

## Interim Report JANUARY – SEPTEMBER 2016

- Sales increased by 10 percent to 4,118 MSEK (3,756) for the third quarter. In local currencies, sales increased by 9 percent.
- Operating profit from product areas<sup>1)</sup> increased by 11 percent to 1,089 MSEK (979) for the third quarter. In local currencies, operating profit from product areas<sup>1)</sup> also increased by 11 percent.
- Operating profit<sup>2)</sup> amounted to 2,694 MSEK (1,065) for the third quarter, including larger one-time items of 1,550 MSEK relating to a capital gain from the partial divestment of STG and an unrealized gain from revaluing Swedish Match's remaining shareholding in STG to market value.
- Earnings per share amounted to 12.32 SEK (3.84) for the third quarter. Earnings per share, excluding STG and adjusted for larger one-time items amounted to 3.76 SEK (3.39).
- In September, Swedish Match reduced its ownership in STG from 31.1 percent to 18.1 percent. The Board of Directors propose to distribute the proceeds from this sale as a special dividend of 9.50 SEK per share subject to approval by an extraordinary shareholders' meeting on December 16.
- In September, a public bond of 300 MEUR was issued with the primary purpose of refinancing a larger bond maturity falling due in November 2017.

1) Operating profit for Swedish Match product areas, which excludes larger one-time items and share of net profit in STG.

2) Operating profit for the Group includes larger one-time items and share of net profit in STG. Swedish Match's share of net profit in STG is reported with a one quarter lag. The third quarter only includes Swedish Match's share of STG's net profit until the date of partial divestment in September 2016, thereafter, the shareholding in STG has been reclassified as a financial asset.



## CEO Lars Dahlgren comments:

### Record operating profit from product areas

During the third quarter Swedish Match reported record results from product areas with strong growth in sales and operating profit. Sales increased for all product areas and operating profit increased for all product areas except for Other operations. During the quarter we further reduced our ownership in Scandinavian Tobacco Group (STG) through a successful placement – a transaction that generated a significant capital gain (reported as a larger one-time item). In September we also issued a publicly traded bond of 300 MEUR at a record low interest rate for Swedish Match.

Following the strong volume performance in our Scandinavian snus business during the first half of the year, third quarter shipments declined slightly versus the prior year. The less favorable volume development is a result of calendar effects, a slow-down of total market growth and a decline in market share. On an underlying basis, excluding calendar effects, we estimate that Swedish Match volumes grew slightly during the quarter. Sales in our Scandinavian snus business grew faster than volumes as modest price increases at the beginning of the year more than compensated for limited negative mix effects within our portfolio. During the year we have introduced several innovative product offerings in the Scandinavian snus market; aimed at strengthening our long term market position, broadening consumer appeal and growing the category.

In the US our moist snuff strategy of focusing on the faster growing pouch and tub segments is paying off and both sales and volumes increased during the quarter. Our Swedish style snus in the US continued to trend well, and the innovative ZYN nicotine pouch without tobacco has been well received by retailers and consumers as we have expanded distribution in the western states.

The operating result improvement in the quarter was led by cigars where volumes and sales were up by approximately 30 percent. During the year we have seen a particularly strong demand for our natural leaf cigar offerings, but volumes have increased for HTL cigars as well. Sales and operating profit for our US chewing tobacco business also increased somewhat during the quarter when compared to prior year. For the Other tobacco products segment, we expect that the fourth quarter operating result will be lower than we achieved this quarter. Factors contributing to this expected development include the introduction of FDA user fees for cigars, lower cigar volumes from planned factory downtime and fewer delivery days, as well as lower volumes of chewing tobacco from fewer delivery days and an adverse impact from a recently introduced excise tax in Pennsylvania.

Our Lights business also delivered an impressive result during the quarter. Sales and operating profit increased both compared to prior year and the previous quarters during this year. The strong performance was led by lighters with good volume development in several important markets and efficient cost management.

In view of a large bond maturity in late 2017, we decided to take advantage of favorable conditions in the credit markets during the quarter. On September 14, we issued a 300 MEUR bond at a record low interest rate for Swedish Match. In conjunction with the bond issuance we repurchased part of the 2017 bond maturity which resulted in temporarily higher finance costs in the isolated quarter.

We are very pleased with the successful placement of STG shares during the quarter. The demand was strong which enabled a tight discount and we are convinced that the increased free float will benefit STG as a company as well as our remaining shareholding of 18 percent. The net proceeds from the sell-down amounted to 1.75 billion SEK, an amount that will be distributed to our shareholders via a special dividend of 9.50 SEK per share if approved at a planned extraordinary shareholders' meeting.

In summary the third quarter reflects the strength of our business as well as our commitment to manage an efficient balance sheet and return cash not needed for business purposes to our shareholders.

## Summary of consolidated income statement

MSEK	July-September		Chg %	January-September		Chg %	Full year 2015
	2016	2015		2016	2015		
Sales	4,118	3,756	10	11,594	10,767	8	14,486
Operating profit from product areas <sup>1)</sup>	1,089	979	11	3,036	2,782	9	3,690
Operating profit <sup>2)</sup>	2,694	1,065	153	5,466	3,100	76	4,008
Profit before income tax	2,545	960	165	5,120	2,765	85	3,545
Profit for the period	2,306	741	211	4,461	2,167	106	2,803
Operating margin from product areas <sup>1)</sup> , %	26.5	26.1		26.2	25.8		25.5
Operating margin <sup>2)</sup> , %	65.4	28.4		47.1	28.8		27.7
Earnings per share, basic, SEK	12.32	3.84	221	23.77	11.14	113	14.48
Earnings per share, excl. STG, basic, SEK	12.03	3.39	255	22.83	9.29	146	12.62
Earnings per share, excl. STG, adjusted, basic, SEK <sup>3)</sup>	3.76	3.39	11	10.82	9.46	14	12.79

1) Excluding larger one-time items and share of net profit in STG.

2) Including larger one-time items and share of net profit in STG.

Larger one-time items for 2016 include the capital gain from the sale of shares in STG of 560 MSEK and capital gain from the sale of a distribution facility of 145 MSEK, both tax-free and recognized in the first quarter as well as the capital gain from the sale of shares in STG of 648 MSEK and the unrealized gain of 902 MSEK from revaluing the remaining holding in STG to market value, both tax-free and recognized in the third quarter. Larger one-time items for 2015 include costs of 42 MSEK (33 MSEK after tax) on the relocation of distribution facilities recognized in the second quarter.

The share of net profit in STG for the third quarter and the first nine months 2016 is reported on a one quarter lag. Following the partial divestment of STG in September, the shareholding has been reclassified to a financial asset such that the third quarter 2016 only includes two thirds of Swedish Match's share of STG's net profit for the second quarter Swedish Match's share of net profit in STG for the first nine months and full year of 2015 includes an adjustment of 56 MSEK relating to 2014 due to a reassessment of useful lives of certain intangible and tangible assets (primarily trademarks). The full year 2015 includes only the first nine months of net profit in STG due to transition to a one quarter lag reporting. See Note 3.

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

## The third quarter

(Note: Comments below refer to the comparison between the third quarter 2016 vs. the third quarter prior year).

### Sales

Sales grew by 10 percent to 4,118 MSEK (3,756). Currency translation has affected the sales comparison positively by 17 MSEK. Sales in local currencies increased for all product areas. In local currencies, sales increased by 9 percent.

### Earnings

Operating profit from product areas increased by 11 percent to 1,089 MSEK (979). Operating profit increased for Snus and moist snuff, Other tobacco products and Lights, but declined for Other operations. In local currencies, operating profit from product areas increased by 11 percent.

Operating profit, including larger one-time items and share of net profit in STG, amounted to 2,694 MSEK (1,065). The sale of part of Swedish Match's holding in STG that took place during the quarter generated a capital gain of 648 MSEK and an unrealized gain of 902 MSEK was recognized from the revaluation of the remaining holding in STG to market value. Both these items have been reported as larger one-time items. Currency translation has affected the comparison of the operating profit positively by 3 MSEK.

The Group's net finance cost amounted to 149 MSEK (106) and included costs for the partial repurchase of the 2017 bond maturity. The income tax expense amounted to 239 MSEK (219), corresponding to a reported tax rate of 9.4 percent (22.8). The unusually low reported tax rate is a result of the larger one-time items being tax exempt.

Profit for the period increased to 2,306 MSEK (741). Excluding the larger one-time items, profit for the period increased by 2 percent.

Earnings per share (EPS) for the third quarter amounted to 12.32 SEK (3.84). Excluding the share of net profit in STG in both years and adjusted for the larger one-time items EPS increased by 11 percent to 3.76 SEK (3.39).

## The first nine months

(Note: Comments below refer to the comparison between the first nine months 2016 vs. the first nine months prior year).

### Sales

Sales increased by 8 percent to 11,594 MSEK (10,767). Currency translation has affected the sales comparison negatively by 89 MSEK. In local currencies, sales increased by 9 percent. Sales comparisons versus prior year for Snus and moist snuff and for Other operations were positively affected by a lower level of trade destocking in early 2016 than in early 2015.

### Earnings

Operating profit from product areas increased by 9 percent to 3,036 MSEK (2,782). In local currencies the operating profit from product areas increased by 10 percent. Operating profit increased for all product areas except for Other operations.

Operating profit, including larger one-time items and share of net profit in STG amounted to 5,466 MSEK (3,100). During the first nine months of 2016, capital gains totaling 1,208 MSEK were recognized following the reductions in shareholding in STG and 145 MSEK from the sale of a distribution center in Sweden. In addition, an unrealized gain of 902 MSEK was recognized from revaluation of the remaining shareholding in STG to market value. These larger one-time items are all tax exempt. During the first nine months of 2015, a cost of 42 MSEK for the relocation of distribution facilities was recognized as a larger one-time item. Currency translation has affected the comparison of the operating profit negatively by 37 MSEK.

The Group's net finance cost amounted to 346 MSEK (335) and income tax expense amounted to 659 MSEK (598), corresponding to a tax rate of 12.9 percent (21.6). The unusually low reported tax rate is a result of the larger one-time items being tax exempt. The tax rate, excluding associated companies and joint ventures and non-taxable larger one-time items, was 24.5 percent (24.5).

Profit for the period increased to 4,461 MSEK (2,167). Excluding the larger one-time items, profit for the period increased by 3 percent.

EPS for the first nine months increased to 23.77 SEK (11.14). Excluding share of net profit in STG and adjusted for the larger one-time items in both years EPS increased by 14 percent to 10.82 SEK (9.46).

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## Ettan – Sweden's oldest snus

**When snus manufacturer Jacob Fredrik Ljunglöf introduced the snus brand Ettan in 1822 he laid the foundation for what would become a Swedish taste tradition.**

Jacob Fredrik Ljunglöf developed a special manufacturing process where he began pasteurizing snus which gave it a pure tobacco taste and high quality. Nearly all of the Swedish snus manufacturers in the 1800's had a product assortment with classifications including No. 1, No. 2 and No. 3, which designated the quality of the snus. Ljunglöf's No. 1 was the first snus to be successfully launched nationwide and Ljunglöf's Ettan ("The No. 1" in Swedish) became a famous and well-known brand. The recipe of Ettan, with its mix of tobacco, salt and water, has been the same since 1822. Ettan snus has a strong, slightly smoky and unadorned tobacco flavor.





## Snus and moist snuff

### Third quarter highlights:

- Sales growth in both Scandinavia and the US
- Market growth in Scandinavia at somewhat slower pace than earlier in the year
- Swedish Match's shipment volumes in Scandinavia were down but underlying volumes slightly up
- Reduced operating loss for snus outside Scandinavia (including US)

### Key data

MSEK	July-September			January-September			Full year 2015
	2016	2015	Chg %	2016	2015	Chg %	
Sales	1,338	1,311	2	3,922	3,773	4	5,090
Operating profit	577	556	4	1,656	1,525	9	2,071
Operating margin, %	43.1	42.4		42.2	40.4		40.7
EBITDA	625	600	4	1,791	1,659	8	2,247
EBITDA margin, %	46.7	45.7		45.7	44.0		44.1

### The third quarter

(Note: Comments below refer to the comparison between the third quarter 2016 vs. the third quarter prior year).

Sales for Snus and moist snuff increased by 2 percent in local currencies. Sales grew both in Scandinavia and the US. The growth in operating profit was driven by reduced losses for snus outside of Scandinavia.

In Scandinavia, both the Swedish and Norwegian markets grew in the quarter and Swedish Match estimates that the total Scandinavian market grew by 3 percent. Swedish Match's shipment volumes measured in number of cans were down by 1 percent, negatively affected by timing and calendar effects, and are estimated to have been up slightly on an underlying basis. In Sweden, Swedish Match's volume market share was down somewhat, both compared to previous quarter and prior year period, stemming primarily from share declines in the value segment.

Sales in Scandinavia increased as the reported volume decline and negative mix effects were offset by improved pricing. The operating profit for Scandinavia snus was impacted by the same parameters as sales but also affected by higher costs for market initiatives. Currency effects from the Norwegian krone were minimal in the quarter.

For the US moist snuff business, both pouches and tubs grew sharply. Total volumes increased by 3 percent with a high level of promotional activity in the quarter. Sales increased somewhat less than volumes.

The total net operating loss for snus and nicotine pouches outside Scandinavia decreased to 66 MSEK (95) attributable to both improved gross profit and lower costs. For snus in the US, sales continued to increase due to a combination of higher volumes and better realized pricing. Distribution of the ZYN nicotine pouch was expanded during the quarter and the product is now available in close to three thousand retail outlets.

## The first nine months

(Note: Comments below refer to the comparison between the first nine months 2016 vs. the first nine months prior year).

Sales for the product area grew by 5 percent in local currencies, with growth in Scandinavia (positively affected by lower trade destocking in 2016 than in 2015), and the US. Operating profit increased to 1,656 MSEK (1,525).

In Scandinavia, shipment volumes grew by 4 percent, positively affected by the same effects as sales. Swedish Match estimates that its underlying volumes (excluding destocking and calendar effects) on the Scandinavian market increased by less than 3 percent. Swedish Match estimates that the total Scandinavian snus market grew by somewhat less than 5 percent in volume terms.

Operating profit for snus in Scandinavia grew but higher sales and gross profit were partially offset by increased market related costs. In the US, sales in local currency for moist snuff increased on slightly higher volumes, and improved pricing. Operating profit grew in local currency for moist snuff in the US. For snus in the US, both sales and gross profit increased.

The total net operating loss for snus and nicotine pouches outside Scandinavia decreased to 170 MSEK (246).

### Swedish Match shipment volumes

	July-September			January-September			Full year
	2016	2015	Chg %	2016	2015	%	2015
Snus, millions of cans, Scandinavia	60.5	61.2	-1	179.0	171.8	4	237.9
Moist snuff, millions of cans, US	35.9	34.7	3	104.4	103.4	1	132.1

### Swedish Match Scandinavian snus market shares<sup>1)</sup>

Percent	July-September			January-September			Full year
	2016	2015	Chg ppts	2016	2015	ppts	2015
Snus, Sweden, total	67.4	69.3	-1.9	67.8	69.0	-1.2	69.1
Snus, Sweden, premium	92.4	93.2	-0.8	92.9	93.5	-0.6	93.5
Snus, Sweden, value	37.8	39.8	-2.1	38.6	39.7	-1.0	39.9
Snus, Norway, total	53.2	56.1	-2.9	53.8	57.1	-3.3	56.7

1) Swedish Match estimates using Nielsen data (excluding tobaccoconists): 13 weeks and YTD to September 25, 2016. All figures for the Swedish market have been restated to include nicotine free products (i.e. Onico etc.), as well as changes in Nielsen store measurements.

## Other tobacco products (cigars and chewing tobacco)



### Third quarter highlights:

- New record quarter for cigars in the US
- Strong growth in sales for cigars, chewing tobacco sales up slightly
- FDA deeming regulations for cigars in force from August 8

### Key data

MSEK	July-September			January-September			Full year
	2016	2015	Chg %	2016	2015	Chg %	
Sales	1,166	958	22	3,192	2,873	11	3,829
Operating profit	486	390	25	1,310	1,188	10	1,554
Operating margin, %	41.6	40.7		41.1	41.3		40.6
EBITDA	501	404	24	1,357	1,232	10	1,613
EBITDA margin, %	43.0	42.2		42.5	42.9		42.1

### The third quarter

(Note: Comments below refer to the comparison between the third quarter 2016 vs. the third quarter prior year).

Sales and operating profit for Other tobacco products grew both as reported and in local currency. In local currency, sales increased by 21 percent and operating profit increased by 24 percent.

Cigar volumes were up by 29 percent, and reached a record level in the quarter. The US cigar market remained highly competitive but Swedish Match's volumes increased for both natural and HTL cigars. Sales for cigars increased in line with volumes and operating profit grew sharply.

Both sales and operating profit for cigars are expected to be lower in the fourth quarter than in the third quarter due to the timing of shipments and user fees to the FDA being imposed beginning October 1, 2016. These volume-based user fees are expected to amount to approximately 2 MUSD in the fourth quarter.

On August 8, the FDA (US Food and Drug Administration) deeming regulations for cigars came into force. The regulations, as previously communicated, require, among others, that either a substantial equivalent application or a new product application be filed for all products that were on the market before August 8 but not on the market before February 15, 2007. Also, new products after the effective date may not be placed on the market without a substantial equivalent approval or a new product approval.

Chewing tobacco shipments (excluding contract manufacturing volumes) declined by 7 percent. Sales for chewing tobacco in the US increased slightly as price increases and increased shipments of contract manufacturing volumes more than compensated for the volume decline of Swedish Match brands. Operating profit in local currency declined due to costs for the introduction of chew bags outside of the US. The state of Pennsylvania has imposed an excise tax of 0.55 USD per ounce on chewing tobacco effective October 1. This tax increase is expected to have a negative impact on shipments of chewing tobacco, especially in the fourth quarter.

## The first nine months

(Note: Comments below refer to the comparison between the first nine months 2016 vs. the first nine months prior year).

In local currency, sales for Other tobacco products were up by 11 percent, and operating profit was also up by 11 percent, attributable to the strong performance for US cigars.

Cigar volumes increased by 18 percent and sales in US dollars increased almost in line with volumes. Operating profit was also higher.

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

## Swedish Match US shipment volumes

	July-September		Chg	January-September		Chg	Full year
	2016	2015	%	2016	2015	%	2015
Cigars, millions of sticks	402	311	29	1,105	937	18	1,256
Chewing tobacco, thousands of pounds (excluding contract manufacturing volumes)	1,735	1,857	-7	5,269	5,720	-8	7,390

## Lights (matches, lighters and complementary products)



### Third quarter highlights:

- Higher sales across the portfolio
- Operating profit up from strong results for lighters and complementary products

## Key data

MSEK	July-September		Chg	January-September		Chg	Full year
	2016	2015	%	2016	2015	%	2015
Sales	346	312	11	967	961	1	1,295
Operating profit	61	47	29	157	140	12	190
Operating margin, %	17.6	15.2		16.2	14.6		14.7
EBITDA	71	57	25	186	169	10	228
EBITDA margin, %	20.6	18.2		19.3	17.6		17.6

## The third quarter

(Note: Comments below refer to the comparison between the third quarter 2016 vs. the third quarter prior year).

Sales increased by 11 percent with growth for lighters, matches and complementary products. For lighters, shipment volumes grew, led by a strong performance in Asia. Sales for matches were similar to previous quarters in 2016, but significantly higher than in the third quarter of 2015.

Operating profit increased by 29 percent, benefitting from a positive portfolio mix and low production and marketing costs for lighters, as well as a strong development for complementary products. The operating margin also improved.

## The first nine months

(Note: Comments below refer to the comparison between the first nine months 2016 vs. the first nine months prior year).

Sales were flat, burdened in part by negative currency effects from the Brazilian real versus prior year. Volumes for matches were down while volumes for lighters have grown. Operating profit for the product area was up due to a much stronger performance for lighters in both the second and third quarter versus prior year periods as well as a good performance for complementary products. Lower operating profit for matches partially offset the stronger performance in the other categories.

## Swedish Match shipment volumes, worldwide

	July-September		Chg	January-September		Chg	Full year
	2016	2015	%	2016	2015	%	2015
Matches, billion sticks	16.9	16.5	3	52.8	55.7	-5	73.1
Lighters, million units	108.6	104.7	4	304.5	298.1	2	402.9

## Other operations

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

### The third quarter

Sales in Other operations for the third quarter amounted to 1,267 MSEK (1,174). Operating loss for Other operations was 34 MSEK (14). Costs were higher as a consequence of higher IT costs and some costs of temporary nature.

### The first nine months

Sales for the first nine months amounted to 3,513 MSEK (3,160) and the operating loss was 87 MSEK (71). Sales in Other operations for the prior year period were negatively affected by destocking following hoarding at the end of 2014.

The new distribution center in Kungsängen was opened according to plan in the first quarter and the two former distribution centers have been closed. At the end of March, the sale of the Solna distribution center was closed and a non-taxable capital gain of 145 MSEK was recognized as a larger one-time item.

## Scandinavian Tobacco Group

Scandinavian Tobacco Group (STG) is a world leading manufacturer of cigars and pipe tobacco. Through February 9, 2016, Swedish Match owned 49 percent (49 million shares) of STG. On February 10, 2016, STG was listed on Nasdaq Copenhagen and in conjunction with the listing Swedish Match sold 17.9 million shares, with the result that Swedish Match held 31.1 million shares corresponding to 31.1 percent of the total number of shares and votes in STG. The price per share was set at 100 DKK and Swedish Match's proceeds, net of transaction costs, amounted to 2,172 MSEK. The tax-free capital gain from the partial divestment of STG in conjunction with the IPO amounted to 560 MSEK and was recognized as a larger one-time item in the first quarter 2016.

On September 7, 2016, Swedish Match divested another 13 million shares in STG at a price of 106 DKK per share. Swedish Match's proceeds, net of transaction costs, from the second sale of STG shares amounted to 1,752 MSEK. Following the transaction, Swedish Match owns 18,069,906 shares, corresponding to 18.1 percent of the total number of shares and votes in STG. Swedish Match has agreed to a 90-day lock-up undertaking on the remaining shares held in STG. The tax-free capital gain from this transaction amounted to 648 MSEK and has been recognized as a larger one-time item in the third quarter 2016.

As a result of Swedish Match's ownership in STG falling below 20 percent, equity accounting is no longer applicable and the shareholding has been reclassified to a financial asset. At time of reclassification a tax-free unrealized gain of 902 MSEK was recognized for the revaluation of the shareholding to market value. The shareholding will, following the reclassification, be valued at market value at each balance sheet date and the difference in market value will be recognized in other comprehensive income. Also following the

reclassification, Swedish Match has ceased to recognize its share of net profit in STG in the profit and loss. As a result, the third quarter reporting only includes share of STG's net profit up until the second divestment. Consequently, the third quarter reporting includes Swedish Match's share (based on 31.1 percent) of two thirds of STG's net profit for the second quarter (as the reporting is based on a one quarter lag). Future dividends received from STG will be recognized in the profit and loss.

For the third quarter 2016, Swedish Match's reported share of STG's net profit amounted to 55 MSEK (87). For the first nine months 2016, Swedish Match's reported share of STG's net profit amounted to 176 MSEK (360). The decrease in Swedish Match's reported share of net profit in STG is affected by the decreased ownership and the comparison period (first quarter 2015) being affected by a positive adjustment.

Please see Note 3 for information on Swedish Match's reporting of STG.

See [www.st-group.com](http://www.st-group.com) for more information on STG's second quarter 2016 results.

## Financing and cash flow

Cash flow from operating activities for the first nine months amounted to 2,559 MSEK (3,199). During the period Swedish Match received a dividend from STG of 191 MSEK (based on a 31.1 percent ownership) whereas an ordinary dividend of 261 MSEK and a special dividend of 555 MSEK (based on a 49 percent ownership) were received in 2015.

During the first nine months, Swedish Match had a positive net cash flow from investing activities. Swedish Match received 3,923 MSEK from the partial divestment of STG (in two tranches whereof the first in conjunction with the IPO of STG) and another 145 MSEK from the sale of a distribution center.

Investments in property, plant and equipment increased to 373 MSEK (218), affected by increased capital investments primarily in the snus and cigar businesses. Investments in intangible assets increased to 125 MSEK (7) affected by an investment in patent rights for a nicotine pouch product without tobacco. For the full year, investments in property, plant and equipment are expected to be in line with prior year.

Net finance cost for the first nine months increased to 346 MSEK (335), including a cost of 67 MSEK relating to the repurchase of bond loans, mainly maturing in 2017. Excluding the above mentioned 67 MSEK cost, interest costs have decreased due primarily to lower interest rates.

During the first nine months, new bond loans of 3,365 MSEK were issued, of which a 300 MEUR public bond with maturity in 2024 was issued in September and converted into SEK at, for Swedish Match, a record low interest rate of 2.1 percent. With favorable market conditions Swedish Match took the opportunity to secure refinancing of a large maturity falling due in November 2017. As such, part of the proceeds from the issuance was used to repurchase 100 MEUR of the 2017 bond maturity via a public tender. In total, during the first nine months, repayments of bond loans have amounted to 1,307 MSEK.

As of September 30, 2016 Swedish Match had 10,070 MSEK of interest bearing debt excluding retirement benefit obligations compared to 8,064 MSEK at December 31, 2015. During the remainder of 2016, 310 MSEK of this debt falls due for payment. For further detail of the maturity profile of the debt portfolio please see the Company website.

Defined pension and benefit obligations increased to 2,014 MSEK as of September 30, 2016, from 1,591 MSEK at December 31, 2015, due primarily to lower discount rates which were partly offset by plan contributions.

As of September 30, 2016, Swedish Match had 1,500 MSEK in unutilized committed credit lines. Cash and cash equivalents amounted to 5,199 MSEK at the end of the period, compared to 1,732 MSEK at December 31, 2015. The large cash position includes the proceeds received from the second partial divestment of STG in September and the issuance of the public bond, net of repurchased bond maturities.

The net debt as of September 30, 2016 amounted to 6,885 MSEK compared to 7,922 MSEK at December 31, 2015. The reduction in net debt is primarily due to the proceeds from the second partial divestment of STG.

In the first nine months, Swedish Match paid a dividend totaling 3,764 MSEK, consisting of an ordinary dividend of 1,506 MSEK and a special dividend of 2,258 MSEK due to the partial divestment of shares in STG. Swedish Match made share repurchases during the period of 999 MSEK.

## Proposed special dividend per share

The Board of Directors proposes a special dividend of 9.50 SEK per share to be approved by an extraordinary shareholders' meeting to be held on December 16. The special dividend is proposed in accordance with Swedish Match's financial strategy of returning excess cash to its shareholders and following the partial divestment of STG in September. The proposed special dividend amounts to 1,763 MSEK based on the 185.5 million shares outstanding at the end of September 2016.

## Number of shares

During the first nine months, Swedish Match repurchased 3.4 million shares for 999 MSEK at an average price of 294.89 SEK, following authorization from the Annual General Meetings held in 2015 and 2016. Total shares bought back by Swedish Match since the buyback program started have been repurchased at an average price of 116.23 SEK.

As per September 30, 2016 Swedish Match held 3.2 million shares, corresponding to 1.71 percent of the total number of shares. The number of shares outstanding, net, as per September 30, 2016, amounted to 185.5 million.

## Other events

In accordance with the instructions adopted by the Annual General Meeting 2016, a Nominating Committee has been appointed. In addition to Conny Karlsson (Chairman of the Board), Mark Husson (Cedar Rock Capital), Daniel Ovin (Nordea Asset Management), Ulrika Danielson (Second Swedish National Pension Fund), and William James (Standard Life Investments), have been appointed members of the Nominating Committee.

## Outlook

For 2016, on a full year basis, we expect Scandinavian snus as well as US moist snuff consumption to grow as measured in number of cans. In Scandinavia, we expect the market to continue to grow during the second half albeit at a more modest rate compared to the first half of the year, primarily as a result of lower growth in the Swedish market. Timing and calendar effects have favorably impacted the growth in Swedish Match's shipments in Scandinavia in the first half of the year. During the second half timing and calendar effects could negatively impact shipment growth.

In our Scandinavian snus business, the average net selling price per can during 2016 is now expected to be largely in line with 2015. We expect the competitive activity level in the Scandinavian snus market to continue to be high for the remainder of the year. Swedish Match is working hard to defend its market shares for snus in Scandinavia and for moist snuff in the US. In Scandinavia costs related to market initiatives are expected to be higher than the previous year. For our US moist snuff business, we expect higher prices to more than compensate for negative mix effects during the year.

For cigars in the US, Swedish Match expects the market to continue to grow in 2016 but to remain highly competitive. The US Food and Drug Administration (FDA) has published the regulation of cigars and the cigar industry, including Swedish Match, will start paying volume based user fees to FDA from October 1, 2016. For Swedish Match, we estimate these fees to amount to approximately 2 MUSD for the fourth quarter. For our Other tobacco products area we expect sales and operating profit in local currency in the second half to be higher than in the prior year period. Due to the FDA user fees, timing of promotions and some planned factory downtime, the performance for Other tobacco products is expected to be notably stronger in the third quarter than in the fourth quarter.

Swedish Match will continue to invest in growth for snus outside Scandinavia in 2016. We expect a reduced operating loss as the SMPM International joint venture has been dissolved and the US snus business is expected to continue to grow and to deliver increased gross profit.

Swedish Match generates a substantial share of its sales and operating profit in the US. During 2015, the stronger US dollar compared to 2014 had a significant positive effect on both sales and operating profit growth. For 2016, Swedish Match expects a much less pronounced currency translation impact.

The effective corporate tax rate, excluding associated companies and non-taxable larger one-time items, is expected to be somewhat higher for 2016 than for 2015.

The Company maintains its financial strategy and dividend policy, and we remain committed to returning cash not needed in operations to shareholders.

## Risk factors

Swedish Match faces intense competition in all of its markets and for each of its products and such competition may increase in the future. In order to be successful the Group must develop products and brands that resonate with changing consumer trends, and price and promote its brands competitively. Restrictions on advertising and promotion may, however, make it more difficult to counteract 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 a substantial part of its production and sales in the US and also operations in Brazil, the Dominican Republic, Norway and EMU member countries. Consequently, changes in exchange rates of the euro, Norwegian krone, Brazilian real, the Dominican peso and in particular the US dollar may adversely affect the Group's results of operations, cash flow, financial condition or relative price competitiveness in the future. Such effects may occur both in local currencies and when such local currencies are translated into Swedish currency for purposes of financial reporting.

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

For a further description of risk factors affecting Swedish Match, see the Report of the Board of Directors in the published Swedish Match annual report for 2015.

## Swedish Match AB (publ)

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

Sales in the Parent Company for the first nine months amounted to 39 MSEK (28). Profit before income tax amounted to 1,111 MSEK (511) and net profit for the first nine months amounted to 1,254 MSEK (664). The higher net profit for the first nine months of 2016 mainly pertains to higher dividends from subsidiaries compared to the previous year.

During the first nine months, higher administration costs mainly relate to higher pension costs due to a decrease in the discount rate assumption applied in the valuation of pension obligations at period end. These higher pension costs are adjusted at Group level and reported as an actuarial loss in other comprehensive income.

During the period, the Parent Company received dividends of 1,847 MSEK (1,245).

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

During the first nine months repayments of bond loans amounted to 1,307 MSEK and new bond loans of 3,365 MSEK were issued. During the period, the Parent Company made share repurchases of 3.4 million (4.9) shares for 999 MSEK (1,244). During the first nine months of the prior year, 0.7 million treasury shares were sold for 141 MSEK.

Capital expenditures on tangible assets for the period amounted to 0 MSEK (2). No capital expenditures on intangible assets have been recognized during the first nine months of 2016 or 2015.

A dividend of 3,764 MSEK (1,464) 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 fluctuation in exchange rates.

### **Additional information**

This report has not been reviewed by the Company's auditors. The full year 2016 report will be released on February 17, 2017.

Stockholm, October 28, 2016

Lars Dahlgren  
President and CEO

## Product area summary and key ratios

### Sales by product area

MSEK	July-September			January-September			Full year 2015
	2016	2015	Chg %	2016	2015	Chg %	
Snus and moist snuff	1,338	1,311	2	3,922	3,773	4	5,090
Other tobacco products	1,166	958	22	3,192	2,873	11	3,829
Lights	346	312	11	967	961	1	1,295
Other operations	1,267	1,174	8	3,513	3,160	11	4,272
<b>Sales</b>	<b>4,118</b>	<b>3,756</b>	<b>10</b>	<b>11,594</b>	<b>10,767</b>	<b>8</b>	<b>14,486</b>

### Operating profit by product area

MSEK	July-September			January-September			Full year 2015
	2016	2015	Chg %	2016	2015	Chg %	
Snus and moist snuff	577	556	4	1,656	1,525	9	2,071
Other tobacco products	486	390	25	1,310	1,188	10	1,554
Lights	61	47	29	157	140	12	190
Other operations	-34	-14		-87	-71		-124
<b>Operating profit from product areas</b>	<b>1,089</b>	<b>979</b>	<b>11</b>	<b>3,036</b>	<b>2,782</b>	<b>9</b>	<b>3,690</b>
Share of net profit in STG <sup>1)</sup>	55	87	-37	176	360	-51	360
<b>Subtotal</b>	<b>1,144</b>	<b>1,065</b>	<b>7</b>	<b>3,212</b>	<b>3,142</b>	<b>2</b>	<b>4,050</b>
<i>Larger one-time items</i>							
Sale of STG shares	648	-		1,208	-		-
Gain on fair value of STG shares	902	-		902	-		-
Sale of distribution facility	-	-		145	-		-
Relocation of distribution facilities	-	-		-	-42		-42
<b>Total larger one-time items</b>	<b>1,550</b>	<b>-</b>		<b>2,254</b>	<b>-42</b>		<b>-42</b>
<b>Operating profit</b>	<b>2,694</b>	<b>1,065</b>	<b>153</b>	<b>5,466</b>	<b>3,100</b>	<b>76</b>	<b>4,008</b>
Net finance cost	-149	-106		-346	-335		-463
<b>Profit before income tax</b>	<b>2,545</b>	<b>960</b>	<b>165</b>	<b>5,120</b>	<b>2,765</b>	<b>85</b>	<b>3,545</b>

1) Swedish Match's share of net profit in STG for 2016 is reported on a one quarter lag and the third quarter only includes Swedish Match's share of STG's net profit for two thirds of the second quarter due to reclassification to a financial asset following the partial divestment in September. For the first nine months of 2015, Swedish Match's reported share of net profit in STG included an adjustment of 56 MSEK relating to 2014 due to a reassessment of useful lives of certain intangible and tangible assets. Swedish Match's share of net profit in STG for the full year 2015 includes only the first nine months of net profit in STG due to transition to a one quarter lag reporting. See Note 3.

### Operating margin by product area<sup>1)</sup>

Percent	July-September		January-September		Full year 2015
	2016	2015	2016	2015	
Snus and moist snuff	43.1	42.4	42.2	40.4	40.7
Other tobacco products	41.6	40.7	41.1	41.3	40.6
Lights	17.6	15.2	16.2	14.6	14.7
<b>Operating margin from product areas<sup>2)</sup></b>	<b>26.5</b>	<b>26.1</b>	<b>26.2</b>	<b>25.8</b>	<b>25.5</b>
<b>Operating margin<sup>3)</sup></b>	<b>27.8</b>	<b>28.4</b>	<b>27.7</b>	<b>29.2</b>	<b>28.0</b>

1) Excluding larger one-time items.

2) Excluding share of net profit in STG.

3) Including share of net profit in STG.

### EBITDA by product area<sup>1)</sup>

MSEK	July-September			January-September			Full year 2015
	2016	2015	Chg %	2016	2015	Chg %	
Snus and moist snuff	625	600	4	1,791	1,659	8	2,247
Other tobacco products	501	404	24	1,357	1,232	10	1,613
Lights	71	57	25	186	169	10	228
Other operations	-22	-3		-50	-39		-81
<b>EBITDA from product areas</b>	<b>1,175</b>	<b>1,058</b>	<b>11</b>	<b>3,284</b>	<b>3,020</b>	<b>9</b>	<b>4,008</b>
Share of net profit in STG <sup>2)</sup>	55	87	-37	176	360	-51	360
<b>EBITDA</b>	<b>1,230</b>	<b>1,144</b>	<b>7</b>	<b>3,460</b>	<b>3,380</b>	<b>2</b>	<b>4,368</b>

1) Excluding larger one-time items.

2) Swedish Match's share of net profit in STG for 2016 is reported on a one quarter lag and the third quarter only includes Swedish Match's share of STG's net profit for two thirds of the second quarter due to reclassification to a financial asset following the partial divestment in September. For the first nine months of 2015, Swedish Match's reported share of net profit in STG included an adjustment of 56 MSEK relating to 2014 due to a reassessment of useful lives of certain intangible and tangible assets. Swedish Match's share of net profit in STG for the full year 2015 includes only the first nine months of net profit in STG due to transition to a one quarter lag reporting. See Note 3.

### EBITDA margin by product area<sup>1)</sup>

Percent	July-September		January-September		Full year 2015
	2016	2015	2016	2015	
Snus and moist snuff	46.7	45.7	45.7	44.0	44.1
Other tobacco products	43.0	42.2	42.5	42.9	42.1
Lights	20.6	18.2	19.3	17.6	17.6
<b>EBITDA margin from product areas<sup>2)</sup></b>	<b>28.5</b>	<b>28.2</b>	<b>28.3</b>	<b>28.1</b>	<b>27.7</b>
<b>EBITDA margin<sup>3)</sup></b>	<b>29.9</b>	<b>30.5</b>	<b>29.8</b>	<b>31.4</b>	<b>30.2</b>

1) Excluding larger one-time items.

2) Excluding share of net profit in STG.

3) Including share of net profit in STG.

### Key ratios

All key ratios have been calculated excluding larger one-time items, unless otherwise stated.

	January-September		12 months ended	Full year 2015
	2016	2015	Sep 30, 2016	
Operating margin, %	27.7	29.2	26.9	28.0
Operating capital, MSEK	6,365	8,034	6,365	8,030
Return on operating capital, %			57.2	49.6
EBITDA, MSEK <sup>1)</sup>	3,460	3,380	4,447	4,368
EBITA, MSEK <sup>2)</sup>	3,251	3,175	4,170	4,094
Net debt, MSEK	6,885	7,820	6,885	7,922
Investments in property, plant and equipment, MSEK <sup>3)</sup>	373	218	646	491
EBITA interest cover	9.6	9.6	8.9	8.9
<i>Excluding share of net profit in STG</i>				
EBITA, MSEK <sup>2)</sup>	3,075	2,815	3,994	3,734
Net debt/EBITA <sup>2)</sup>			1.7	2.1
<i>Share data</i>				
Number of shares outstanding at end of period	185,527,435	191,490,937	185,527,435	188,915,791
Average number of shares outstanding, basic	187,687,287	194,472,656	188,417,519	193,506,546
Average number of shares outstanding, diluted	187,687,287	194,501,879	188,417,519	193,530,266

1) Operating profit adjusted for depreciation, amortization and write-downs of tangible and intangible assets.

2) Operating profit adjusted for amortization and write-downs of intangible assets.

3) Including investments in forest plantations of 11 MSEK (13).

## Financial statements

### Consolidated income statement in summary

MSEK	July-September		Chg %	January-September		Chg %	12 months ended		Full year	Chg %
	2016	2015		2016	2015		Sep 30, 2016	2015		
Sales, including tobacco tax	7,546	7,275		21,306	20,372		28,372	27,438		
Less tobacco tax	-3,428	-3,519		-9,711	-9,605		-13,059	-12,952		
<b>Sales</b>	<b>4,118</b>	<b>3,756</b>	<b>10</b>	<b>11,594</b>	<b>10,767</b>	<b>8</b>	<b>15,313</b>	<b>14,486</b>	<b>6</b>	
Cost of goods sold	-2,222	-2,011		-6,209	-5,692		-8,214	-7,697		
<b>Gross profit</b>	<b>1,896</b>	<b>1,745</b>	<b>9</b>	<b>5,385</b>	<b>5,075</b>	<b>6</b>	<b>7,099</b>	<b>6,789</b>	<b>5</b>	
Selling and admin. expenses	-808	-745		-2,351	-2,258		-3,158	-3,065		
Share of profit/loss in associated companies and joint ventures <sup>1)</sup>	56	66		177	325		180	327		
Sale of STG shares	648	-		1,208	-		1,208	-		
Gain on fair value of STG shares	902	-		902	-		902	-		
Sale of distribution facility	-	-		145	-		145	-		
Relocation of distribution facilities	-	-		-	-42		-	-42		
<b>Operating profit<sup>1)</sup></b>	<b>2,694</b>	<b>1,065</b>	<b>153</b>	<b>5,466</b>	<b>3,100</b>	<b>76</b>	<b>6,374</b>	<b>4,008</b>	<b>59</b>	
Finance income	15	6		29	14		38	22		
Finance costs	-165	-111		-375	-349		-512	-486		
Net finance cost	-149	-106		-346	-335		-474	-463		
<b>Profit before income tax<sup>1)</sup></b>	<b>2,545</b>	<b>960</b>	<b>165</b>	<b>5,120</b>	<b>2,765</b>	<b>85</b>	<b>5,901</b>	<b>3,545</b>	<b>66</b>	
Income tax expense	-239	-219		-659	-598		-803	-742		
<b>Profit for the period<sup>1)</sup></b>	<b>2,306</b>	<b>741</b>	<b>211</b>	<b>4,461</b>	<b>2,167</b>	<b>106</b>	<b>5,097</b>	<b>2,803</b>	<b>82</b>	
<i>Attributable to:</i>										
Equity holders of the Parent	2,306	741		4,461	2,167		5,097	2,803		
Non-controlling interests	0	0		0	0		0	0		
<b>Profit for the period<sup>1)</sup></b>	<b>2,306</b>	<b>741</b>	<b>211</b>	<b>4,461</b>	<b>2,167</b>	<b>106</b>	<b>5,097</b>	<b>2,803</b>	<b>82</b>	
Earnings per share, basic, SEK	12.32	3.84		23.77	11.14		27.05	14.48		
Earnings per share, excl. STG, basic, SEK	12.03	3.39		22.83	9.29		26.12	12.62		
Earnings per share, excl. STG, adjusted, basic, SEK <sup>2)</sup>	3.76	3.39		10.82	9.46		14.16	12.79		

1) Swedish Match's share of net profit in STG for 2016 is reported on a one quarter lag and the third quarter only includes Swedish Match's share of STG's net profit for two thirds of the second quarter due to reclassification to a financial asset following the partial divestment in September. For the first nine months of 2015, Swedish Match's reported share of net profit in STG included an adjustment of 56 MSEK relating to 2014 due to a reassessment of useful lives of certain intangible and tangible assets. Swedish Match's share of net profit in STG for the full year 2015 includes only the first nine months of net profit in STG due to transition to a one quarter lag reporting. See Note 3.

2) Adjusted for Swedish Match's larger one-time items.

## Consolidated statement of comprehensive income

MSEK

	July-September		January-September		12 months	Full year
	2016	2015	2016	2015	ended	2015
					Sep 30, 2016	
<b>Profit for the period</b>	<b>2,306</b>	<b>741</b>	<b>4,461</b>	<b>2,167</b>	<b>5,097</b>	<b>2,803</b>
<i>Other comprehensive income that may be reclassified to the income statement</i>						
Translation differences related to foreign operations	-262	99	-182	-8	-311	-137
Translation differences included in profit and loss	-137	0	-143	44	-142	44
Effective portion of changes in fair value of cash flow hedges	-99	16	-76	57	-48	86
Reclassification of gains/losses on cash flow hedges included in profit and loss	15	-	16	-	23	8
Share of other comprehensive income in associated companies and joint ventures <sup>1)</sup>	24	-33	-20	261	-21	260
Change in fair value of STG shares	186	-	186	-	186	-
Income tax relating to reclassifiable components of other comprehensive income	18	-4	13	-13	5	-21
<b>Subtotal, net of tax for the period</b>	<b>-255</b>	<b>79</b>	<b>-207</b>	<b>341</b>	<b>-308</b>	<b>241</b>
<i>Other comprehensive income that will not be reclassified to the income statement</i>						
Actuarial gains/losses attributable to pensions, incl. payroll tax	-107	-192	-472	28	-105	395
Share of other comprehensive income in associated companies and joint ventures <sup>1)</sup>	0	7	-2	7	-2	7
Income tax relating to non-reclassifiable components of other comprehensive income	33	69	156	-19	20	-155
<b>Subtotal, net of tax for the period</b>	<b>-75</b>	<b>-116</b>	<b>-317</b>	<b>17</b>	<b>-87</b>	<b>248</b>
<b>Total comprehensive income for the period</b>	<b>1,977</b>	<b>703</b>	<b>3,937</b>	<b>2,526</b>	<b>4,703</b>	<b>3,292</b>
<i>Attributable to:</i>						
Equity holders of the Parent	1,977	703	3,936	2,526	4,702	3,292
Non-controlling interests	0	0	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>1,977</b>	<b>703</b>	<b>3,937</b>	<b>2,526</b>	<b>4,703</b>	<b>3,292</b>

1) 2016 includes other comprehensive income in STG on a one quarter lag and the third quarter only includes Swedish Match's share of STG's other comprehensive income for two thirds of the second quarter due to reclassification to a financial asset following the partial divestment in September. The full year 2015 includes only the first nine months of other comprehensive income in STG due to transition to a one quarter lag reporting.

## Consolidated balance sheet in summary

MSEK	September 30, 2016	December 31, 2015
Intangible assets	1,177	1,048
Property, plant and equipment	2,459	2,240
Investments in associated companies and joint ventures	120	4,845
Other non-current financial receivables <sup>1)</sup>	4,754	1,739
Current operating assets	3,522	3,220
Cash and cash equivalents <sup>2)</sup>	5,199	1,732
<b>Total assets</b>	<b>17,232</b>	<b>14,824</b>
Equity attributable to equity holders of the Parent	-576	251
Non-controlling interests	1	1
<b>Total equity</b>	<b>-575</b>	<b>252</b>
Non-current provisions	1,366	1,223
Non-current loans <sup>2)</sup>	10,228	7,613
Other non-current financial liabilities <sup>3)</sup>	2,300	1,882
Current provisions	113	147
Current loans	315	653
Other current liabilities	3,485	3,054
<b>Total equity and liabilities</b>	<b>17,232</b>	<b>14,824</b>

- 1) Includes shares in STG of 2,637 MSEK (0), pension assets of 90 MSEK (91) and currency component of derivatives of 493 MSEK (297) used to hedge the Parent Company's bond loans denominated in currencies other than Swedish kronor.
- 2) Includes the proceeds received from the second partial divestment of STG in September and the issuance of a 300 MEUR public bond, net of repurchased bond maturities.
- 3) Includes pension liabilities of 2,103 MSEK (1,682) and currency component of derivatives of 48 MSEK (94) used to hedge the Parent Company's bond loans denominated in currencies other than Swedish kronor.

## Consolidated cash flow statement in summary

MSEK	January-September	
	2016	2015
<i>Operating activities</i>		
<b>Profit before income taxes</b>	<b>5,120</b>	<b>2,765</b>
Share of profit/loss in associated companies and joint ventures	-177	-325
Dividend received from associated companies	192	822
Adjustments for other non-cash items and other <sup>1)</sup>	-2,082	409
Income tax paid	-461	-455
<b>Cash flow from operating activities before changes in working capital</b>	<b>2,590</b>	<b>3,216</b>
Cash flow from changes in working capital	-31	-17
<b>Net cash from operating activities</b>	<b>2,559</b>	<b>3,199</b>
<i>Investing activities</i>		
Purchase of property, plant and equipment <sup>2)</sup>	-373	-218
Proceeds from sale of property, plant and equipment	145	2
Purchase of intangible assets	-125	-7
Divestments in associated companies and joint ventures <sup>3)</sup>	3,908	-
Investments in associated companies and joint ventures <sup>4)</sup>	-5	-25
Changes in financial receivables etc.	0	0
<b>Net cash from investing activities</b>	<b>3,550</b>	<b>-249</b>
<i>Financing activities</i>		
Changes in loans	2,058	-639
Dividend paid to equity holders of the Parent	-3,764	-1,464
Repurchase of own shares	-999	-1,244
Stock options exercised	-	141
Other	25	33
<b>Net cash used in financing activities</b>	<b>-2,680</b>	<b>-3,173</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,429</b>	<b>-223</b>
Cash and cash equivalents at the beginning of the period	1,732	2,312
Effect of exchange rate fluctuations on cash and cash equivalents	38	84
<b>Cash and cash equivalents at the end of the period</b>	<b>5,199</b>	<b>2,172</b>

- 1) Including the capital gains on the sale of STG shares of 1,208 MSEK and the sale of a distribution facility of 145 MSEK as well as an unrealized gain of 902 MSEK on the revaluing of our remaining holding in STG to market value.
- 2) Including investments in forest plantations of 11 MSEK (13).
- 3) Divestments in associated companies and joint ventures pertain to sale of shares in STG.
- 4) Investments in associated companies and joint ventures pertain to additional investments in EB Road Cargo AB of 5 MSEK in 2016 and in SMPM International of 25 MSEK in 2015.

## Change in shareholders' equity

MSEK

	Equity attributable to holders of the Parent	Non-controlling interests	Total equity
<b>Equity at January 1, 2015</b>	<b>277</b>	<b>1</b>	<b>279</b>
Profit for the period	2,167	0	2,167
Other comprehensive income, net of tax for the period	359	0	359
<b>Total comprehensive income for the period</b>	<b>2,526</b>	<b>0</b>	<b>2,526</b>
Dividend	-1,464	-	-1,464
Repurchase of own shares	-1,244	-	-1,244
Stock options exercised	141	-	141
Cancellation of shares	-8	-	-8
Bonus issue	8	-	8
<b>Equity at September 30, 2015</b>	<b>236</b>	<b>1</b>	<b>236</b>
<b>Equity at January 1, 2016</b>	<b>251</b>	<b>1</b>	<b>252</b>
Profit for the period	4,461	0	4,461
Other comprehensive income, net of tax for the period	-525	0	-525
<b>Total comprehensive income for the period</b>	<b>3,936</b>	<b>0</b>	<b>3,937</b>
Dividend	-3,764	0	-3,764
Repurchase of own shares	-999	-	-999
Cancellation of shares	-15	-	-15
Bonus issue	15	-	15
<b>Equity at September 30, 2016</b>	<b>-576</b>	<b>1</b>	<b>-575</b>

## Parent Company income statement in summary

MSEK

	January-September	
	2016	2015
Sales	39	28
Administrative expenses	-229	-165
<b>Operating loss</b>	<b>-189</b>	<b>-137</b>
Result from participation in Group companies	1,847	1,240
Net finance cost	-548	-592
<b>Profit before income tax</b>	<b>1,111</b>	<b>511</b>
Income tax	144	153
<b>Profit for the period</b>	<b>1,254</b>	<b>664</b>

## Parent Company statement of comprehensive income

MSEK

	January-September	
	2016	2015
<b>Profit for the period</b>	<b>1,254</b>	<b>664</b>
<i>Other comprehensive income that may be reclassified to the income statement</i>		
Effective portion of changes in fair value of cash flow hedges	-61	57
Income tax relating to components of other comprehensive income	13	-13
<b>Subtotal, net of tax for the period</b>	<b>-48</b>	<b>45</b>
<b>Total comprehensive income for the period</b>	<b>1,207</b>	<b>709</b>

## Parent Company balance sheet in summary

MSEK	September 30, 2016	September 30, 2015	December 31, 2015
Intangible and tangible assets	2	3	3
Non-current financial assets	49,926	51,390	48,883
Current assets	1,604	319	2,227
<b>Total assets</b>	<b>51,532</b>	<b>51,712</b>	<b>51,113</b>
<b>Equity</b>	<b>17,659</b>	<b>18,988</b>	<b>21,215</b>
<b>Untaxed reserves</b>	<b>675</b>	<b>415</b>	<b>675</b>
Provisions	125	74	48
Non-current liabilities	28,522	26,416	25,911
Current liabilities	4,551	5,820	3,263
<b>Total liabilities</b>	<b>33,198</b>	<b>32,309</b>	<b>29,222</b>
<b>Total equity and liabilities</b>	<b>51,532</b>	<b>51,712</b>	<b>51,113</b>

### Note 1 – Accounting principles

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

The new amendments and interpretations to existing standards applicable as of January 1, 2016; IFRS 11 Joint Arrangements, IAS 1 Presentation of Financial Statements, IAS 16 Property, Plant and Equipment, IAS 19 Employee Benefits, IAS 27 Separate Financial Statements, IAS 38 Intangible Assets, and annual improvements to IFRS 2, IFRS 3, IFRS 5, IFRS 7, IFRS 8, IAS 16, IAS 19, IAS 24, IAS 34 and IAS 38 have not had a material effect on the Group's financial result or position.

In the reporting period beginning January 1, 2016, Swedish Match has changed the method used to estimate the service and interest components of income and expenses related to the post-employment benefit plans in the US. This change compared to the previous method results in a decrease in the service and interest cost components in 2016. Historically, these service and interest cost components were estimated using a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation as of the beginning of the period. We have elected to use the full yield curve approach in estimating these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. This change was made to provide a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows to corresponding spot rate along the yield curve. This change will not affect the measurement of benefit obligations related to the US plans as the change in the service and interest cost components will be offset by an increase in the actuarial gains and losses reported in experience assumptions. We view this change as a change in accounting estimate and accordingly will account for it prospectively.

The accounting principles and basis of calculation in this report are the same as in the annual report for 2015, except as mentioned above.

### Note 2 – Related parties transactions

The Group's related parties include joint ventures, associated companies and key management personnel with significant influence over the Company. Key management personnel with significant influence over the Company are Swedish Match Board of Directors and members of the Group Management Team.

In the normal course of business, Swedish Match conducts various transactions with associated companies and joint ventures. Transactions are conducted on an arms-length basis. At September 30, 2016, receivables from these companies amounted to 20 MSEK (24) and total payables to these companies amounted to 2 MSEK (15). During the first nine months 2016, total sales to associated companies and joint ventures amounted to 120 MSEK (131) and total purchases from associated companies and joint ventures amounted to 57 MSEK (75).

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

### Note 3 – Scandinavian Tobacco Group

#### Summary of STG net profit, as reported<sup>1)2)</sup>

	January-September		Chg %	Full year 2015
	2016	2015		
<i>MDKK</i>				
<b>Net profit</b>	<b>520</b>	<b>493</b>	<b>5</b>	<b>493</b>
<i>MSEK</i>				
<b>Swedish Match's share of net profit</b>	<b>176</b>	<b>304</b>	<b>-42</b>	<b>304</b>
Change in estimate of useful lives	-	56		56
<b>Swedish Match's reported share of net profit</b>	<b>176</b>	<b>360</b>	<b>-51</b>	<b>360</b>

- 1) Swedish Match's share of STG's net profit for 2016 is reported on a one quarter lag, as a consequence of STG becoming a publicly listed company and the third quarter only includes Swedish Match's share of STG's net profit for two thirds of the second quarter due to reclassification to a financial asset following the partial divestment in September.
- 2) Swedish Match's share of STG net profit for the full year 2015 includes only the first nine months of 2015, due to STG's full year report being released after Swedish Match released its 2015 full year report. Due to transition of reporting of Swedish Match's share of STG's net profit to a one quarter lag, no net profit from STG was recognized for the fourth quarter of 2015.

On September 7, 2016, Swedish Match divested of 13 million shares in STG. Following the transaction, Swedish Match owns 18,069,906 shares, corresponding to 18.1 percent of the total number of shares and votes in STG. As a result of Swedish Match's ownership in STG falling below 20 percent, equity accounting is no longer applicable and the shareholding has been reclassified to a financial asset. Also following the reclassification, Swedish Match has ceased to recognize its share of net profit in STG in the profit and loss. As a result, the third quarter reporting only includes share of STG's net profit up until the aforementioned divestment. Consequently, the third quarter reporting includes Swedish Match's share (based on 31.1 percent) of two thirds of STG's net profit for the second quarter (as the reporting is based on a one quarter lag). Future dividends received from STG will be recognized in the profit and loss.

Swedish Match started, from the reporting period ending December 31, 2015, to report its share of STG's net profit as well as its share of equity with a one quarter lag. Swedish Match's first nine months of 2016 financial results thereby include its share of STG's fourth quarter 2015, first quarter 2016 net profit and two thirds of STG's second quarter 2016 net profit as mentioned above, based on the publicly issued 2015 full year results and first and second quarter 2016 results of STG. This share has been affected by a reduction in share ownership from 49.0 percent to 31.1 percent, as Swedish Match sold 17.9 million shares in conjunction with the listing of STG on Nasdaq Copenhagen.

For the comparison period, Swedish Match's reported share of net profit in STG represented a 49 percent share of STG's net profit for the first nine months of 2015 but also included a positive adjustment of 56 MSEK for a reassessment of useful lives of primarily trademarks relating to 2014. The reported share of net profit in STG is negatively affected by the decreased ownership and the comparison period being impacted by the positive adjustment.

For the full year 2015, Swedish Match's reported share of STG's net profit was affected by the absence of reporting of STG's net profit for the fourth quarter, due to transition to the one quarter lag reporting, as well as the adjustment relating to the above mentioned reassessment of useful lives.

See [www.st-group.com](http://www.st-group.com) for more information on STG's second quarter 2016 results.

#### Note 4 – Carrying value and fair value

The following table shows carrying value and fair value for financial instruments per September 30, 2016.

#### Carrying value and fair value

<i>MSEK</i>	Items carried at fair value via the income statement		Loans and receivables	Available for sale financial assets	Other financial liabilities	Cash flow hedges	Total carrying value	Fair value
Trade receivables	-	1,419	-	-	-	-	1,419	1,419
Non-current receivables	-	-	-	2,637	-	501	3,138	3,138
Current financial receivables	28	-	-	-	-	-	28	28
Cash and cash equivalents	-	5,199	-	-	-	-	5,199	5,199
<b>Total assets</b>	<b>28</b>	<b>6,618</b>	<b>6,618</b>	<b>2,637</b>	<b>-</b>	<b>501</b>	<b>9,784</b>	<b>9,784</b>
Loans and borrowings	-	-	-	-	10,543	-	10,543	11,029
Non-current financial liabilities	-	-	-	-	-	194	194	194
Trade payables	-	-	-	-	611	-	611	611
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,154</b>	<b>194</b>	<b>11,348</b>	<b>11,834</b>

All items valued at fair value in the balance sheet are considered to be included in level 2 within the fair value hierarchy, except for available for sale financial assets, for which the fair value is designated as level 1 and quoted in an active market. The available for sale financial assets reflect the investment in STG, which was previously reported as an investment in associated companies.

No transfer in or out of level 2 has been made during the third quarter 2016. The recognized amounts are regarded as reasonable estimates for all items measured at carrying value in the balance sheet, except for loans and borrowings, since these amounts have a long time to maturity. The fair value of loans and borrowings differ from their carrying value as a consequence of changes in the market interest rates. Total nominal amount of outstanding derivatives (cross currency and interest rate swaps) is 7,053 MSEK, all in cash flow hedges.

## Quarterly data

### Consolidated income statement in summary

MSEK	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14
Sales, including tobacco tax	7,546	7,308	6,452	7,067	7,275	6,907	6,190	6,840	6,768
Less tobacco tax	-3,428	-3,388	-2,895	-3,348	-3,519	-3,263	-2,822	-3,304	-3,351
<b>Sales</b>	<b>4,118</b>	<b>3,920</b>	<b>3,557</b>	<b>3,719</b>	<b>3,756</b>	<b>3,644</b>	<b>3,368</b>	<b>3,536</b>	<b>3,416</b>
Cost of goods sold	-2,222	-2,115	-1,872	-2,005	-2,011	-1,929	-1,752	-1,910	-1,853
<b>Gross profit</b>	<b>1,896</b>	<b>1,804</b>	<b>1,685</b>	<b>1,714</b>	<b>1,745</b>	<b>1,715</b>	<b>1,615</b>	<b>1,627</b>	<b>1,563</b>
Selling and administrative expenses	-808	-798	-745	-808	-745	-771	-741	-710	-675
Share of net profit/loss in associated companies and joint ventures <sup>1)</sup>	56	55	66	2	66	119	140	75	101
	<b>1,144</b>	<b>1,061</b>	<b>1,007</b>	<b>908</b>	<b>1,065</b>	<b>1,063</b>	<b>1,014</b>	<b>992</b>	<b>989</b>
<i>Larger one-time items</i>									
Sale of STG shares	648	-	560	-	-	-	-	-	-
Gain on fair value of STG shares	902	-	-	-	-	-	-	-	-
Sale of distribution facility	-	-	145	-	-	-	-	-	-
Relocation of distribution facilities	-	-	-	-	-	-42	-	-	-
<b>Operating profit</b>	<b>2,694</b>	<b>1,061</b>	<b>1,711</b>	<b>908</b>	<b>1,065</b>	<b>1,021</b>	<b>1,014</b>	<b>992</b>	<b>989</b>
Finance income	15	10	9	9	6	4	4	5	7
Finance costs	-165	-100	-116	-137	-111	-119	-118	-137	-134
Net finance cost	-149	-90	-107	-128	-106	-115	-114	-132	-127
<b>Profit before income tax</b>	<b>2,545</b>	<b>971</b>	<b>1,604</b>	<b>780</b>	<b>960</b>	<b>906</b>	<b>900</b>	<b>861</b>	<b>862</b>
Income tax expense	-239	-220	-200	-145	-219	-200	-179	-161	-167
<b>Profit for the period</b>	<b>2,306</b>	<b>752</b>	<b>1,404</b>	<b>636</b>	<b>741</b>	<b>705</b>	<b>721</b>	<b>700</b>	<b>695</b>
<i>Attributable to:</i>									
Equity holders of the Parent	2,306	751	1,404	636	741	705	721	700	695
Non-controlling interests	0	0	0	0	0	0	0	0	0
<b>Profit for the period</b>	<b>2,306</b>	<b>752</b>	<b>1,404</b>	<b>636</b>	<b>741</b>	<b>705</b>	<b>721</b>	<b>700</b>	<b>695</b>

1) The share of net profit in STG is reported on a one quarter lag in 2016. Following the partial divestment of STG in September, the shareholding has been reclassified to a financial asset such that the third quarter 2016 only includes two thirds of Swedish Match's share of STG's net profit for the second quarter. The fourth quarter 2015 does not include any net profit in STG due to transition to a one quarter lag reporting. Swedish Match's share of net profit in STG for the first quarter 2015 includes an adjustment of 56 MSEK relating to 2014 due to STG's reassessment of useful lives of certain intangible and tangible assets. See Note 3.

### Sales by product area

MSEK	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14
Snus and moist snuff	1,338	1,338	1,245	1,318	1,311	1,271	1,191	1,323	1,257
Other tobacco products	1,166	1,031	994	955	958	982	933	723	724
Lights	346	318	303	334	312	318	331	362	319
Other operations	1,267	1,231	1,014	1,112	1,174	1,073	912	1,129	1,117
<b>Sales</b>	<b>4,118</b>	<b>3,920</b>	<b>3,557</b>	<b>3,719</b>	<b>3,756</b>	<b>3,644</b>	<b>3,368</b>	<b>3,536</b>	<b>3,416</b>

### Operating profit by product area

MSEK	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14
Snus and moist snuff	577	557	521	545	556	514	455	577	562
Other tobacco products	486	425	400	366	390	414	384	288	276
Lights	61	54	42	50	47	36	57	63	51
Other operations	-34	-29	-24	-53	-14	-28	-29	-27	-15
<b>Operating profit from product areas</b>	<b>1,089</b>	<b>1,008</b>	<b>939</b>	<b>908</b>	<b>979</b>	<b>937</b>	<b>866</b>	<b>900</b>	<b>874</b>
Share of net profit in STG <sup>1)</sup>	55	53	68	-	87	126	148	92	115
<b>Subtotal</b>	<b>1,144</b>	<b>1,061</b>	<b>1,007</b>	<b>908</b>	<b>1,065</b>	<b>1,063</b>	<b>1,014</b>	<b>992</b>	<b>989</b>
Sale of STG shares	648	-	560	-	-	-	-	-	-
Gain on fair value of STG shares	902	-	-	-	-	-	-	-	-
Sale of distribution facility	-	-	145	-	-	-	-	-	-
Relocation of distribution facilities	-	-	-	-	-	-42	-	-	-
<b>Total larger one-time items</b>	<b>1,550</b>	<b>-</b>	<b>704</b>	<b>-</b>	<b>-</b>	<b>-42</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Operating profit</b>	<b>2,694</b>	<b>1,061</b>	<b>1,711</b>	<b>908</b>	<b>1,065</b>	<b>1,021</b>	<b>1,014</b>	<b>992</b>	<b>989</b>

1) The share of net profit in STG is reported on a one quarter lag in 2016. Following the partial divestment of STG in September, the shareholding has been reclassified to a financial asset such that the third quarter 2016 only includes two thirds of Swedish Match's share of STG's net profit for the second quarter. In the fourth quarter 2015, Swedish Match did not report any share of net profit in STG due to transition to a one quarter lag reporting. Swedish Match's share of net profit in STG for the first quarter 2015 includes an adjustment of 56 MSEK relating to 2014 due to STG's reassessment of useful lives of certain intangible and tangible assets. See Note 3.

### Operating margin by product area<sup>1)</sup>

Percent	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14
Snus and moist snuff	43.1	41.7	41.8	41.4	42.4	40.5	38.2	43.6	44.8
Other tobacco products	41.6	41.2	40.2	38.3	40.7	42.2	41.1	39.8	38.1
Lights	17.6	17.0	13.8	14.9	15.2	11.4	17.1	17.3	16.0
<b>Operating margin from product areas<sup>2)</sup></b>	<b>26.5</b>	<b>25.7</b>	<b>26.4</b>	<b>24.4</b>	<b>26.1</b>	<b>25.7</b>	<b>25.7</b>	<b>25.5</b>	<b>25.6</b>
<b>Operating margin<sup>3)</sup></b>	<b>27.8</b>	<b>27.1</b>	<b>28.3</b>	<b>24.4</b>	<b>28.4</b>	<b>29.2</b>	<b>30.1</b>	<b>28.1</b>	<b>29.0</b>

1) Excluding larger one-time items.

2) Excluding share of net profit in STG.

3) Including share of net profit in STG.

### EBITDA by product area<sup>1)</sup>

MSEK	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14
Snus and moist snuff	625	603	563	588	600	559	500	623	608
Other tobacco products	501	440	415	382	404	429	399	302	289
Lights	71	64	51	59	57	46	66	72	59
Other operations	-22	-16	-12	-42	-3	-17	-19	-16	-5
<b>EBITDA from product areas</b>	<b>1,175</b>	<b>1,091</b>	<b>1,018</b>	<b>987</b>	<b>1,058</b>	<b>1,017</b>	<b>946</b>	<b>982</b>	<b>952</b>
Share of net profit in STG <sup>2)</sup>	55	53	68	-	87	126	148	92	115
<b>EBITDA</b>	<b>1,230</b>	<b>1,144</b>	<b>1,085</b>	<b>987</b>	<b>1,144</b>	<b>1,143</b>	<b>1,093</b>	<b>1,074</b>	<b>1,067</b>

1) Excluding larger one-time items.

2) The share of net profit in STG is reported on a one quarter lag in 2016. Following the partial divestment of STG in September, the shareholding has been reclassified to a financial asset such that the third quarter 2016 only includes two thirds of Swedish Match's share of STG's net profit for the second quarter. In the fourth quarter 2015, Swedish Match did not report any share of net profit in STG due to transition to a one quarter lag reporting. Swedish Match's share of net profit in STG for the first quarter 2015 includes an adjustment of 56 MSEK relating to 2014 due to STG's reassessment of useful lives of certain intangible and tangible assets. See Note 3.

### EBITDA margin by product area<sup>1)</sup>

Percent	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14
Snus and moist snuff	46.7	45.1	45.2	44.6	45.7	44.0	42.0	47.1	48.3
Other tobacco products	43.0	42.6	41.8	39.9	42.2	43.7	42.7	41.8	40.0
Lights	20.6	20.1	16.9	17.8	18.2	14.5	20.0	19.8	18.6
<b>EBITDA margin from product areas<sup>2)</sup></b>	<b>28.5</b>	<b>27.8</b>	<b>28.6</b>	<b>26.5</b>	<b>28.2</b>	<b>27.9</b>	<b>28.1</b>	<b>27.8</b>	<b>27.9</b>
<b>EBITDA margin<sup>3)</sup></b>	<b>29.9</b>	<b>29.2</b>	<b>30.5</b>	<b>26.5</b>	<b>30.5</b>	<b>31.4</b>	<b>32.5</b>	<b>30.4</b>	<b>31.2</b>

1) Excluding larger one-time items.

2) Excluding share of net profit in STG.

3) Including share of net profit in STG.

### Depreciation, amortization and write-down

MSEK	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14
Property, plant and equipment	73	69	68	68	68	69	68	71	67
Intangible assets	14	14	11	11	11	11	11	10	10
<b>Total</b>	<b>86</b>	<b>83</b>	<b>79</b>	<b>79</b>	<b>79</b>	<b>80</b>	<b>79</b>	<b>81</b>	<b>78</b>

### Financial definitions

Please refer to page 45 of Swedish Match's 2015 annual report, which is available on [www.swedishmatch.com](http://www.swedishmatch.com), for a listing of the financial definitions included in this interim report.

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This information is information that Swedish Match AB (publ) is obliged to make public pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the agency of the contact persons set out above, at 08.15 a.m. CET on October 28, 2016.

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

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

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