Swedish Match

Q2 2019

Half Year Report
January – June 2019

Q2 sales and profit up, *ZYN* expansion well underway

- **In local currencies, sales increased by 6 percent for the second quarter. Reported sales increased by 12 percent to 3,719 MSEK (3,336).**
- **In local currencies, operating profit from product segments[1)] increased by 7 percent for the second quarter. Reported operating profit from product segments increased by 13 percent to 1,458 MSEK (1,293).**
- **Operating profit amounted to 1,434 MSEK (1,263) for the second quarter.**
- **Profit after tax amounted to 1,080 MSEK (928) for the second quarter.**
- **Earnings per share increased by 20 percent to 6.39 SEK (5.31) for the second quarter.**
- **The outlook statement on page 11 has been modified with regard to expected growth of the US cigar market.**
- ***ZYN* in more than 50,000 stores in the US.**

1) Excludes Other operations.

CEO Lars Dahlgren comments:

Record result for the Snus and moist snuff product segment

In many respects, our second quarter financial performance illustrates the changing landscape of nicotine consumption. The Snus and moist snuff product segment, and particularly the strong result from *ZYN* nicotine pouches in the US, drove the improvements in sales and operating profit for the Group. Traditional combustible and smokeless tobacco categories continue to face volume challenges at the expense of innovative offerings and brands that appeal to consumers' demands for nicotine satisfaction and harm reduction. To that end, we were pleased with the recent ruling by the Federal Supreme Court of Switzerland that the ban on snus in Switzerland lacks judicial ground and is unconstitutional citing that Swedish snus is less harmful than other tobacco-based products. While global tobacco peers have more recently repositioned their strategies and product portfolios, both organically and through acquisitions to respond to market trends, it is with a sense of pride that we note that 2019 marks the twenty-year anniversary of Swedish Match's proactive decision to divest our cigarette business – a strategic move that pioneered the journey to our vision of a world without cigarettes.

Within our Snus and moist snuff product segment, the second quarter represented an important step as we expanded our distribution presence for *ZYN* nationally in the US. We are very pleased with the overwhelmingly positive reception to *ZYN* from the trade and consumers in our new launch markets in the US and with the continued impressive performance of *ZYN* in the previously established western region where average sales volumes per store continued to increase. Our Snus and moist snuff product segment reported very sharp growth in sales and operating profit during the second quarter. Although the financial performance benefited from favorable currency effects, trade loading from the distribution build for *ZYN* in the US and positive calendar effects in Scandinavia, our underlying financial performance during the quarter was impressive. The Scandinavian snus market continued to demonstrate very strong quarter-on-quarter volume and value growth, particularly in Sweden where modern offerings have attracted new consumers and provide appealing alternatives to traditional tobacco products. Our market share performance during the quarter in the fastest growing segments was disappointing and Swedish Match remains focused on developing and implementing initiatives aimed at improving the trends in these key segments. The US moist snuff category continued to experience volume declines; however, Swedish Match shipment volumes during the quarter increased principally due to promotional phasing and our focus on the growing pouch segment.

While the financial performance of our Other tobacco product segment during the quarter may, at first glance, appear weak, it is important to note that the second quarter of the prior year was the record quarterly financial performance for this segment in terms of sales and operating profit. Based on our measure of distributor shipments to retailers, the rate of volume decline in the US mass market cigar category accelerated during the second quarter to close to 4 percent most notably impacted by a sharper decline within the HTL segment. Swedish Match cigar shipment volumes were up from the first quarter on a sequential basis, but declined 5 percent on a constant trading day basis during the quarter versus the prior year due to calendar phasing of limited-time-offering promotions and general category softness. We remain optimistic about our US cigar business and are well positioned to pursue future growth opportunities within this category given our broad portfolio assortment and our strength in those segments that continue to demonstrate growth. During the quarter we made good progress in easing the shortage of tobacco leaf supply for our rolled leaf cigar assortment which puts us in a stronger position for the second half of the year. Our US chewing tobacco business continues to effectively navigate overall category declines and market shifts to more value priced products.

The Lights product segment can experience quarterly fluctuations in reported results, but the financial performance for Lights was unusually weak in the second quarter due to a number of concurrent factors. Nylon prices continued to impact the profitability for lighters and trade destocking in Brazil adversely impacted matches and complementary products. In Brazil, we are currently taking steps to address the cost structure and the second quarter results included restructuring charges of 12 MSEK.

Twenty years ago, we chose a different path than our peers; not chasing decreasing cigarette volumes but investing in and developing growing categories with a focus on less harmful alternatives. The evolution of tobacco markets continues to accelerate as traditional categories decline and emerging offerings continue to compete for existing and new consumers. Our national launch of *ZYN* in the US in the second quarter is a testament to Swedish Match's leadership in this changing landscape and I am confident that with our consistent strategy, experience, competencies and focus, Swedish Match will play an active role in defining, driving and leading future growth opportunities.

Summary of consolidated income statement

MSEK	April-June 2019	April-June 2018	Chg %	January-June 2019	January-June 2018	Chg %	Full year 2018
Sales	3,719	3,336	12	6,977	6,276	11	12,966
Sales from product segments[1)]	3,622	3,244	12	6,795	6,104	11	12,612
Operating profit from product segments[1)]	1,458	1,293	13	2,696	2,372	14	4,936
Operating profit	1,434	1,263	14	2,624	2,311	14	4,812
Profit before income tax	1,374	1,190	15	2,495	2,165	15	4,531
Profit for the period	1,080	928	16	1,960	1,694	16	3,578
Operating margin from product segments, %[1)]	40.3	39.9		39.7	38.9		39.1
Earnings per share, basic and diluted, SEK	6.39	5.31		11.56	9.67		20.63

1) Excluding Other operations.

The second quarter

(Note: Comments below refer to the comparison between the second quarter 2019 vs. the second quarter 2018).

Sales

Group sales and sales from product segments both increased by 12 percent to 3,719 MSEK (3,336) and 3,622 MSEK (3,244), respectively. Currency translation positively affected the comparability of sales from product segments by 190 MSEK, and in local currencies, sales from product segments increased by 6 percent. The Snus and moist snuff product segment was the driver for sales growth in local currencies during the quarter. In local currencies, sales declined for both the Other tobacco products and the Lights product segment. Sales development for the Snus and moist snuff and Other tobacco products segments has been adversely impacted by the implementation of a new retailer merchandising program beginning January 1, 2019 that incorporates all of our US businesses. The retailer merchandising program is designed to expand product distribution across our US portfolio and results in certain program costs which were previously classified as marketing expense to be reported as a reduction to sales. Adjusted for this retailer merchandising program, sales from products segments would have increased by 7 percent in local currencies.

Earnings

Operating profit from product segments increased by 13 percent to 1,458 MSEK (1,293). In local currencies, operating profit from product segments was up by 7 percent and increased for the Snus and moist snuff product segment but declined for the Other tobacco products and Lights product segments.

Group operating profit amounted to 1,434 MSEK (1,263). Currency translation has affected the comparison of the operating profit positively by 73 MSEK.

The Group's net finance cost amounted to 60 MSEK (73). The income tax expense amounted to 294 MSEK (263) and the effective corporate tax rate was 21.4 percent (22.1).

The Group's profit for the period amounted to 1,080 MSEK (928).

Earnings per share for the second quarter increased by 20 percent to 6.39 SEK (5.31).

The first six months

(Note: Comments below refer to the comparison between the first six months 2019 vs. the first six months 2018).

Sales

Sales increased by 11 percent to 6,977 MSEK (6,276). Currency translation affected the sales comparison positively by 410 MSEK. In local currencies, sales increased by 5 percent. Adjusted for the above-mentioned retailer merchandising program in the US, sales from products segments would have increased by 6 percent in local currencies.

Earnings

Operating profit from product segments amounted to 2,696 MSEK (2,372). In local currencies the operating profit from product segments increased by 7 percent and increased for the Snus and moist snuff and Other tobacco products product segments but declined for the Lights product segment.

Group operating profit amounted to 2,624 MSEK (2,311). Currency translation has affected the comparison of the operating profit positively by 157 MSEK.

The Group's net finance cost amounted to 129 MSEK (146). Income tax expense amounted to 536 MSEK (471), corresponding to a tax rate of 21.5 percent (21.7). The effective corporate tax rate, excluding associated companies and non-recurring tax items, was 21.7 percent (21.8).

The Group's profit for the period amounted to 1,960 MSEK (1,694).

Earnings per share for the first six months increased by 20 percent to 11.56 SEK (9.67).

G.4 and *ZYN*

With the newest addition to the *G.4* all white snus lineup, Swedish Match introduces *G.4 Fizzy* to the Scandinavian market, a slim portion product with a fresh hint of citrus and elder flower with a soft mouth feel and minimal drip.

The *ZYN* portfolio has now been expanded nationwide in the US, to more than 50,000 shops, and certain slim and mini varieties are now available in Denmark, the Czech Republic, online in Switzerland and the UK, and soon available in stores in the UK.

Snus and moist snuff

Second quarter highlights:

- Higher sales and operating profit in both Scandinavia and the US in local currencies
- Calendar effects positively impacted shipment volume comparisons in Scandinavia. Underlying Scandinavian shipment volumes were up by less than 1 percent
- Strong growth from our portfolio of snus and *ZYN* nicotine pouches outside Scandinavia, led by growth for *ZYN* from both existing stores and store expansion in the US
- Increased US moist snuff shipment volumes and sales, despite overall category declines, due to promotional phasing

Key data

MSEK	April-June		Chg	January-June		Chg	Full year
	2019	**2018**	**%**	**2019**	**2018**	**%**	**2018**
Sales	1,876	1,509	24	3,392	2,894	17	6,127
Operating profit	874	691	26	1,550	1,314	18	2,791
Operating margin, %	46.6	45.8		45.7	45.4		45.6
EBITDA	947	744	27	1,692	1,420	19	3,025
EBITDA margin, %	50.5	49.3		49.9	49.1		49.4

The second quarter

(Note: Comments below refer to the comparison between the second quarter 2019 vs. the second quarter 2018).

Sales for Snus and moist snuff were up 24 percent. In local currencies, sales increased by 20 percent, driven by snus and nicotine pouches outside of Scandinavia. Sales also grew for snus in Scandinavia as well as for moist snuff in the US. Operating profit in local currencies improved in both Scandinavia and the US. The operating margin was higher than in the second quarter of 2018, due to improved profitability for the US businesses. In the US, operating profit and operating margin grew despite the adverse effects of a changed segment allocation methodology for shared operating expenses of our US business. The change recognizes the designation of *ZYN* as a more established business within our US portfolio. Under the 2018 allocation methodology Snus and moist snuff expenses would have been 15 MSEK lower and Other tobacco products expenses would have been higher by the same amount.

In Scandinavia, the Swedish and Norwegian markets demonstrated continued volume growth, with the total Scandinavian market estimated to have grown by more than 6 percent on an underlying basis adjusted for inventory fluctuations and calendar effects. Swedish Match shipment volumes, including Gotlandssnus, acquired in the third quarter 2018, grew by 5 percent, aided by calendar effects (primarily Easter). Swedish Match estimates that its underlying organic volumes (excluding Gotlandssnus and calendar effects) were up by less than 1 percent. Average selling prices increased as a result of price increases as well as a stronger

NOK. Sales and gross profit in Scandinavia increased on higher volumes and higher realized pricing, partially offset by increased manufacturing costs.

In Sweden, competitive activity has been intense both within the premium and the value segment and Swedish Match's market share declined in both segments. In Norway, Swedish Match's 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 rapid growth of the nicotine pouch segment where Swedish Match's segment share remained below its overall market share.

For our US moist snuff business volumes grew, in large part due to promotional phasing. Both sales and operating profit were higher on a local currency basis. Volumes for snus and nicotine pouches outside Scandinavia increased sharply, stemming primarily from *ZYN* in the US. The distribution of *ZYN* in the US grew sequentially and became available nationwide with presence in approximately 51,000 stores at the end of the quarter. The sharp increase in volumes for snus and nicotine pouches outside Scandinavia was accentuated by pipe-line volumes to distributors to support the expanded store distribution, but average sales volume per store for stores in place prior to the second quarter (pre-nationwide expansion) for *ZYN* in the US continued to increase.

The first six months

(Note: Comments below refer to the comparison between the first six months 2019 vs. the first six months 2018).

Sales for the product segment grew by 13 percent in local currencies. Operating profit increased to 1,550 MSEK (1,314). In local currencies, operating profit was higher for snus in Scandinavia and for moist snuff in the US as well as for snus and nicotine pouches outside of Scandinavia (primarily *ZYN* in the US).

In Scandinavia, shipment volumes grew by 2 percent. Swedish Match estimates that its underlying organic Scandinavian snus volumes (excluding Gotlandssnus and adjusted for calendar effects) increased by less than 1 percent. Operating profit for snus in Scandinavia grew on higher sales. In the US, sales in local currency for moist snuff declined as a consequence of the accounting effects of the new retailer merchandising program. For snus and nicotine pouches outside Scandinavia, the favorable financial development resulted from higher volumes as well as improved pricing, partially offset by marketing expenses and sales allowances tied to the national rollout of *ZYN* in the US. Shipments of *ZYN* in the US amounted to 17.5 million cans during the first six months, up from 5 million cans in the prior year.

Swedish Match shipment volumes

Millions of cans	April-June 2019	April-June 2018	Chg %	January-June 2019	January-June 2018	Chg %	Full year 2018
Snus, Scandinavia[1)]	68.3	65.3	5	128.9	126.8	2	263.4
Moist snuff, US	32.0	31.1	3	62.4	65.1	-4	126.3
Snus and nicotine pouches, outside Scandinavia[1)]	15.1	6.1	148	24.2	10.9	122	25.2

1) Includes snus volumes for Gotlandssnus from acquisition date, August 22, 2018.

Swedish Match Scandinavian snus market shares[1)]

Percent	April-June 2019	April-June 2018	Chg ppts	January-June 2019	January-June 2018	Chg ppts	Full year 2018
Snus, Sweden, total	60.1	64.2	-4.0	60.5	64.3	-3.8	63.5
Snus, Sweden, premium	83.1	89.0	-5.9	84.2	89.4	-5.2	88.4
Snus, Sweden, value	33.1	35.5	-2.4	33.1	35.5	-2.4	34.7
Snus, Norway, total	49.4	51.6	-2.2	49.9	51.9	-2.0	51.3

1) Swedish Match estimates using Nielsen data (excluding tobacconists and e-commerce): 13 weeks to June 30, 2019 and July 1, 2018, 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 in 2018.

Other tobacco products

Second quarter highlights:

- US cigar shipment volumes down 7 percent, reflecting a high level of promotional activity in the prior year quarter for both HTL and natural leaf varieties
- Market declines for HTL cigars continued, as well as for US chewing tobacco

Key data

MSEK	April-June 2019	April-June 2018	Chg %	January-June 2019	January-June 2018	Chg %	Full year 2018
Sales	1,480	1,433	3	2,824	2,623	8	5,240
Operating profit	578	557	4	1,096	981	12	1,956
Operating margin, %	39.1	38.8		38.8	37.4		37.3
EBITDA	611	581	5	1,161	1,027	13	2,046
EBITDA margin, %	41.3	40.5		41.1	39.1		39.0

The second quarter

(Note: Comments below refer to the comparison between the second quarter 2019 vs. the second quarter 2018).

Sales for Other tobacco products were up by 3 percent. In local currencies, sales for Other tobacco products were down 5 percent. Operating profit was down in line with sales. In local currency, sales were down at similar levels for both cigars and US chewing tobacco. Sales and operating profit of chewing products outside of the US grew. Operating profit declined for cigars and was flat for US chewing tobacco in local currency. While both sales and operating profit for cigars were down versus the prior year in local currency, there was sequential growth compared to the first quarter. The second quarter of 2018 had a higher than normal level of promotional activity, and cigar volumes during that quarter were exceptionally strong. In the US, operating profit and operating margin benefited from the aforementioned changed segment allocation methodology for shared operating expenses of our US business. Under the 2018 allocation methodology Other tobacco products expenses would have been 15 MSEK higher and Snus and moist snuff expenses would have been lower by the same amount.

Cigar volumes declined by 7 percent (down 5 percent on a constant trading day basis), due primarily to volume declines for homogenized tobacco leaf (HTL) varieties reflecting general market declines in the HTL cigar segment. Volumes for natural leaf cigars also declined, but at a more moderate pace than for HTL varieties. For rolled leaf varieties, Swedish Match shipment volumes were largely in line with the same period prior year. This is a significant improvement versus recent quarters as we made progress in easing the leaf shortages for this format. Based on our measure of distributor shipments to retail, total cigar category volumes declined by close to 4 percent in the quarter, most notably within the HTL small and HTL value segments, while Swedish Match volumes were down to a lesser extent due to our portfolio positioning skewed toward natural leaf cigars.

Chewing tobacco shipments in the US (excluding contract manufacturing volumes) during the quarter were down. 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 resulting in market share gains in both the premium segment and the value segment. 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. Sales of chewing tobacco outside the US (chew bags and tobacco bits) grew driven by Oliver Twist tobacco bits. 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 Tobacco's chewing tobacco assortment.

The first six months

(Note: Comments below refer to the comparison between the first six months 2019 vs. the first six months 2018).

In local currencies, sales for Other tobacco products declined by 3 percent, while operating profit was up by 1 percent, attributable to US cigars.

Cigar shipment volumes declined by 4 percent and sales in US dollars declined at a similar rate. Average prices improved, but sales were negatively impacted by the above-mentioned retailer merchandising program in the US. Operating profit for cigars grew.

For chewing tobacco, sales in local currencies were essentially flat with a decline for US chewing offset by growth for chewing tobacco outside the US. The Oliver Twist business was acquired in the second quarter of 2018. Operating profit in local currencies declined, impacted by costs related to the establishment of an own sales force in Denmark.

Swedish Match US shipment volumes

	April-June		Chg	January-June		Chg	Full year
	2019	**2018**	**%**	**2019**	**2018**	**%**	**2018**
Cigars, millions of sticks	433	465	-7	855	894	-4	1,703
Chewing tobacco, thousands of pounds (excluding contract manufacturing volumes)	1,499	1,650	-9	2,945	3,218	-8	6,093

Lights

Second quarter highlights:

- Higher sales for lighters, while sales for matches and complementary products were sharply lower
- Volume declines for both matches and lighters, with local trade inventory adjustments in Brazil
- Restructuring charges, primarily for matches in Brazil, amounted to 12 MSEK
- Lighter operating profit and margin burdened by higher nylon costs

Key data

MSEK	April-June 2019	April-June 2018	Chg %	January-June 2019	January-June 2018	Chg %	Full year 2018
Sales	266	302	-12	580	587	-1	1,246
Operating profit	6	46	-87	50	77	-35	189
Operating margin, %	2.3	15.1		8.5	13.1		15.2
EBITDA	17	56	-69	72	97	-26	230
EBITDA margin, %	6.5	18.5		12.4	16.5		18.4

The second quarter

(Note: Comments below refer to the comparison between the second quarter 2019 vs. the second quarter 2018).

Sales for Lights were down 12 percent, despite sales growth in the lighter business. Sales grew for lighters as improved pricing and product mix more than compensated for the decline in volumes. Sales were sharply lower for both matches and complementary products on significant volume declines. While in a number of markets match volume declines were in line with historical market trends, in certain markets (most notably Brazil) volumes were down significantly. One of the reasons for the sharp volume declines for matches and complementary products in Brazil has been a significant reduction in purchases by wholesalers in an action to reduce inventory levels.

Operating profit declined across all business of the Lights product segment. The declines in operating profit were most notable for matches, due to both lower volumes and restructuring costs. In an effort to address the cost structure in Brazil, the Rio de Janeiro head office is being closed and certain functions are being relocated to the Company's manufacturing facility in Curitiba, Brazil. Operating profit for lighters was negatively impacted by higher nylon pricing.

The first six months

(Note: Comments below refer to the comparison between the first six months 2019 vs. the first six months 2018).

Sales declined by 1 percent, primarily as a result of the weak development for matches and complementary products during the second quarter. Lighters sales grew on flat volumes. Operating profit declined for lighters, matches, and complementary products on higher nylon costs and notably lower match volumes. The operating profit in the prior year included restructuring costs in Brazil of approximately 12 MSEK during the first quarter, while restructuring charges of a similar magnitude were incurred during the second quarter of 2019.

Swedish Match shipment volumes, worldwide

	April-June 2019	April-June 2018	Chg %	January-June 2019	January-June 2018	Chg %	Full year 2018
Matches, billion sticks	11.0	15.4	-28	27.1	31.2	-13	64.5
Lighters, million units	70.6	77.6	-9	149.4	150.6	-1	333.9

Financing and cash flow

Cash flow from operating activities for the first six months amounted to 2,295 MSEK (1,712). The increase was driven by the stronger EBITDA development from product segments, timing of income tax payments and improved cash flow from working capital.

Investments in property, plant and equipment increased to 356 MSEK (285).

Net finance cost for the first six months declined to 129 MSEK (146), mainly due to lower average interest rate on debt which was partly offset by higher interest cost from increased bond loans.

During the first six months, new bond loans of 999 MSEK were issued and bond loans, including loan hedge derivatives, amounting to 1,092 MSEK have been repaid. As of June 30, 2019, Swedish Match had 12,882 MSEK of interest-bearing debt excluding retirement benefit obligations but including the recognition of lease liabilities of 262 MSEK from the adoption of IFRS 16. The Group's interest-bearing debt at December 31, 2018 amounted to 12,705 MSEK and 12,296 MSEK at June 30, 2018. During the remainder of 2019, none of the bond debt falls due for payment. For further detail on the maturity profile of the debt portfolio, please see Swedish Match's website.

As of June 30, 2019, Swedish Match had 1,500 MSEK in unutilized committed credit lines. Cash and cash equivalents amounted to 2,161 MSEK at the end of the period, compared to 2,886 MSEK at December 31, 2018.

The net debt as of June 30, 2019 amounted to 11,971 MSEK compared to 10,843 MSEK at December 31, 2018 and 10,771 MSEK at June 30, 2018. The net debt as of June 30, 2019, included lease liabilities of 262 MSEK following the adoption of IFRS 16.

Shareholder distributions and the share

In the first half of the year, Swedish Match paid dividends of 1,777 MSEK to its shareholders. During the same period, Swedish Match repurchased 1.9 million shares for 849 MSEK at an average price of 446.38 SEK, following authorization from the Annual General Meetings held in 2018 and 2019. Total shares bought back by Swedish Match since the buyback program started have been repurchased at an average price of 133.01 SEK.

As per June 30, 2019 Swedish Match held 1.6 million shares, corresponding to 0.97 percent of the total number of shares. The number of shares outstanding, net, as per June 30, 2019, amounted to 168.3 million.

Other events during the quarter

Modified risk tobacco products applications to the FDA

On February 1, the FDA posted the final amendment for the modified risk tobacco product (MRTP) applications for eight snus smokeless tobacco products submitted by Swedish Match USA, Inc. On April 12, the FDA announced that any public comments on these applications must be submitted by May 13, 2019. The timing on any final decision by the FDA on the General snus MRTP has not been communicated.

Swiss ruling on snus

On June 11, the Federal Supreme Court of Switzerland ruled that the ban on snus, which was introduced in Switzerland in 1992, lacks judicial ground, and is illegal and unconstitutional. The court motivated their decision by saying that Swedish snus is less hazardous than other tobacco-based products allowed on the Swiss market today, and that Swedish snus should be considered as a stimulant that does not pose an immediate or unexpected risk to health when consumed as normal. The decision had immediate effect and snus can now be marketed in Switzerland.

FDA draft guidance on flavors in cigars

On March 13, 2019, the FDA released a draft guidance document which includes the stated intent to move forward with a proposed rule to ban flavors in cigars. Under the revised compliance policy, the draft guidance also states that 30 days after the guidance is finalized, any flavored cigars (other than tobacco-flavored) that were on the market on August 8, 2016, and that meet the definition of a new tobacco product, would be subject to enforcement absent Substantial Equivalence (SE) preauthorization. The draft guidance would make it impractical for manufacturers to comply with the accelerated SE authorization timeline and was subject to a comment period. The form of the final guidance as well as its implementation timeline remain uncertain. The comment period concluded at the end of April.

Events after the reporting period

Public Health Groups versus FDA in Maryland Federal Court

Various public health groups challenged the FDA in a Federal District Court in Maryland regarding the FDA's decision to extend the compliance dates under the Deeming Rule to allow Electronic Nicotine Delivery Systems (ENDS) and cigars to remain on the market without filing of path to market application until 2021/2022. In May 2019, the Court found that the FDA's decision to extend the path to market filing deadlines was a violation of the Tobacco Control Act. The Court's conclusion was almost entirely focused on the concern of youth using flavored ENDS products. The Court asked the parties to propose a remedy for this violation. In responding to the Court's request, the FDA asked for a least a 10-month extended application period given the potential for a large number of path to market applications expected to be filed. On July 11, 2019, the Court issued its final order specifying a ten-month path to market application filing deadline (May 11, 2020) for ENDS and cigar products subject to the Deeming Rule. Under the July 11th order, products that comply with the filing deadline may remain on the market without being subject to FDA enforcement actions for a period not to exceed one year from the date of application while the FDA considers the application. Products not complying with the

Court order deadline will be subject to FDA enforcement actions, at the FDA's discretion. The FDA may also exempt new products from filing requirements for good cause on a case-by-case basis.

Updated outlook

The outlook included in the first quarter report stated that "For the full year, Swedish Match anticipates modest growth in the US cigar market." This updated outlook has been revised to delete reference to anticipated modest growth in the US cigar market given overall category volume declines experienced in the first half of the year. Based on this development, we are no longer confident that the US cigar market will record volume growth for 2019. The remaining points of the previous outlook statement remain unchanged.

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 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.

Swedish Match expects the US cigar market to remain highly competitive.

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 2018, available on swedishmatch.com.

Swedish Match AB (publ)

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

Sales in the Parent Company for the first six months amounted to 21 MSEK (26). Loss before income tax amounted to -299 MSEK (-240) and net loss for the first six months amounted to -243 MSEK (-187). The increase in loss before income tax compared to previous year is primarily related to an increase in administrative expenses.

The reported increase in administrative expenses is mainly related to higher pension costs due to a change in the assumption of the discount rate in a pension trust for former employees in the divested Swedish Match UK Ltd.

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, including loan hedge derivatives, amounted to 1,092 MSEK during the first six months and new bond loans of 999 MSEK were issued.

During the first six months, the Parent Company made share repurchases of 1.9 million (2.6) shares for 849 MSEK (1,078).

A dividend of 1,777 MSEK (2,911) has been paid during the period.

Forward-looking information

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

Additional information

This report has not been reviewed by the Company’s auditors. The January-September 2019 report will be released on October 25, 2019.

The Board of Directors and the CEO declare that the half year report gives a true and fair view of the operations, position and result of the Company and the Group and describes the major risks and uncertainties of the Company and the companies in the Group.

Stockholm, July 18, 2019

Conny Karlsson Chairman of the Board	Andrew Cripps Deputy Chairman	Charles A. Blixt Board member	Patrik Engelbrektsson Board member
Jacqueline Hoogerbrugge Board member	Pauline Lindwall Board member	Pär-Ola Olausson Board member	Dragan Popovic Board member
Wenche Rolfsen Board member	Joakim Westh Board member	Lars Dahlgren President and CEO	

Product segments summary and key ratios

Sales

MSEK	April-June 2019	April-June 2018	Chg %	January-June 2019	January-June 2018	Chg %	Full year 2018
Snus and moist snuff	1,876	1,509	24	3,392	2,894	17	6,127
Other tobacco products	1,480	1,433	3	2,824	2,623	8	5,240
Lights	266	302	-12	580	587	-1	1,246
Sales from product segments	**3,622**	**3,244**	**12**	**6,795**	**6,104**	**11**	**12,612**
Other operations	98	92	6	182	172	6	353
Sales	**3,719**	**3,336**	**12**	**6,977**	**6,276**	**11**	**12,966**

Operating profit

MSEK	April-June 2019	April-June 2018	Chg %	January-June 2019	January-June 2018	Chg %	Full year 2018
Snus and moist snuff	874	691	26	1,550	1,314	18	2,791
Other tobacco products	578	557	4	1,096	981	12	1,956
Lights	6	46	-87	50	77	-35	189
Operating profit from product segments	**1,458**	**1,293**	**13**	**2,696**	**2,372**	**14**	**4,936**
Other operations	-25	-30		-72	-62		-124
Operating profit	**1,434**	**1,263**	**14**	**2,624**	**2,311**	**14**	**4,812**

Operating margin by product segment

Percent	April-June 2019	April-June 2018	January-June 2019	January-June 2018	Full year 2018
Snus and moist snuff	46.6	45.8	45.7	45.4	45.6
Other tobacco products	39.1	38.8	38.8	37.4	37.3
Lights	2.3	15.1	8.5	13.1	15.2
Operating margin from product segments	**40.3**	**39.9**	**39.7**	**38.9**	**39.1**

EBITDA by product segment

MSEK	April-June 2019	April-June 2018	Chg %	January-June 2019	January-June 2018	Chg %	Full year 2018
Snus and moist snuff	947	744	27	1,692	1,420	19	3,025
Other tobacco products	611	581	5	1,161	1,027	13	2,046
Lights	17	56	-69	72	97	-26	230
EBITDA from product segments	**1,576**	**1,381**	**14**	**2,925**	**2,543**	**15**	**5,301**

EBITDA margin by product segment

Percent	April-June 2019	April-June 2018	January-June 2019	January-June 2018	Full year 2018
Snus and moist snuff	50.5	49.3	49.9	49.1	49.4
Other tobacco products	41.3	40.5	41.1	39.1	39.0
Lights	6.5	18.5	12.4	16.5	18.4
EBITDA margin from product segments	**43.5**	**42.6**	**43.0**	**41.7**	**42.0**

Key ratios

	January-June 2019	2018	12 months ended June 30, 2019	Full year 2018
Operating margin from product segments, %	39.7	38.9	39.5	39.1
Operating margin, %	37.6	36.8	37.5	37.1
Net debt, MSEK[1)]	11,971	10,771	11,971	10,843
Investments in property, plant and equipment, MSEK	356	285	720	649
Depreciation, amortization and impairments, MSEK[2)]	259	197	477	415
EBITA, MSEK	2,656	2,342	5,189	4,875
EBITA interest cover	22.0	16.6	20.1	17.5
Net debt/EBITA	-	-	2.3	2.2
Share data				
Number of shares outstanding at end of period	168,308,705	173,275,855	168,308,705	170,210,705
Average number of shares outstanding	169,557,263	175,207,059	170,620,642	173,445,540

1) 2019 includes lease liabilities of 262 MSEK following the adoption of IFRS 16.
2) 2019 includes depreciations relating to right-of-use assets of 42 MSEK following the adoption of IFRS 16.

Financial statements

Condensed consolidated income statement

MSEK	Note	April-June 2019	2018	Chg %	January-June 2019	2018	Chg %	Full year 2018
Sales, including tobacco tax		4,591	4,179		8,660	7,929		16,335
Less tobacco tax		-872	-844		-1,683	-1,653		-3,369
Sales		**3,719**	**3,336**	**12**	**6,977**	**6,276**	**11**	**12,966**
Cost of goods sold		-1,350	-1,251		-2,584	-2,358		-4,832
Gross profit		**2,369**	**2,085**	**14**	**4,393**	**3,918**	**12**	**8,133**
Selling and admin. expenses		-936	-823		-1,770	-1,608		-3,324
Share of profit/loss in associated companies		0	1		1	1		3
Operating profit		**1,434**	**1,263**	**14**	**2,624**	**2,311**	**14**	**4,812**
Finance income		28	17		52	30		65
Finance costs		-87	-90		-180	-176		-346
Net finance cost		-60	-73		-129	-146		-281
Profit before income tax		**1,374**	**1,190**	**15**	**2,495**	**2,165**	**15**	**4,531**
Income tax expense		-294	-263		-536	-471		-953
Profit for the period		**1,080**	**928**	**16**	**1,960**	**1,694**	**16**	**3,578**
Attributable to:								
Equity holders of the Parent		1,080	928		1,960	1,694		3,578
Non-controlling interests		0	0		0	0		0
Profit for the period		**1,080**	**928**	**16**	**1,960**	**1,694**	**16**	**3,578**
Earnings per share, basic and diluted, SEK	4	6.39	5.31		11.56	9.67		20.63

Condensed consolidated statement of comprehensive income

MSEK	April-June 2019	April-June 2018	January-June 2019	January-June 2018	Full year 2018
Profit for the period	**1,080**	**928**	**1,960**	**1,694**	**3,578**
Other comprehensive income that may be reclassified to the income statement					
Translation differences related to foreign operations	48	255	238	383	331
Translation differences included in profit and loss	-	-2	-	-2	-2
Effective portion of changes in fair value of cash flow hedges	16	-4	65	-37	39
Income tax relating to reclassifiable components of other comprehensive income	-3	-3	-13	4	-11
Sub-total, net of tax for the period	**60**	**246**	**290**	**349**	**356**
Other comprehensive income that will not be reclassified to the income statement					
Actuarial gains/losses attributable to pensions, incl. payroll tax	-104	78	-155	169	118
Income tax relating to non-reclassifiable components of other comprehensive income	21	-26	32	-49	-38
Sub-total, net of tax for the period	**-83**	**52**	**-123**	**120**	**80**
Total comprehensive income for the period	**1,057**	**1,226**	**2,126**	**2,162**	**4,014**
Attributable to:					
Equity holders of the Parent	1,057	1,226	2,126	2,163	4,014
Non-controlling interests	0	0	0	0	0
Total comprehensive income for the period	**1,057**	**1,226**	**2,126**	**2,162**	**4,014**

Condensed consolidated balance sheet

MSEK	Note	June 30, 2019	December 31, 2018
Intangible assets		2,753	2,708
Property, plant and equipment		3,132	2,941
Right-of-use assets	1	266	-
Investments in associated companies		23	24
Other non-current assets and operating receivables	3	20	19
Other non-current financial assets and receivables	3,6	1,776	1,420
Total non-current assets		**7,971**	**7,113**
Other current financial receivables	3,6	42	226
Current operating assets and receivables	3	3,703	3,762
Cash and cash equivalents	3	2,161	2,886
Total current assets		**5,906**	**6,874**
Assets held for sale[1)]		28	-
Total assets		**13,905**	**13,987**
Equity attributable to equity holders of the Parent		-6,111	-5,611
Non-controlling interests		16	16
Total equity		**-6,095**	**-5,595**
Non-current financial provisions		1,179	1,186
Non-current loans	3	12,988	12,282
Other non-current financial liabilities	1,3,6	1,524	1,140
Other non-current operating liabilities	3	405	415
Total non-current liabilities		**16,096**	**15,024**
Current loans	3	505	1,229
Other current financial liabilities	1,3,6	487	245
Other current operating liabilities	3	2,913	3,085
Total current liabilities		**3,905**	**4,559**
Total liabilities		**20,000**	**19,582**
Total equity and liabilities		**13,905**	**13,987**

1) Assets held for sale refers to land. The fair value less costs to sell are expected to be higher than the carrying value.

Condensed consolidated cash flow statement

MSEK	Note	January-June 2019	January-June 2018
Operating activities			
Profit before income taxes		**2,495**	**2,165**
Share of profit/loss in associated companies		-1	-1
Dividend received from associated companies		1	1
Other non-cash items etc.		275	214
Income tax paid		-380	-436
Cash flow from operating activities before changes in working capital		**2,390**	**1,942**
Changes in working capital		-94	-230
Net cash generated from operating activities		**2,295**	**1,712**
Investing activities			
Purchase of property, plant and equipment		-356	-285
Proceeds from sale of property, plant and equipment		1	1
Purchase of intangible assets		-22	-2
Acquisition of subsidiaries[1)]		-	-294
Changes in financial receivables etc.		0	-1
Net cash used in investing activities		**-378**	**-582**
Financing activities			
Proceeds from borrowings		999	1,748
Repayment of borrowings		-1,092	-500
Dividend paid to equity holders of the Parent		-1,777	-2,911
Lease payments	1	-46	-
Repurchase of own shares		-849	-1,078
Realized exchange gain/losses on financial instruments		92	76
Other		2	1
Net cash used in financing activities		**-2,671**	**-2,664**
Net decrease in cash and cash equivalents		**-754**	**-1,534**
Cash and cash equivalents at the beginning of the period		2,886	3,998
Effect of exchange rate fluctuations on cash and cash equivalents		29	86
Cash and cash equivalents at the end of the period		**2,161**	**2,550**

1) Acquisition of subsidiaries in 2018 refer to the acquisition of House of Oliver Twist. For further disclosures regarding the acquisition, see Note 4 Business combinations in the annual report for 2018.

Condensed consolidated statement of changes in equity

MSEK	Equity attributable to holders of the Parent	Non-controlling interests	Total equity
Equity at January 1, 2018	**-4,202**	**1**	**-4,201**
Profit for the period	1,694	0	1,694
Other comprehensive income, net of tax for the period	469	0	469
Total comprehensive income for the period	**2,163**	**0**	**2,162**
Dividend	-2,911	-	-2,911
Repurchase of own shares	-1,078	-	-1,078
Cancellation of shares	-13	-	-13
Bonus issues	13	-	13
Equity at June 30, 2018	**-6,029**	**1**	**-6,028**
Equity at January 1, 2019	**-5,611**	**16**	**-5,595**
Profit for the period	1,960	0	1,960
Other comprehensive income, net of tax for the period	167	0	167
Total comprehensive income for the period	**2,126**	**0**	**2,126**
Dividend	-1,777	0	-1,777
Repurchase of own shares	-849	-	-849
Cancellation of shares	-13	-	-13
Bonus issues	13	-	13
Acquisition of non-controlling interests	-	0	0
Equity at June 30, 2019	**-6,111**	**16**	**-6,095**

Condensed Parent Company income statement

MSEK	January-June	
	2019	**2018**
Sales	21	26
Administrative expenses	-170	-113
Operating loss	**-150**	**-86**
Result from participation in Group companies	-	-2
Finance income	0	-
Finance costs	-149	-152
Net finance cost	-149	-152
Loss before income tax	**-299**	**-240**
Income tax	56	53
Loss for the period	**-243**	**-187**

Condensed Parent Company statement of comprehensive income

MSEK	January-June	
	2019	**2018**
Loss for the period	**-243**	**-187**
Other comprehensive income that may be reclassified to the income statement		
Effective portion of changes in fair value of cash flow hedges	65	-37
Income tax relating to components of other comprehensive income	-13	4
Other comprehensive income/loss, net of tax for the period	**51**	**-33**
Total comprehensive loss for the period	**-192**	**-220**

Condensed Parent Company balance sheet

MSEK	June 30, 2019	June 30, 2018	December 31, 2018
Intangible and tangible assets	1	1	1
Non-current financial assets	31,962	31,717	31,701
Current assets	403	1,404	4,161
Total assets	**32,365**	**33,122**	**35,863**
Equity	**12,336**	**15,013**	**15,154**
Untaxed reserves	**1,785**	**1,330**	**1,785**
Provisions	94	58	78
Non-current liabilities	12,990	11,268	12,280
Current liabilities	5,161	5,453	6,566
Total liabilities	**18,244**	**16,779**	**18,924**
Total equity and liabilities	**32,365**	**33,122**	**35,863**

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.

With effect from January 1, 2019, Swedish Match applies the new accounting standard IFRS 16 Leases. Other changes to IFRS standards, amendments and interpretations of existing standards applicable as of January 1, 2019 did not have an effect on the Group's financial result or position. In all other aspects, the accounting principles and basis of calculation in this report are the same as in the annual report for 2018.

The nature and effect of the change from the adoption of IFRS 16

The new accounting standard IFRS 16 replaces IAS 17 Leases and its related interpretations. The new standard has the effect that most of the Group's lease contracts are recognized in the balance sheet as right-of-use assets and lease liabilities measured as the present value of future lease payments. In the Income statement, costs of leases are recognized as depreciation expense for the right-of-use assets and as interest expense on the lease liabilities rather than as lease expense when paid as was the case under IAS 17.

Real estate leases, such as rental of office and factory premises, warehouses and storages, 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 machinery, equipment and vehicles.

For the transition to IFRS 16, Swedish Match has chosen to apply the cumulative catch-up method in accordance with IFRS 16.C5(b). The reported opening balances for the Group's lease liabilities and right-of-use assets as per January 1, 2019 amounted to 272 MSEK and 279 MSEK respectively. In 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. The transition to IFRS 16 did not result in an adjustment to the opening balance of retained earnings of the annual reporting period commencing January 1, 2019. The transition method also means that IFRS 16 is applied to the financial statements prospectively as per January 1, 2019. Consequently, comparable information in this report has not been restated. For further information on the effect on the Group's balance sheet from the transition to IFRS 16, see the reconciliation table below.

The Group's net profit for the full year 2019 is estimated to be reduced by an immaterial amount, mainly relating to higher interest costs on lease liabilities. The Group's EBITDA for the full year 2019 is estimated to improve by approximately 84 MSEK as lease payments recognized as operating costs when incurred under the previous accounting standard are replaced by depreciation costs on the right-of-use assets and interest expense on the related lease liabilities. The Group's net debt as per January 1, 2019 has increased by 272 MSEK as lease liabilities are classified as financial liabilities. The impacts to net debt/EBITA ratio and other key ratios are immaterial.

The carrying values of the Group's right-of-use assets are reported in the balance sheet under a new asset category defined as right-of-use assets. Lease liabilities are reported in the balance sheet as *Other non-current financial liabilities* and *Other current financial liabilities* depending on the timing of the payments under the lease contracts. For information on the amounts reported at the end of the period for the Group's lease liabilities, see Note 6 in this report.

The new standard for the accounting of lease contracts is dependent on management judgements and estimates of certain variables which have a direct impact on the reported balances. The most relevant assumption is the discount rates applied in the measurement of the lease liabilities and the corresponding right-of-use assets. Judgements on the likelihood of exercising or not exercising extension and termination options in lease contracts may also have an impact on the reported lease obligation and right-of-use asset. For further information on the accounting principles for IFRS 16, see Note 1 in the annual report for 2018.

Summary of the effects from the adoption of IFRS 16 on the opening balance at January 1, 2019

Condensed consolidated balance sheet

MSEK		**IFRS 16 transition effects adjustments**		
	Dec 31, 2018	Recognition opening balance right-of-use assets and lease liabilities	Reclassification prepaid lease expense included in right-of-use assets	**Adjusted Jan 1, 2019**
Total non-current assets	7,113	279	-	7,392
Total current assets	6,874	-	-6	6,868
Total assets	**13,987**	**279**	**-6**	**14,260**
Equity attributable to equity holders of the Parent	-5,611	6	-6	-5,611
Non-controlling interests	16	-	-	16
Total equity	**-5,595**	**6**	**-6**	**-5,595**
Total non-current liabilities	15,024	199	-	15,223
Total current liabilities	4,559	73	-	4,632
Total liabilities	**19,582**	**272**	**-**	**19,854**
Total equity and liabilities	**13,987**	**279**	**-6**	**14,260**

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 small portion 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 – April to June

MSEK	Segments											
	Snus and moist snuff		Other tobacco products		Lights		Total segments		Other operations		Group	
Primary geographical markets	**Apr-Jun 2019**	**2018**	**Apr-Jun 2019**	**2018**	**Apr-Jun 2019**	**2018**	**Apr-Jun 2019**	**2018**	**Apr-Jun 2019**	**2018**	**Apr-Jun 2019**	**2018**
Scandinavia	1,157	1,082	28	17	9	10	1,193	1,109	98	92	1,291	1,200
The US	714	420	1,407	1,375	19	11	2,141	1,805	-	-	2,141	1,805
Other markets	6	7	44	41	238	282	288	330	-	-	288	330
Total sales	**1,876**	**1,509**	**1,480**	**1,433**	**266**	**302**	**3,622**	**3,244**	**98**	**92**	**3,719**	**3,336**

Sales – January to June

MSEK	Segments											
	Snus and moist snuff		Other tobacco products		Lights		Total segments		Other operations		Group	
Primary geographical markets	**Jan-Jun 2019**	**2018**	**Jan-Jun 2019**	**2018**	**Jan-Jun 2019**	**2018**	**Jan-Jun 2019**	**2018**	**Jan-Jun 2019**	**2018**	**Jan-Jun 2019**	**2018**
Scandinavia	2,170	2,069	53	24	19	22	2,242	2,116	182	172	2,424	2,288
The US	1,210	811	2,690	2,517	39	19	3,939	3,348	-	-	3,939	3,348
Other markets	11	14	81	81	522	545	614	640	-	-	614	640
Total sales	**3,392**	**2,894**	**2,824**	**2,623**	**580**	**587**	**6,795**	**6,104**	**182**	**172**	**6,977**	**6,276**

Note 3 – Carrying value and fair value

Swedish Match applies IFRS 9 to classify and measure financial instruments.

The following valuation techniques of the fair value hierarchy are used in determining the fair values of the financial instruments:

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

The following table shows carrying value and fair value for financial instruments per June 30, 2019.

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	-	1,658	-	-	-	1,658	1,658
Other non-current financial receivables	-	-	-	757	469	1,226	1,226
Other current assets and financial receivables	1	2	-	-	204	207	207
Prepaid expenses and accrued income[1)]	-	-	-	0	130	131	131
Cash and cash equivalents	-	2,161	-	-	-	2,161	2,161
Total assets	**1**	**3,821**	**-**	**758**	**803**	**5,383**	**5,383**
Loans and borrowings	-	-	13,493	-	-	13,493	13,738
Other non-current financial liabilities	-	-	184	5	59	248	248
Other current liabilities	24	-	109	-	1,618	1,752	1,752
Accrued expenses and deferred income[1)]	-	-	79	37	695	810	810
Trade payables	-	-	324	-	-	324	324
Total liabilities	**24**	**-**	**14,189**	**42**	**2,372**	**16,627**	**16,872**

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	-	759	-	759
Derivative financial liabilities	-	66	-	66

The following table shows carrying value and fair value for financial instruments per June 30, 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	-	1,703	-	-	-	1,703	1,703
Other non-current financial receivables	-	-	-	500	600	1,100	1,100
Other current assets and financial receivables	38	-	-	148	252	438	438
Prepaid expenses and accrued income[1)]	-	-	-	0	101	102	102
Cash and cash equivalents	-	2,550	-	-	-	2,550	2,550
Total assets	**38**	**4,253**	**-**	**648**	**953**	**5,893**	**5,893**
Loans and borrowings	-	-	13,264	-	-	13,264	13,426
Other non-current financial liabilities	-	-	-	3	77	80	80
Other current liabilities	0	-	-	-	1,275	1,276	1,276
Accrued expenses and deferred income[1)]	-	-	91	39	730	861	861
Trade payables	-	-	787	-	-	787	787
Total liabilities	**0**	**-**	**14,142**	**42**	**2,082**	**16,268**	**16,430**

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	-	686	-	686
Derivative financial liabilities	-	42	-	42

No transfer in or out of level 2 has been made during the second quarter of 2019. 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 8,798 MSEK (8,773) of which 6,304 MSEK (7,196) is in cash flow hedges consisting of cross currency and interest rate swaps related to bond loans. The remaining 2,494 MSEK (1,577) 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 annual report for 2018.

Note 4 – 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	April-June		January-June		Full year
	2019	**2018**	**2019**	**2018**	**2018**
Profit for the period attributable to equity holders of the Parent, MSEK	1,080	928	1,960	1,694	3,578
Weighted average number of shares outstanding	169,022,511	174,572,254	169,557,263	175,207,059	173,445,540
Earnings per share, SEK	6.39	5.31	11.56	9.67	20.63

Note 5 – Tax related contingencies

During 2017, the Swedish Tax Agency performed tax audits of a number of Swedish Match's Swedish group companies. After completing the audits, the Swedish Tax Agency decided to deny certain cost deductions in two cases. Swedish Match does not agree with the Tax Agency's assessment and filed appeals to the Tax Agency's decisions in March 2018. In April 2019, Swedish Match received a new proposal to deny the same kind of deduction as in one of the cases but for a subsequent year not included in the Tax Audit. The Tax Agency, following the new proposed decision, is claiming total income tax and surcharges of approximately 350 MSEK excluding interest charges. In May 2019, the County Administrative Court ruled in favor of the Tax Agency in one of the cases. Swedish Match still believes in a positive outcome and has appealed the case to the Administrative Court of Appeal. Based on management's interpretation of applicable tax regulations, expert advice taking into account the merits in our cases and developments in similar case rulings, no provision has been recognized for potential losses associated with these cases.

Note 6 – Alternative performance measures

Swedish Match presents several financial measures that are outside IFRS definitions (Alternative performance measures, according to ESMA's guidelines) with the aim of enabling effective evaluation of the 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, 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, 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 LARGER ONE-TIME ITEMS	Profit for the period excluding 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, 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 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 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.

Net debt

MSEK		January-June	Full year
	2019	2018	2018
Non-current loans	12,988	11,265	12,282
Current loans	505	1,999	1,229
Components of derivatives (liabilities)[1)]	24	0	20
Components of derivatives (assets)[2)]	-897	-968	-826
Non-current lease liabilities[3)]	184	-	-
Current lease liabilities[4)]	78	-	-
Net provision for pensions and similar obligations[3)]	1,335	1,118	1,106
Net asset for pensions and similar receivables[5)]	-83	-93	-83
Cash and cash equivalents	-2,161	-2,550	-2,886
Net debt	**11,971**	**10,771**	**10,843**

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

Currency components of derivatives included in the net debt are recognized in the condensed consolidated balance sheet based on the total value of all components in the financial instrument, i.e. if the total value of the financial instrument is an asset, but includes a negative derivative component, that derivative component is recognized as a negative asset in the condensed consolidated balance sheet and vice versa.

Quarterly data

Consolidated income statement in summary

MSEK	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18
Sales, including tobacco tax	4,591	4,069	4,189	4,217	4,179
Less tobacco tax	-872	-811	-888	-828	-844
Sales	**3,719**	**3,258**	**3,301**	**3,388**	**3,336**
Cost of goods sold	-1,350	-1,234	-1,244	-1,231	-1,251
Gross profit	**2,369**	**2,023**	**2,057**	**2,157**	**2,085**
Selling and administrative expenses	-936	-834	-862	-853	-823
Share of net profit/loss in associated companies	0	1	1	1	1
Operating profit	**1,434**	**1,190**	**1,196**	**1,305**	**1,263**
Finance income	28	24	21	16	17
Finance costs	-87	-93	-83	-89	-90
Net finance cost	-60	-69	-62	-73	-73
Profit before income tax	**1,374**	**1,121**	**1,134**	**1,232**	**1,190**
Income tax expense	-294	-242	-209	-273	-263
Profit for the period	**1,080**	**880**	**925**	**959**	**928**
Attributable to:					
Equity holders of the Parent	1,080	880	925	959	928
Non-controlling interests	0	0	0	0	0
Profit for the period	**1,080**	**880**	**925**	**959**	**928**

Quarterly data by product segment

Sales

MSEK	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18
Snus and moist snuff	1,876	1,515	1,632	1,601	1,509
Other tobacco products	1,480	1,344	1,233	1,384	1,433
Lights	266	314	349	310	302
Sales from product segments	**3,622**	**3,174**	**3,214**	**3,295**	**3,244**
Other operations	98	84	87	93	92
Sales	**3,719**	**3,258**	**3,301**	**3,388**	**3,336**

Operating profit

MSEK	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18
Snus and moist snuff	874	676	725	752	691
Other tobacco products	578	518	456	519	557
Lights	6	43	66	46	46
Operating profit from product segments	**1,458**	**1,238**	**1,246**	**1,317**	**1,293**
Other operations	-25	-48	-50	-12	-30
Operating profit	**1,434**	**1,190**	**1,196**	**1,305**	**1,263**

Operating margin by product segment

Percent	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18
Snus and moist snuff	46.6	44.6	44.4	47.0	45.8
Other tobacco products	39.1	38.6	37.0	37.5	38.8
Lights	2.3	13.8	18.9	14.9	15.1
Operating margin from product segments	**40.3**	**39.0**	**38.8**	**40.0**	**39.9**

EBITDA by product segment

MSEK	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18
Snus and moist snuff	947	745	795	810	744
Other tobacco products	611	550	480	539	581
Lights	17	55	76	57	56
EBITDA from product segments	**1,576**	**1,349**	**1,351**	**1,406**	**1,381**

EBITDA margin by product segment

Percent	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18
Snus and moist snuff	50.5	49.1	48.7	50.6	49.3
Other tobacco products	41.3	40.9	38.9	39.0	40.5
Lights	6.5	17.4	21.8	18.2	18.5
EBITDA margin from product segments	**43.5**	**42.5**	**42.0**	**42.7**	**42.6**

Additional quarterly data

Depreciation, amortization and impairments

MSEK	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18
Property, plant and equipment	95	89	102	85	84
Right-of-use assets	21	21	-	-	-
Intangible assets	16	16	16	16	16
Total	**133**	**126**	**117**	**101**	**100**

Net finance cost

MSEK	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18
Interest income	28	24	15	16	17
Interest expense	-82	-90	-81	-87	-86
Net interest expense	**-55**	**-66**	**-66**	**-71**	**-69**
Other finance costs, net	-5	-3	4	-2	-4
Total net finance cost	**-60**	**-69**	**-62**	**-73**	**-73**

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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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