MSEK (369). 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 year increased to 281 MSEK (240). Excluding dividend income from STG of 107 MSEK recognized in net finance cost during 2017, the net finance cost improved by 65 MSEK. This improvement is mainly related to lower interest rates on debt which is partly offset by higher average debt levels compared to 2017.

During 2018, new bond loans of 2,846 MSEK were issued and repayments of bond loans amounted to 1,250 MSEK. As of December 31, 2018, Swedish Match had 12,705 MSEK of interest-bearing debt excluding retirement benefit obligations compared to 11,123 MSEK at December 31, 2017. During 2019, 1,229 MSEK 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 1,024 MSEK as of December 31, 2018, from 1,058 MSEK at December 31, 2017. The decrease is mainly due to higher contributions and positive remeasurements effects from higher discount rates which is partly offset by negative currency effects.

As of December 31, 2018, Swedish Match had 1,500 MSEK in unutilized committed credit lines. Cash and cash equivalents amounted to 2,886 MSEK at the end of the period, compared to 3,998 MSEK at December 31, 2017.

The net debt as of December 31, 2018 amounted to 10,843 MSEK compared to 8,183 MSEK at December 31, 2017.

## Shareholder distributions and the share

During 2018, Swedish Match has distributed a total of 5,423 MSEK (5,498) to its shareholders in the form of ordinary and special dividends as well as share repurchases.

In 2018, 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 year, Swedish Match repurchased 5.7 million shares for 2,512 MSEK at an average price of 440.75 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 130.61 SEK. As per December 31, 2018 Swedish Match held 5.7 million shares, corresponding to 3.26 percent of the total number of shares. The number of shares outstanding, net, as per December 31, 2018, amounted to 170.2 million.

The Board of Directors will propose to the Annual General Meeting in April 2019 a renewed mandate to repurchase shares up to a total holding in treasury not exceeding 10 percent of the number of registered shares in the Company until the Annual General Meeting in 2020.

## Proposed dividend per share

The Board of Directors proposes to the Annual General Meeting an increased ordinary dividend, amounting to 10.50 SEK per share (9.20). The proposed dividend is in line with Swedish Match's ambition to continually grow dividend per share with a payout ratio normally within 40-60 percent of earnings per share, subject to adjustment for larger one-time items. The proposed dividend represents an increase of 14 percent from the prior year's ordinary dividend, and equals a payout ratio of 51 percent (56) of the earnings per share for the year. The proposed dividend amounts to 1,787 MSEK based on the 170.2 million shares outstanding at the end of the year.

## Other events during the quarter

### The European Court of Justice's ruling on the snus ban

On November 22, the European Court of Justice (ECJ) published its judgment concerning the prohibition to sell Swedish snus to other EU member states. The court ruled that Swedish snus will continue to be excluded from the EU's internal market. The judgment of the ECJ cannot be appealed, which leaves a future removal of the ban essentially a political issue.

### Swedish regulation on tobacco and similar products

In December 2018, the Swedish Parliament adopted a proposal for new legislation on tobacco and similar products which included the EU mandated track and trace system for tobacco products, an outdoor smoking ban in certain public places and restaurants, and for snus, a requirement on a minimum of 20 pouches per can. The previously discussed ban on marketing at point of sale, with only specialty tobacco shops exempted, and ban on consumer self-service for all tobacco products at point of sale was not part of the final legislation.

### 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, 2018.

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. In 2018 chew bag sales amounted to 173 MSEK (1.3 percent of total Group sales) and chew bag operating profit amounted to 68 MSEK (1.4 percent of total Group operating profit). Approximately half of Swedish Match's chew bag sales were in Germany.

### Statement from Scott Gottlieb, FDA Commissioner

On November 15, the FDA Commissioner, Scott Gottlieb, released a communication in which he stated that the FDA intends to propose a product standard that would ban flavors in all cigars. It was further stated in his comment that he believes that flavored cigars should no longer be subject to the extended compliance date (August 2021) for substantial equivalence authorization – regardless of the location in which the products are sold. No timeline has been set for any possible change to the current rules and regulations.

### UK Government review of snus ban post exit from European Union

The UK Government had been earlier advised by the UK Parliament committee on science and technology, calling for a review of the snus ban in the event of exit from the EU. In mid-December the UK Government responded stating that it would look to identify where it can sensibly deregulate without harming public health or where current EU regulations limit the ability to deal with tobacco. The UK Government's goal is to achieve a proportionate approach to managing risk, one which protects the young and non-smokers, whilst giving smokers access to products which will reduce harm. As part of this evaluation, the UK Government will consider reviewing the position on snus and whether the introduction of this product onto the UK market would promote that kind of proportionate harm reduction approach.

### 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. Johan Strandberg serves as Chairman of the Nominating Committee.

## Events after the reporting period

On February 6, 2019, the FDA scientific advisory committee (TPSAC) held a meeting to receive comments from various parties and to provide a forum for questions regarding the resubmission to the FDA of Swedish Match's MRTP application for *General* snus products in the US. Following input from TPSAC, the FDA will make its decision on whether the application is approved for MRTP status. The date for the FDA decision has not been concluded.

## Outlook

Swedish Match expects that the trend of increased interest from consumers, industry players and regulators in less harmful alternatives to cigarettes will continue. By providing products that are recognized as safer alternatives to cigarettes, our ambition is to create value for both shareholders and the society.

For 2019, on a full year basis, Swedish Match expects the Scandinavian snus market to continue to grow and to remain highly competitive. Swedish Match expects the US snus/nicotine pouch market to grow. In the US moist snuff market, we expect continued growth for pouches. For US chewing tobacco we expect continued market declines. In both Scandinavia and markets outside of Scandinavia, we expect segment growth and increased competitive activity for nicotine pouches (both without tobacco and with small amounts of tobacco).

We will continue to explore growth opportunities for smokeless tobacco and nicotine pouch products outside Scandinavia. In the US, we will broaden the distribution for *ZYN*, to make this popular nicotine pouch product available to consumers nationally. Further for *ZYN,* selected additional geographies outside the US will be considered. The decision to further scale up the investment in *ZYN* production capacity in the US is expected to result in increased capital expenditures in 2019 compared to 2018.

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

Based on current exchange rates Swedish Match anticipates currency translation to have a positive impact on both sales and operating profit at the Group level for the first quarter of 2019.

The effective corporate tax rate in 2019, excluding associated companies and larger one-time items, is expected to be in the 22 percent to 23 percent range (21.7).

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 full year 2018 amounted to 48 MSEK (47). Profit before income tax amounted to 1,706 MSEK (6,664) and net profit for the year amounted to 1,328 MSEK (6,367). The decrease in profit for the year largely pertains to lower dividends from subsidiaries and higher impairment losses on shares in subsidiaries compared to the previous year.

During the year, the Parent Company received dividends of 1,246 MSEK (23,827) of which 630 MSEK related to a dividend-in-kind of shares in subsidiaries. The higher dividends in the prior year were 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 2018 which was primarily attributable to reduced equity in the subsidiaries following the payment of dividends from such subsidiaries. During the year, capital contributions of 114 MSEK to subsidiaries have been made. Net Group contributions of 2,663 MSEK (2,415) was received during the year.

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.

Repayment of bond loans during the year amounted to 1,250 MSEK and new bond loans of 2,846 MSEK were issued.

During the year, the Parent Company made share repurchases of 5.7 million (8.8) shares for 2,512 MSEK (2,590).

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

## 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 annual report for 2018 is expected to be published the week beginning with March 18 and will be available on the Company's website swedishmatch.com and at Swedish Match's headquarters, Sveavägen 44, Stockholm. The Annual General Meeting will be held on April 9, 2019 in Stockholm, Sweden. The January-March 2019 report will be released on May 9, 2019.

Stockholm, February 13, 2019

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 | October-December 2018 | Restated 2017 | Chg % | Full year 2018 | Restated 2017 | Chg % |
|---|---|---|---|---|---|---|---|
| Snus and moist snuff | | 1,632 | 1,407 | 16 | 6,127 | 5,484 | 12 |
| Other tobacco products | | 1,233 | 1,120 | 10 | 5,240 | 4,634 | 13 |
| Lights | | 349 | 341 | 2 | 1,246 | 1,291 | -4 |
| **Sales from product segments** | 3 | **3,214** | **2,867** | **12** | **12,612** | **11,410** | **11** |
| Other operations | 3 | 87 | 84 | 4 | 353 | 342 | 3 |
| **Sales** | | **3,301** | **2,951** | **12** | **12,966** | **11,751** | **10** |

### Operating profit

| *MSEK* | Note | October-December 2018 | Restated 2017 | Chg % | Full year 2018 | Restated 2017 | Chg % |
|---|---|---|---|---|---|---|---|
| Snus and moist snuff | | 725 | 612 | 18 | 2,791 | 2,358 | 18 |
| Other tobacco products | | 456 | 417 | 9 | 1,956 | 1,776 | 10 |
| Lights | | 66 | 68 | -3 | 189 | 211 | -11 |
| **Operating profit from product segments** | 3 | **1,246** | **1,096** | **14** | **4,936** | **4,345** | **14** |
| Other operations | 3 | -50 | -53 | | -124 | -126 | |
| Income from defined benefit plan amendment | | - | 69 | | - | 69 | |
| Capital gain from sale of land | | - | - | | - | 107 | |
| Sale of STG shares | | - | 66 | | - | 197 | |
| **Operating profit** | | **1,196** | **1,178** | **2** | **4,812** | **4,592** | **5** |

### Operating margin by product segment

| *Percent* | October-December 2018 | Restated 2017 | Full year 2018 | Restated 2017 |
|---|---|---|---|---|
| Snus and moist snuff | 44.4 | 43.5 | 45.6 | 43.0 |
| Other tobacco products | 37.0 | 37.2 | 37.3 | 38.3 |
| Lights | 18.9 | 19.9 | 15.2 | 16.4 |
| **Operating margin from product segments** | **38.8** | **38.2** | **39.1** | **38.1** |

### EBITDA by product segment

| *MSEK* | October-December 2018 | Restated 2017 | Chg % | Full year 2018 | Restated 2017 | Chg % |
|---|---|---|---|---|---|---|
| Snus and moist snuff | 795 | 663 | 20 | 3,025 | 2,563 | 18 |
| Other tobacco products | 480 | 438 | 9 | 2,046 | 1,857 | 10 |
| Lights | 76 | 78 | -3 | 230 | 253 | -9 |
| **EBITDA from product segments** | **1,351** | **1,180** | **15** | **5,301** | **4,673** | **13** |

### EBITDA margin by product segment

| *Percent* | October-December 2018 | Restated 2017 | Full year 2018 | Restated 2017 |
|---|---|---|---|---|
| Snus and moist snuff | 48.7 | 47.2 | 49.4 | 46.7 |
| Other tobacco products | 38.9 | 39.1 | 39.0 | 40.1 |
| Lights | 21.8 | 23.0 | 18.4 | 19.6 |
| **EBITDA margin from product segments** | **42.0** | **41.1** | **42.0** | **41.0** |

## Key ratios

| | Full year | |
|---|---|---|
| | 2018 | Restated 2017 |
| Operating margin from product segments, % | 39.1 | 38.1 |
| Operating margin, % | 37.1 | 39.1 |
| Net debt, MSEK | 10,843 | 8,183 |
| Investments in property, plant and equipment, MSEK | 649 | 369 |
| Depreciation, amortization and impairments, MSEK | 415 | 381 |
| EBITA, MSEK[1)] | 4,875 | 4,278 |
| EBITA interest cover | 17.5 | 12.6 |
| Net debt/EBITA | 2.2 | 1.9 |
| *Share data* | | |
| Number of shares outstanding at end of period | 170,210,705 | 175,910,538 |
| Average number of shares outstanding | 173,445,540 | 180,096,690 |

1) Excluding larger one-time items.

# Financial statements

## Condensed consolidated income statement

| MSEK | Note | October-December 2018 | Restated 2017 | Chg % | Full year 2018 | Restated 2017 | Chg % |
|---|---|---|---|---|---|---|---|
| Sales, including tobacco tax | | 4,189 | 3,784 | | 16,335 | 15,025 | |
| Less tobacco tax | | -888 | -833 | | -3,369 | -3,273 | |
| **Sales** | | **3,301** | **2,951** | **12** | **12,966** | **11,751** | **10** |
| Cost of goods sold | | -1,244 | -1,130 | | -4,832 | -4,356 | |
| **Gross profit** | | **2,057** | **1,821** | **13** | **8,133** | **7,396** | **10** |
| Selling and admin. expenses | | -862 | -780 | | -3,324 | -3,187 | |
| Share of profit/loss in associated companies | | 1 | 2 | | 3 | 10 | |
| Capital gain from sale of land | | - | - | | - | 107 | |
| Sale of STG shares | | - | 66 | | - | 197 | |
| Income from defined benefit plan amendment | | - | 69 | | - | 69 | |
| **Operating profit** | | **1,196** | **1,178** | **2** | **4,812** | **4,592** | **5** |
| Dividend from STG | | - | 42 | | - | 107 | |
| Finance income | | 21 | 10 | | 65 | 49 | |
| Finance costs | | -83 | -96 | | -346 | -396 | |
| Net finance cost | | -62 | -44 | | -281 | -240 | |
| **Profit before income tax** | | **1,134** | **1,134** | **0** | **4,531** | **4,353** | **4** |
| Income tax expense | | -209 | -231 | | -953 | -952 | |
| **Profit for the period** | | **925** | **904** | **2** | **3,578** | **3,400** | **5** |
| *Attributable to:* | | | | | | | |
| Equity holders of the Parent | | 925 | 904 | | 3,578 | 3,400 | |
| Non-controlling interests | | 0 | 0 | | 0 | 0 | |
| **Profit for the period** | | **925** | **904** | **2** | **3,578** | **3,400** | **5** |
| Earnings per share, basic and diluted, SEK | 6 | 5.41 | 5.10 | | 20.63 | 18.88 | |

## Condensed consolidated statement of comprehensive income

| MSEK | October-December 2018 | Restated 2017 | Full year 2018 | Restated 2017 |
|---|---|---|---|---|
| **Profit for the period** | **925** | **904** | **3,578** | **3,400** |
| *Other comprehensive income that may be reclassified to the income statement* | | | | |
| Translation differences related to foreign operations | 50 | 18 | 331 | -301 |
| Translation differences included in profit and loss | 0 | -6 | -2 | -6 |
| Effective portion of changes in fair value of cash flow hedges | 55 | -83 | 39 | -126 |
| Reclassification of gains/losses on cash flow hedges included in profit and loss | - | 22 | - | 22 |
| Change in fair value of STG shares | - | 14 | - | -80 |
| Change in fair value of STG shares included in profit and loss | - | -93 | - | -230 |
| Income tax relating to reclassifiable components of other comprehensive income | -11 | 4 | -11 | 23 |
| **Sub-total, net of tax for the period** | **94** | **-124** | **356** | **-697** |
| *Other comprehensive income that will not be reclassified to the income statement* | | | | |
| Actuarial gains/losses attributable to pensions, incl. payroll tax | -131 | 82 | 118 | 116 |
| Income tax relating to non-reclassifiable components of other comprehensive income | 29 | -125 | -38 | -133 |
| **Sub-total, net of tax for the period** | **-102** | **-43** | **80** | **-17** |
| **Total comprehensive income for the period** | **916** | **737** | **4,014** | **2,686** |
| *Attributable to:* | | | | |
| Equity holders of the Parent | 916 | 737 | 4,014 | 2,686 |
| Non-controlling interests | 0 | 0 | 0 | 0 |
| **Total comprehensive income for the period** | **916** | **737** | **4,014** | **2,686** |

## Condensed consolidated balance sheet

| *MSEK* | Note | December 31, 2018 | Restated December 31, 2017 |
|---|---|---|---|
| Intangible assets | | 2,708 | 2,088 |
| Property, plant and equipment | | 2,941 | 2,558 |
| Investments in associated companies | | 24 | 22 |
| Other non-current assets and operating receivables | 5 | 19 | 22 |
| Other non-current financial assets and receivables | 5,8 | 1,420 | 1,254 |
| **Total non-current assets** | | **7,113** | **5,944** |
| Other current financial receivables | 5,8 | 226 | 263 |
| Current operating assets and receivables | 5 | 3,762 | 3,171 |
| Cash and cash equivalents | 5 | 2,886 | 3,998 |
| **Total current assets** | | **6,874** | **7,432** |
| **Total assets** | | **13,987** | **13,376** |
| Equity attributable to equity holders of the Parent | | -5,611 | -4,202 |
| Non-controlling interests | | 16 | 1 |
| **Total equity** | | **-5,595** | **-4,201** |
| Non-current financial provisions | | 1,186 | 1,200 |
| Non-current loans | 5 | 12,282 | 10,277 |
| Other non-current financial liabilities | 5,8 | 1,140 | 1,218 |
| Other non-current operating liabilities | 5 | 415 | 368 |
| **Total non-current liabilities** | | **15,024** | **13,063** |
| Current loans | 5 | 1,229 | 1,253 |
| Other current financial liabilities | 5,8 | 245 | 534 |
| Other current operating liabilities | 5 | 3,085 | 2,727 |
| **Total current liabilities** | | **4,559** | **4,514** |
| **Total liabilities** | | **19,582** | **17,577** |
| **Total equity and liabilities** | | **13,987** | **13,376** |

## Condensed consolidated cash flow statement

| MSEK | Note | January-December 2018 | Restated 2017 |
|---|---|---|---|
| *Operating activities* | | | |
| **Profit before income taxes** | | **4,531** | **4,353** |
| Share of profit/loss in associated companies | | -3 | -10 |
| Dividend received from associated companies | | 3 | 0 |
| Other non-cash items and other | | 374 | -175 |
| Income tax paid | | -958 | -611 |
| **Cash flow from operating activities before changes in working capital** | | **3,947** | **3,557** |
| Changes in working capital | | -242 | -155 |
| **Net cash generated from operating activities** | | **3,705** | **3,402** |
| *Investing activities* | | | |
| Purchase of property, plant and equipment | | -649 | -369 |
| Proceeds from sale of property, plant and equipment | | 3 | 7 |
| Purchase of intangible assets | | -17 | -8 |
| Acquisition of subsidiaries | 4 | -541 | -929 |
| Proceeds from sale of land | | - | 107 |
| Divestments of associated companies | | - | 2,660 |
| Dividend received from STG | | - | 107 |
| Changes in financial receivables etc. | | 0 | 20 |
| **Net cash used in/from investing activities** | | **-1,204** | **1,594** |
| *Financing activities* | | | |
| Proceeds from borrowings | | 2,846 | 3,293 |
| Repayment of borrowings | | -1,252 | -1,988 |
| Dividend paid to equity holders of the Parent | | -2,911 | -2,908 |
| Repurchase of own shares | | -2,512 | -2,590 |
| Realized exchange gain/losses on financial instruments | | 136 | -90 |
| Other | | -3 | 0 |
| **Net cash used in financing activities** | | **-3,697** | **-4,283** |
| **Net decrease/increase in cash and cash equivalents** | | **-1,195** | **713** |
| Cash and cash equivalents at the beginning of the period | | 3,998 | 3,364 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | 83 | -79 |
| **Cash and cash equivalents at the end of the period** | | **2,886** | **3,998** |

## 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 | | 3,400 | 0 | 3,400 |
| Other comprehensive income, net of tax for the period | | -715 | 0 | -715 |
| **Total comprehensive income for the period** | | **2,686** | **0** | **2,686** |
| Dividend | | -2,908 | 0 | -2,908 |
| Repurchase of own shares | | -2,590 | - | -2,590 |
| Cancellation of shares | | -14 | - | -14 |
| Bonus issue | | 14 | - | 14 |
| **Equity at December 31, 2017** | | **-4,202** | **1** | **-4,201** |
| **Equity at January 1, 2018** | | **-4,202** | **1** | **-4,201** |
| Profit for the period | | 3,578 | 0 | 3,578 |
| Other comprehensive income, net of tax for the period | | 436 | 0 | 436 |
| **Total comprehensive income for the period** | | **4,014** | **0** | **4,014** |
| Dividend | | -2,911 | 0 | -2,911 |
| Repurchase of own shares | | -2,512 | - | -2,512 |
| Cancellation of shares | | -13 | - | -13 |
| Bonus issue | | 13 | - | 13 |
| Acquisition of non-controlling interests | | - | 15 | 15 |
| **Equity at December 31, 2018** | | **-5,611** | **16** | **-5,595** |

## Condensed Parent Company income statement

| MSEK | January-December 2018 | 2017 |
|---|---|---|
| Sales | 48 | 47 |
| Administrative expenses | -249 | -166 |
| **Operating loss** | **-201** | **-118** |
| Result from participation in Group companies | -2 | 5,310 |
| Finance income | - | 1 |
| Finance costs | -299 | -609 |
| Net finance cost | -299 | -608 |
| **Loss/Profit after financial items** | **-502** | **4,584** |
| Appropriations[1)] | 2,208 | 2,080 |
| **Profit before income tax** | **1,706** | **6,664** |
| Income tax | -378 | -298 |
| **Profit for the period** | **1,328** | **6,367** |

1) Appropriations consists of tax allocation reserve and Group contributions.

## Condensed Parent Company statement of comprehensive income

| MSEK | January-December 2018 | 2017 |
|---|---|---|
| **Profit for the period** | **1,328** | **6,367** |
| *Other comprehensive income that may be reclassified to the income statement* | | |
| Effective portion of changes in fair value of cash flow hedges | 39 | -104 |
| Income tax relating to components of other comprehensive income | -11 | 23 |
| **Other comprehensive income, net of tax for the period** | **28** | **-81** |
| **Total comprehensive income for the period** | **1,356** | **6,286** |

## Condensed Parent Company balance sheet

| MSEK | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Intangible and tangible assets | 1 | 1 |
| Non-current financial assets | 31,701 | 32,002 |
| Current assets | 4,161 | 4,394 |
| **Total assets** | **35,863** | **36,397** |
| **Equity** | **15,154** | **19,221** |
| **Untaxed reserves** | **1,785** | **1,330** |
| Provisions | 78 | 86 |
| Non-current liabilities | 12,280 | 10,349 |
| Current liabilities | 6,566 | 5,409 |
| **Total liabilities** | **18,924** | **15,845** |
| **Total equity and liabilities** | **35,863** | **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.

The application of IFRS 15 Revenue from Contracts with Customers had 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 returned goods within the reportable segment Snus and moist snuff, constituting an immaterial amount.

Other new amendments and interpretations applicable as of January 1, 2018 did not have a 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 statements, 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 full year 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<br>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 full year 2017*

**Condensed consolidated income statement**

| *MSEK* | Full year 2017 | IFRS 15 transition effects adjustments<br>Reclassification from principal to agent | Net change in provision for goods returned | Restated Full year 2017 |
|---|---|---|---|---|
| **Sales** | **16,101** | **-4,351** | **1** | **11,751** |
| Cost of goods sold | -8,707 | 4,351 | - | -4,356 |
| **Gross profit** | **7,395** | **-** | **1** | **7,396** |
| Selling and admin. expenses | -3,187 | - | - | -3,187 |
| Share of profit/loss in associated companies | 10 | - | - | 10 |
| Larger one-time items | 373 | - | - | 373 |
| **Operating profit** | **4,591** | **-** | **1** | **4,592** |
| Net finance cost | -240 | - | - | -240 |
| **Profit before income tax** | **4,352** | **-** | **1** | **4,353** |
| Income tax expense | -952 | - | 0 | -952 |
| **Profit for the period** | **3,400** | **-** | **1** | **3,400** |
| *Attributable to:* | | | | |
| Equity holders of the Parent | 3,400 | - | 1 | 3,400 |
| Non-controlling interests | 0 | - | - | 0 |
| **Profit for the period** | **3,400** | **-** | **1** | **3,400** |
| Earnings per share, SEK | 18.88 | - | - | 18.88 |

## Condensed consolidated balance sheet

| *MSEK* | Dec 31, 2017 | IFRS 15 transition effects adjustments<br>Reclassification from principal to agent | <br>Provision for goods returned | Restated Dec 31, 2017 |
|---|---|---|---|---|
| Total non-current assets | 5,944 | - | - | 5,944 |
| Total current assets | 7,699 | -267 | - | 7,432 |
| **Total assets** | **13,643** | **-267** | **-** | **13,376** |
| | | | | |
| Equity attributable to equity holders of the Parent | -4,179 | - | -23 | -4,202 |
| Non-controlling interests | 1 | - | - | 1 |
| **Total equity** | **-4,178** | **-** | **-23** | **-4,201** |
| | | | | |
| Total non-current liabilities | 13,063 | - | - | 13,063 |
| Total current liabilities | 4,758 | -267 | 23 | 4,514 |
| **Total liabilities** | **17,821** | **-267** | **23** | **17,577** |
| **Total equity and liabilities** | **13,643** | **-267** | **-** | **13,376** |

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

As of January 1, 2019, Swedish Match will adopt IFRS 16 Leases, which will replace IAS 17 Leases and the related Interpretations. IFRS 16 prescribes the principles for the recognition, measurement, presentation and disclosure of leases for both lessee and lessor.

The adoption of IFRS 16 is not expected to have a material impact on the Group's financial statements.

The new standard will have the effect that most of the Group's lease contracts will be recognized as right-of-use assets and lease liabilities measured at the present value of future lease payments. In the income statement, depreciations of the right-of-use assets and the interest expenses on the lease liabilities will be recognized instead of the lease payments recognized as cost when incurred.

The new standard will be dependent on management's judgement and estimates of certain variables that have a direct impact on the reported balances. An example of this is the assumption on the discount rates to be applied in the measurement of the lease liabilities and the corresponding right-of-use assets. Other judgments that may have significant impact on the reported balances are judgements on the likelihood of using extension and termination options in lease contracts. The assessment of utilizing or not utilizing extension and termination options impacts the lease period of future lease payments included in the measurement of the lease liabilities and the related right-of-use assets.

Contracts or parts of contracts, where the terms provide Swedish Match with the right to control the use of an identified asset for a period of time in exchange for consideration, constitute lease contracts and will thus be recognized as right-of-use assets and lease liabilities on the Group's balance sheet.

Lease contracts within the Group mainly pertain to real estate leases, such as rental of office premises, factory premises, warehouses and storages. Real estate leases represent approximately 70 percent of the total value of leases within the Group. The duration of real estate leases is typically 3-5 years, excluding assessments of the likelihood of utilizing extension and termination options. The Group also has some lease contracts for machineries, equipment and vehicles.

In the measurement of the opening balance of IFRS 16 right-of-use assets and lease liabilities, Swedish Match has chosen to apply the practical expedients in IFRS 16 for short-term leases (contracts with a lease term of 12 months or less) and leases for which the underlying asset is of low value. The Group's lease contracts of low value are mainly leases of office equipment, furniture, water dispensers, coffee machines and IT equipment for individual use. Such lease contracts will not be included in the Group's opening balance for lease liabilities and related right-of-use assets and will continue to be reported as operating leases with the lease payments expensed in the income statement when incurred. In addition, leases of intangible assets, such as software, licenses, etc., are also excluded from IFRS 16.

The Group’s policy for determining the discount rates will be based on the incremental borrowing rate for lease contracts. The key parameters to determine the discount rates will be based on type of underlying asset of the lease contract, the lease term and the economic environment where the asset will operate.

**Transition to IFRS 16**

Swedish Match has chosen to apply the cumulative catch-up approach as the transition method for IFRS 16 in accordance with IFRS 16.C5(b), where the opening balance of a right-of-use asset is set equal to the corresponding lease liability on transition to IFRS 16. In addition, the right-of-use assets, where applicable, will also include pre-paid lease expenses relating to the utilization of the underlying asset applicable to periods after the date of transition.

This transition method will be applied to all types of lease contracts in scope for IFRS 16 to be reported on the balance sheet. This transition method means that comparable financial information will not be restated. Instead, IFRS 16 will be applied on the financial statement prospectively as per January 1, 2019. Furthermore, this transition method implies that for existing lease contracts with a remaining lease term of more than 12 months, at the date of when the new standard will be effective, will be recognized as a lease liability measured as the discounted net present value of the remaining future lease payments of the contract, with the corresponding right-of-use assets recognized on the balance sheet. Consequently, lease contracts for which the lease term ends within 12 months of the date of initial application will be reported as short-term leases, with the lease payments expensed when incurred in accordance with the practical expedients in IFRS 16.C10. The discount rates will be determined as per the date of the transition, i.e. January 1, 2019. The transition to IFRS 16 is not expected to have any effect to be recognized as an adjustment to the opening balance of retained earnings of the annual reporting period starting January 1, 2019.

**Summary of financial impact**

The Group’s reported assets and liabilities will increase due to the recognition of right-of-use assets and lease liabilities. The opening balances for the Group’s lease liabilities and right-of-use assets as per January 1, 2019 amount to 279 MSEK and 281 MSEK respectively. In the assessment of the measurement of the opening balance for the Group’s lease liabilities, the weighted average discount rate applied was 4.4 percent and the average duration of the lease term was 2.3 years, including assessments of the likelihood of utilizing extension and termination options.

Swedish Match has assessed that the financial effect on the Group in 2019 is expected to reduce net profit by approximately 6 MSEK, mainly relating to higher interest costs on lease liabilities which more than offset reduced operating expenses. Cash flow from financing activities is estimated to be negatively impacted by the amortization of lease liabilities of approximately 74 MSEK, but which is offset by improved cash flow from operating activities.

The Group’s EBITDA is estimated to improve by approximately 85 MSEK in 2019 as lease payments recognized as operating costs when incurred under IAS 17 will be replaced by depreciation costs on the right-of-use assets and interest expenses on the related lease liabilities. The Group’s net debt is estimated to increase by 279 MSEK as lease liabilities are classified as financial liabilities. The impact on net debt/EBITA ratio and other key ratios is estimated to be immaterial.

**Reconciliation of operating lease obligations**

Up until December 31, 2018, the Group’s lease contracts are reported as operating leases under IAS 17. As per December 31, 2018, total future minimum lease payments for non-cancelable operating lease contracts amounted to 299 MSEK (undiscounted value).

The difference between lease contracts reported as operating leases under IAS 17 and the IFRS 16 lease liability as per January 1, 2019 mainly pertains to the exemptions of lease payments relating to short-term and low value lease contracts. Furthermore, the Group’s lease liabilities are also increased by future lease payments for periods included from the assessment of the likelihood of using extension options or not utilizing termination options. For further detail, please see the table below.

## Reconciliation operating lease obligations vs. IFRS 16 opening balance lease liabilities

| *MSEK* | |
|---|---|
| **Total undiscounted lease liabilities at December 31, 2018** | **299** |
| Less expenses for short-term leases | -7 |
| Less expenses for low value leases | -3 |
| Adjustments relating to likelihood of using extension/termination options | 34 |
| Adjustments relating to price changes in future lease payments | 5 |
| **Total undiscounted IFRS 16 lease liabilities to be reported in the balance sheet at January 1, 2019** | **328** |
| Discounted effect on lease liabilities | -49 |
| **IFRS 16 opening balance lease liabilities at January 1, 2019** | **279** |

## 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 the point 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 – October to December

| *MSEK* | Segments | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Snus and moist snuff | | Other tobacco products | | Lights | | Total segments | | Other operations | | Group | |
| **Primary geographical markets** | Oct-Dec 2018 | 2017 | Oct-Dec 2018 | 2017 | Oct-Dec 2018 | 2017 | Oct-Dec 2018 | 2017 | Oct-Dec 2018 | 2017 | Oct-Dec 2018 | 2017 |
| Scandinavia | 1,157 | 1,065 | 18 | 7 | 17 | 18 | 1,192 | 1,091 | 87 | 84 | 1,280 | 1,174 |
| The US | 465 | 334 | 1,176 | 1,076 | 15 | 9 | 1,655 | 1,419 | - | - | 1,655 | 1,419 |
| Other markets | 10 | 8 | 39 | 36 | 317 | 314 | 366 | 358 | - | - | 366 | 358 |
| **Total sales** | **1,632** | **1,407** | **1,233** | **1,120** | **349** | **341** | **3,214** | **2,867** | **87** | **84** | **3,301** | **2,951** |

### Sales – January to December

| *MSEK* | Segments | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Snus and moist snuff | | Other tobacco products | | Lights | | Total segments | | Other operations | | Group | |
| **Primary geographical markets** | Jan-Dec 2018 | 2017 | Jan-Dec 2018 | 2017 | Jan-Dec 2018 | 2017 | Jan-Dec 2018 | 2017 | Jan-Dec 2018 | 2017 | Jan-Dec 2018 | 2017 |
| Scandinavia | 4,343 | 4,017 | 75 | 16 | 51 | 53 | 4,469 | 4,086 | 353 | 342 | 4,822 | 4,428 |
| The US | 1,752 | 1,452 | 5,007 | 4,564 | 45 | 40 | 6,803 | 6,056 | - | - | 6,803 | 6,056 |
| Other markets | 32 | 15 | 158 | 54 | 1,150 | 1,197 | 1,340 | 1,267 | - | - | 1,340 | 1,267 |
| **Total sales** | **6,127** | **5,484** | **5,240** | **4,634** | **1,246** | **1,291** | **12,612** | **11,410** | **353** | **342** | **12,966** | **11,751** |

## 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 of the Swedish distribution function 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 the table on page 15.

## Note 4 – Business combinations

On April 3, 2018, Swedish Match acquired 100 percent of the shares in House of Oliver Twist A/S (Oliver Twist). The total consideration amounted to 306 MSEK (221 MDKK), paid in cash.

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.

Sales attributable to the two acquisitions made during 2018 from the day of each acquisition amounted to 86 MSEK and are included in the Group's net sales. The acquisitions also contributed profit after tax of 16 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 139 MSEK and about 26 MSEK on profit after tax for the year.

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** |
|---|---|
| Property, plant and equipment | 27 |
| Intangible assets | 246 |
| 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 | 53 |
| **Net identifiable assets and liabilities** | **272** |
| Group goodwill | 332 |
| Non-controlling interests[1)] | -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) Non-controlling interest has been revalued to 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 either of the two acquisitions have been identified.

## Note 5 – Carrying value and fair value

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

## 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 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 December 31, 2018.

## Carrying value and fair value

| MSEK | Financial instruments measured at FVTPL | Financial assets measured at amortized cost | Other financial liabilities | Cash flow hedges measured at FVOCI | Other receivables and liabilities | Total carrying value | Estimated fair value |
|---|---|---|---|---|---|---|---|
| Trade receivables | - | 1,636 | - | - | - | 1,636 | 1,636 |
| Other non-current financial receivables | - | - | - | 485 | 424 | 910 | 910 |
| Other current assets and financial receivables | 1 | 13 | - | 134 | 414 | 562 | 562 |
| Prepaid expenses and accrued income[1)] | - | - | - | 2 | 118 | 119 | 119 |
| Cash and cash equivalents | - | 2,886 | - | - | - | 2,886 | 2,886 |
| **Total assets** | **1** | **4,535** | **-** | **621** | **956** | **6,113** | **6,113** |
| Loans and borrowings | - | - | 13,511 | - | - | 13,511 | 13,439 |
| Other non-current financial liabilities | - | - | 31 | 2 | 59 | 93 | 93 |
| Other current liabilities | 20 | - | - | - | 1,806 | 1,826 | 1,826 |
| Accrued expenses and deferred income[1)] | - | - | 104 | 25 | 809 | 938 | 938 |
| Trade payables | - | - | 371 | - | - | 371 | 371 |
| **Total liabilities** | **20** | **-** | **14,017** | **27** | **2,674** | **16,739** | **16,667** |

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 | - | 622 | - | 622 |
| Derivative financial liabilities | - | 47 | - | 47 |

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

## Carrying value and fair value

| *MSEK* | Items carried at fair value via the income statement | Loans and receiv-ables | Other financial liabilities | Cash flow hedges | Other receivables and liabilities | Total carrying value | Estimated fair value |
|---|---|---|---|---|---|---|---|
| Trade receivables | - | 1,536 | - | - | - | 1,536 | 1,536 |
| Other non-current financial receivables | - | - | - | 273 | 438 | 711 | 711 |
| Other current assets and financial receivables | 0 | - | - | - | 193 | 193 | 193 |
| Prepaid expenses and accrued income[1)] | - | - | - | 1 | 80 | 81 | 81 |
| Cash and cash equivalents | - | 3,998 | - | - | - | 3,998 | 3,998 |
| **Total assets** | **0** | **5,534** | **-** | **274** | **711** | **6,519** | **6,519** |
| Loans and borrowings | - | - | 11,530 | - | - | 11,530 | 11,705 |
| Other non-current financial liabilities | - | - | - | 72 | 74 | 147 | 147 |
| Other current liabilities | 40 | - | - | - | 1,431 | 1,471 | 1,471 |
| Accrued expenses and deferred income[1)] | - | - | 100 | 25 | 729 | 854 | 854 |
| Trade payables | - | - | 698 | - | - | 698 | 698 |
| **Total liabilities** | **40** | **-** | **12,328** | **97** | **2,234** | **14,700** | **14,875** |

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 | - | 274 | - | 274 |
| Derivative financial liabilities | - | 137 | - | 137 |

No transfer in or out of level 2 has been made during the fourth 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 9,570 MSEK (8,649) of which 7,196 MSEK (6,996) is in cash flow hedges consisting of cross currency and interest rate swaps related to bond loans. The remaining 2,374 MSEK (1,653) 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* | October-December | | Full year | |
|---|---|---|---|---|
| | **2018** | **Restated 2017** | **2018** | **Restated 2017** |
| Profit for the period attributable to equity holders of the Parent, MSEK | 925 | 904 | 3,578 | 3,400 |
| Profit for the period attributable to equity holders of the Parent, excluding income from STG and larger one-time items, MSEK | 925 | 750 | 3,578 | 2,953 |
| **Weighted average number of shares outstanding, basic and diluted** | **170,770,196** | **176,854,659** | **173,445,540** | **180,096,690** |

| *Earnings per share, basic and diluted, SEK* | October-December | | Full year | |
|---|---|---|---|---|
| | **2018** | **Restated 2017** | **2018** | **Restated 2017** |
| Earnings per share | 5.41 | 5.10 | 20.63 | 18.88 |
| Adjusted earnings per share[1)] | 5.41 | 4.24 | 20.63 | 16.40 |

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

## Note 7 – Tax related contingencies

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 Tax Agency's decisions in March 2018. Based on management's interpretation of applicable tax regulations, expert advice on the likely outcome and developments in similar case rulings, no provision has been recognized for potential losses associated with these cases.

## Note 8 – 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 Group's financial position and performance for investors and for the Group'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 | Full year 2018 | 2017 |
|---|---|---|
| Income from defined benefit plan amendment | - | 69 |
| Sale of STG shares | - | 197 |
| Capital gain from sale of land | - | 107 |
| **Total larger one-time items in operating profit** | **-** | **373** |
| Dividend from STG | - | 107 |
| **Total larger one-time items** | **-** | **480** |

## Net debt

| MSEK | Full year 2018 | 2017 |
|---|---|---|
| Non-current loans | 12,282 | 10,277 |
| Current loans | 1,229 | 1,253 |
| Components of derivatives (liabilities)[1] | 20 | 40 |
| Net provision for pensions and similar obligations[2] | 1,106 | 1,146 |
| Cash and cash equivalents and other short-term investments | -2,886 | -3,998 |
| Net asset for pensions and similar receivables[3] | -83 | -88 |
| Components of derivatives (assets)[4] | -826 | -446 |
| **Net debt** | **10,843** | **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 has 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* | Q4/18 | Q3/18 | Q2/18 | Q1/18 | Q4/17 |
|---|---|---|---|---|---|
| Sales, including tobacco tax | 4,189 | 4,217 | 4,179 | 3,750 | 3,784 |
| Less tobacco tax | -888 | -828 | -844 | -810 | -833 |
| **Sales** | **3,301** | **3,388** | **3,336** | **2,941** | **2,951** |
| Cost of goods sold | -1,244 | -1,231 | -1,251 | -1,107 | -1,130 |
| **Gross profit** | **2,057** | **2,157** | **2,085** | **1,834** | **1,821** |
| Selling and administrative expenses | -862 | -853 | -823 | -786 | -780 |
| Share of net profit/loss in associated companies | 1 | 1 | 1 | -1 | 2 |
| Income from defined benefit plan amendment | - | - | - | - | 69 |
| Sale of STG shares | - | - | - | - | 66 |
| **Operating profit** | **1,196** | **1,305** | **1,263** | **1,047** | **1,178** |
| Dividend from STG | - | - | - | - | 42 |
| Finance income | 21 | 16 | 17 | 14 | 10 |
| Finance costs | -83 | -89 | -90 | -87 | -96 |
| Net finance cost | -62 | -73 | -73 | -73 | -44 |
| **Profit before income tax** | **1,134** | **1,232** | **1,190** | **974** | **1,134** |
| Income tax expense | -209 | -273 | -263 | -208 | -231 |
| **Profit for the period** | **925** | **959** | **928** | **766** | **904** |
| *Attributable to:* | | | | | |
| Equity holders of the Parent | 925 | 959 | 928 | 766 | 904 |
| Non-controlling interests | 0 | 0 | 0 | 0 | 0 |
| **Profit for the period** | **925** | **959** | **928** | **766** | **904** |

Swedish Match

## Quarterly data by product segment

### Sales

| MSEK | Q4/18 | Q3/18 | Q2/18 | Q1/18 | Q4/17 |
|---|---|---|---|---|---|
| Snus and moist snuff | 1,632 | 1,601 | 1,509 | 1,386 | 1,407 |
| Other tobacco products | 1,233 | 1,384 | 1,433 | 1,190 | 1,120 |
| Lights | 349 | 310 | 302 | 285 | 341 |
| **Sales from product segments** | **3,214** | **3,295** | **3,244** | **2,860** | **2,867** |
| Other operations | 87 | 93 | 92 | 81 | 84 |
| **Sales** | **3,301** | **3,388** | **3,336** | **2,941** | **2,951** |

### Operating profit

| MSEK | Q4/18 | Q3/18 | Q2/18 | Q1/18 | Q4/17 |
|---|---|---|---|---|---|
| Snus and moist snuff | 725 | 752 | 691 | 623 | 612 |
| Other tobacco products | 456 | 519 | 557 | 425 | 417 |
| Lights | 66 | 46 | 46 | 31 | 68 |
| **Operating profit from product segments** | **1,246** | **1,317** | **1,293** | **1,079** | **1,096** |
| Other operations | -50 | -12 | -30 | -31 | -53 |
| Income from defined benefit plan amendment | - | - | - | - | 69 |
| Sale of STG shares | - | - | - | - | 66 |
| **Operating profit** | **1,196** | **1,305** | **1,263** | **1,047** | **1,178** |

### Operating margin by product segment

| Percent | Q4/18 | Q3/18 | Q2/18 | Q1/18 | Q4/17 |
|---|---|---|---|---|---|
| Snus and moist snuff | 44.4 | 47.0 | 45.8 | 45.0 | 43.5 |
| Other tobacco products | 37.0 | 37.5 | 38.8 | 35.7 | 37.2 |
| Lights | 18.9 | 14.9 | 15.1 | 10.9 | 19.9 |
| **Operating margin from product segments** | **38.8** | **40.0** | **39.9** | **37.7** | **38.2** |

### EBITDA by product segment

| MSEK | Q4/18 | Q3/18 | Q2/18 | Q1/18 | Q4/17 |
|---|---|---|---|---|---|
| Snus and moist snuff | 795 | 810 | 744 | 675 | 663 |
| Other tobacco products | 480 | 539 | 581 | 446 | 438 |
| Lights | 76 | 57 | 56 | 41 | 78 |
| **EBITDA from product segments** | **1,351** | **1,406** | **1,381** | **1,162** | **1,180** |

### EBITDA margin by product segment

| Percent | Q4/18 | Q3/18 | Q2/18 | Q1/18 | Q4/17 |
|---|---|---|---|---|---|
| Snus and moist snuff | 48.7 | 50.6 | 49.3 | 48.7 | 47.2 |
| Other tobacco products | 38.9 | 39.0 | 40.5 | 37.5 | 39.1 |
| Lights | 21.8 | 18.2 | 18.5 | 14.4 | 23.0 |
| **EBITDA margin from product segments** | **42.0** | **42.7** | **42.6** | **40.6** | **41.1** |

## Additional quarterly data

### Depreciation, amortization and impairments

| MSEK | Q4/18 | Q3/18 | Q2/18 | Q1/18 | Q4/17 |
|---|---|---|---|---|---|
| Property, plant and equipment | 102 | 85 | 84 | 81 | 85 |
| Intangible assets | 16 | 16 | 16 | 16 | 13 |
| **Total** | **117** | **101** | **100** | **97** | **98** |

### Net finance cost

| MSEK | Q4/18 | Q3/18 | Q2/18 | Q1/18 | Q4/17 |
|---|---|---|---|---|---|
| Interest income | 15 | 16 | 17 | 14 | 10 |
| Interest expense | -81 | -87 | -86 | -86 | -97 |
| **Net interest expense** | **-66** | **-71** | **-69** | **-72** | **-87** |
| Dividend from STG | - | - | - | - | 42 |
| Other finance costs, net | 4 | -2 | -4 | -1 | 1 |
| **Total net finance cost** | **-62** | **-73** | **-73** | **-73** | **-44** |

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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, ZYN, Game, Red Man, Fiat Lux,* and *Cricket*.

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