

Swedish Match®

# MAKING STRIDES TOWARD OUR VISION



Annual Report 2018

# A WORLD WITHOUT CIGARETTES

## AN EXCITING JOURNEY

Since its listing in 1996, Swedish Match has continually worked to anticipate and drive trends toward its vision by delivering high quality tobacco and tobacco free alternatives to cigarettes.

## WORKING TOWARD OUR VISION – A WORLD WITHOUT CIGARETTES...

### MILESTONES IN DEVELOPMENT

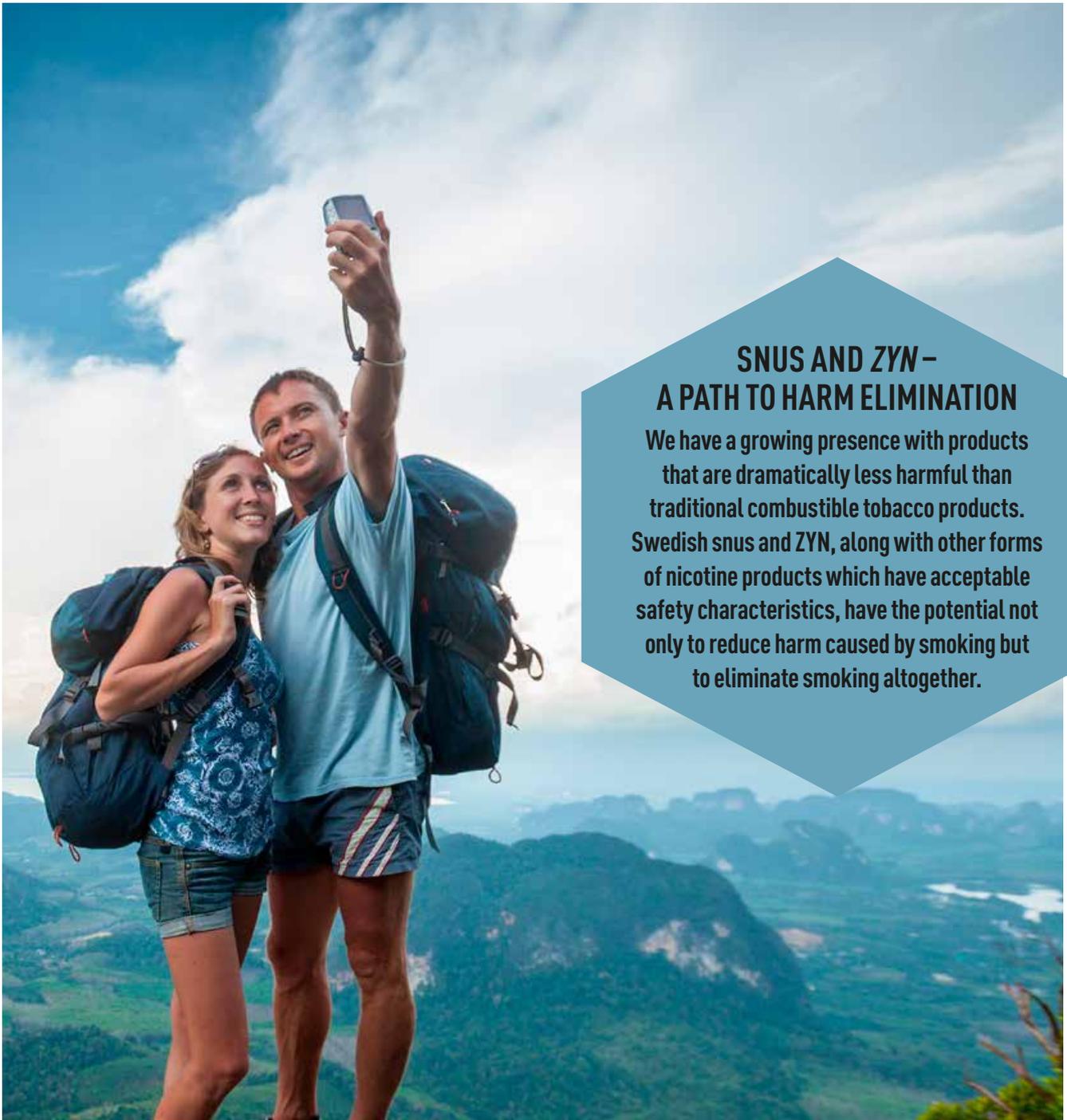
Divestment of cigarette operation

GOTHIA TEK® quality standard

Snus launch in the US

Focus on smokeless alternatives





**SNUS AND ZYN –  
A PATH TO HARM ELIMINATION**

We have a growing presence with products that are dramatically less harmful than traditional combustible tobacco products. Swedish snus and ZYN, along with other forms of nicotine products which have acceptable safety characteristics, have the potential not only to reduce harm caused by smoking but to eliminate smoking altogether.

### ... WITH PRODUCTS OF TOMORROW

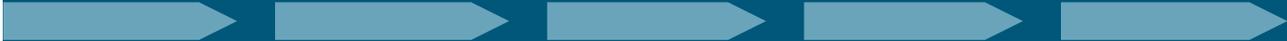
Vision:  
To be the global  
smokefree leader

Divestment of  
pipe tobacco,  
premium cigars, and  
cigars in Europe

Vision:  
A world without  
cigarettes

Divestment  
of Scandinavian  
Tobacco Group (STG)

Broad smokeless  
portfolio, fast pace  
of innovation



# This is Swedish Match

Swedish Match develops, manufactures, and sells quality products with market-leading brands. The Group's product segments are Snus and moist snuff, Other tobacco products, and Lights. With its vision "a world without cigarettes", the Group is dedicated to the improvement of public health by offering attractive alternatives to cigarettes with its smokeless products.

Swedish Match provides consumers with the best quality products with well-known brands. Some of Swedish Match's brands include: *General* (snus), *Longhorn* (moist snuff), *ZYN* (nicotine pouches without tobacco), *Onico* (pouch products with neither nicotine nor tobacco), *White Owl* (homogenized tobacco leaf cigars), *Game* (natural leaf cigars), *Red Man* (chewing tobacco), *Thunder* (chew bags), *Oliver Twist* (tobacco bits), *Fiat Lux* (matches), and *Cricket* (lighters).

Production is located in seven countries with the majority of Group sales coming from Scandinavia and the US.

Sales for 2018 amounted to 12,966 MSEK and the average number of employees was 5,662.

Swedish Match's head office is located in Stockholm, Sweden. The Swedish Match share is listed on Nasdaq Stockholm (SWMA).

## PRODUCTS AND BRANDS

### SNUS AND MOIST SNUFF

Swedish Match has a market leading position in the Scandinavian snus market. In the US, Swedish Match is well positioned as the third largest snus and moist snuff company. Production of snus takes place in Sweden and Denmark and moist snuff is produced in the US. This product segment also includes pouch products without tobacco, manufactured in Sweden and the US.

>> Read more on page 19.

### OTHER TOBACCO PRODUCTS

Swedish Match is a major player in the US market for mass market cigars and the largest manufacturer of US chewing tobacco. Swedish Match is one of the largest manufacturers in the niche chewing tobacco categories of chew bags and tobacco bits, produced in Denmark and sold mostly in Europe. Production of US chewing tobacco takes place in the US while cigars are produced in the US and the Dominican Republic.

>> Read more on page 24.



### LIGHTS

Swedish Match is the market leader for matches in many markets throughout the world, with well-known local brands. For lighters, the Group has strong market positions in many countries. Production of matches takes place in Sweden and Brazil. Lighters are produced in the Netherlands, the Philippines and Brazil. Swedish Match

also offers a portfolio of externally-sourced complementary products (mainly for the Brazilian market), which include for example disposable razors, batteries and light bulbs.

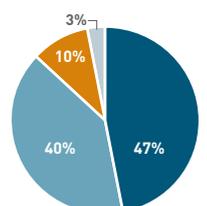
>> Read more on page 28.

## 2018 IN BRIEF

- In local currencies, sales increased by 9 percent. Reported sales increased by 10 percent to 12,966 MSEK (11,751).
- In local currencies, operating profit from product segments increased by 12 percent. Reported operating profit from product segments increased by 14 percent to 4,936 MSEK (4,345).
- Operating profit amounted to 4,812 MSEK (4,592, including larger one-time items of 373 MSEK).
- Profit after tax amounted to 3,578 MSEK (3,400).
- Earnings per share amounted to 20.63 SEK (18.88). Adjusted earnings per share increased by 26 percent to 20.63 SEK (16.40).<sup>1)</sup>
- On April 3, Swedish Match acquired House of Oliver Twist A/S, a Danish smokeless tobacco company.
- On August 22, Swedish Match acquired 95 percent of the shareholding in Gotlands Snus AB, a Swedish smokeless tobacco company.
- During 2018, Swedish Match distributed 5,423 MSEK to its shareholders in the form of an ordinary dividend, a special dividend and share repurchases.

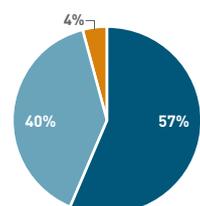
<sup>1)</sup> Excluding larger one-time items and income from STG in 2017.

### SALES BY PRODUCT SEGMENT



- Snus and moist snuff
- Other tobacco products
- Lights
- Other operations

### OPERATING PROFIT BY PRODUCT SEGMENT<sup>1)</sup>



- Snus and moist snuff
- Other tobacco products
- Lights

<sup>1)</sup> Excluding Other operations. Totals may not add up due to rounding.

### KEY DATA

MSEK	2018	2017 <sup>1)</sup>	2016 <sup>1)</sup>
Sales	12,966	11,751	11,222
Sales from product segments	12,612	11,410	10,875
Operating profit from product segments	4,936	4,345	4,122
Operating profit, excluding larger one-time items	4,812	4,219	4,166
Operating profit	4,812	4,592	6,420
Operating margin from product segments, %	39.1	38.1	37.9
Operating margin, % <sup>2)</sup>	37.1	35.9	37.1
EBITDA from product segments	5,301	4,673	4,410
EBITDA	5,227	4,600	4,504
Profit for the year	3,578	3,400	5,123
Earnings per share basic and diluted, SEK	20.63	18.88	27.38
Earnings per share, excl. STG, basic and diluted, SEK	20.63	18.38	26.44
Earnings per share, excl. STG, adjusted, basic and diluted, SEK <sup>3)</sup>	20.63	16.40	14.39
Ordinary dividend per share, SEK	10.50 <sup>4)</sup>	9.20	8.50
Special dividend per share, SEK	–	7.40	7.50

<sup>1)</sup> Financial statements for 2017 has been restated in accordance with IFRS 15. Sales for 2016 has for comparable reasons been restated to reflect revenue recognition in accordance with agent accounting under IFRS 15.

<sup>2)</sup> Excluding larger one-time items and income from STG.

<sup>3)</sup> There are no larger one-time items in 2018. Larger one-time items in 2017 amounted to 373 MSEK and in 2016 to 2,254 MSEK.

<sup>4)</sup> Board proposal.

## CONTENT

<b>2</b>	<b>This is Swedish Match</b>
<b>4</b>	<b>CEO comment</b>
<b>6</b>	<b>Strategy</b>
<b>8</b>	<b>Global market overview</b>
<b>12</b>	<b>Swedish Match's organization</b>
<b>14</b>	<b>Risks and risk management</b>
<b>16</b>	<b>Regulatory engagement</b>
<b>18</b>	<b>Harm reduction</b>
<b>19</b>	<b>Swedish Match's business</b>
19	Snus and moist snuff
24	Other tobacco products
28	Lights
<b>30</b>	<b>Sustainability</b>
30	Our approach to sustainability
32	Swedish Match in the global community
34	Improve public health
36	Ensure ethical business practices
38	Support equal opportunity
40	Reduce greenhouse gases
42	Reduce waste
43	Eliminate child labor
46	Employer of choice
<b>48</b>	<b>Shareholder information</b>
48	Shareholder communication
50	The share
52	Five year summary 2014–2018
54	Quarterly data 2017–2018
55	Definitions
<b>56</b>	<b>Financial reports</b>
56	CFO comment
57	Content
58	Report of the Board of Directors
65	Proposed distribution of earnings
66	Consolidated financial statements
99	Parent Company financial statements
110	Auditor's report
<b>114</b>	<b>Corporate Governance</b>
114	Chairman's comment
115	Governance report
121	Risk management and internal control over financial reporting
122	Board of Directors
124	Group Management

The Board of Directors Report and the formal audited part of this document can be found on pages 58–109. Sustainability information, that has been reviewed by the auditors, can be found on pages 30–47. The corporate governance report, which has been reviewed by the auditors is found on pages 115–125. The Board's proposal for principles of remuneration to Group Management is presented on pages 62–64.

# Making strides toward our vision



**2018 was a successful year for Swedish Match with very healthy growth in sales and operating profit from product segments. While our base businesses in our two largest product segments performed well, our growth initiatives continued to demonstrate very promising developments, with exceptional momentum for ZYN in the US.**

More and more, we see evidence of a trend where the global consumption of nicotine products is shifting away from traditional combustible cigarettes, and the best alternatives to cigarettes lie in smokeless products. While we continue to believe that the global regulatory stance towards smokeless products is disproportionate given the role that such products can play in harm reduction, we are encouraged to see positive regulatory developments in the smokeless arena and our strategy and focus position us well to compete in pursuit of our vision.

During the year, we made substantial investments in the long-term strength and geographical reach of the Group. Our ZYN factory expansion project in the US is progressing according to plan and we expect capacity to be gradually increased throughout 2019 with a planned national launch of ZYN in the US during the second quarter. The very strong demand that we have experienced for ZYN in the western region has prompted us to twice decide to scale up the investment in manufacturing capacity for ZYN. The opportunity for ZYN extends beyond the US and the product has now, apart from Sweden, also been launched on a small scale in Denmark and in the Czech Republic.

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

Lars Dahlgren, President and CEO

In addition to investments in the business, we also made acquisitions during the year. Oliver Twist and Gotlandssnus are smokeless tobacco companies that are excellent complements to our product portfolio providing new dimensions to our offerings.

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

**In Scandinavia,** market growth was robust during the year, but our own volume growth however lagged overall market growth. We remain committed to actively competing in the attractive growing segments of the market while balancing operating efficiency and profit growth.

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

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

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

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

advisory panel to the FDA held a meeting to discuss the Swedish Match application. We are pleased with the balanced comments by the FDA and look forward to the Agency's final decision.

**Within Other tobacco products** (cigars and chewing tobacco), cigars continued to perform well during the year, driven by growth in small natural leaf and rolled leaf cigars. Our growth was however constrained in the final months of the year due to the shortage of tobacco supplies for rolled leaf cigars, as well as a slow-down in overall category growth. The slow-down in category growth emanated predominantly from HTL (including HTL value) varieties, and Swedish Match is well positioned in the market with a skew towards the faster growing segments. The issue with procuring cigar wrapper for our rolled leaf portfolio is temporary but will persist until the new crop arrives, which is anticipated late in the Spring of 2019. As volume growth in our cigar business slowed during the year, it is encouraging to see that favorable price/mix developments within our portfolio supported the financial performance of this business, following the price increases taken in the first half of the year within the rolled leaf assortment of our portfolio.

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

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

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

I would like to take this opportunity to thank our customers and business partners, our consumers, our shareholders and other stakeholders, and especially our employees, for helping us to achieve another successful year.

Stockholm, March, 2019

Lars Dahlgren  
President and CEO

## STRATEGY

# Vision and Operational strategy

## OPERATIONAL STRATEGY

### Snus and moist snuff businesses

To achieve our vision, we leverage our unique snus and moist snuff platforms of consumer insights, innovation and product quality.

- In Scandinavia, we will continue to develop the snus category. We will defend and strengthen leading market positions and brands by focusing on product development and consumer satisfaction.
- In the US, we focus on faster growing and rapidly developing market segments, such as nicotine pouches, moist snuff pouches, and snus.

- Outside our home markets, we will continue our efforts to establish innovative smokefree products in selected markets.

### Other businesses

To support our vision and to maximize long term value, we leverage our strong market positions and brands by capitalizing on synergies and operational efficiencies.

- In our cigars business, we will selectively invest in growth segments with an objective to maximize long term profitability and cash generation.
- In our chewing tobacco businesses, we will protect profitability in the US by mitigating the impact of volume declines through cost focus and price leadership. For chew bags and tobacco bits, we will continue to grow and establish new international markets based on our strong capabilities and brands.
- In our lights businesses, we will continue to focus on operational excellence while selectively investing in profitable growth markets and product segments.

## VISION

### A world without cigarettes

We create shareholder value by offering consumers enjoyable nicotine-containing products of superior quality in a responsible way. By providing products that are recognized as safer alternatives to cigarettes, we can contribute significantly to improved public health.



# Financial strategy and position

Swedish Match's operations are characterized by strong cash flows. The financial strategy is based on capital efficiency, and continually optimizing the balance sheet, with due consideration for flexibility and stability requirements.

## Net debt

The Board of Directors has determined that the Group will strive to maintain a net debt that does not exceed 3 times EBITA. The actual level of net debt will be assessed against:

- anticipated future profitability and cash flow
- investment and expansion plans
- acquisition opportunities
- development of interest rates and credit markets

The Board of Directors' long term goal is to maintain a Standard & Poor's BBB and a Moody's Baa2 long term rating.

## Shareholder distribution

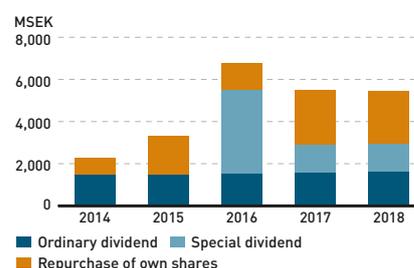
Swedish Match has the ambition to continuously grow dividend per share with a payout ratio normally within 40–60 percent of the earnings per share, subject to adjustments for larger one-time items. Excess funds shall be returned to shareholders through dividends and share repurchases.



Thomas Hayes, CFO



## TRANSFER OF CAPITAL



## GLOBAL MARKET OVERVIEW

# Rapid market changes sparked by innovative products

**Swedish Match is at the forefront of the global market for tobacco harm reduction with its portfolio of snus and innovative smokeless products in supporting its vision of a world without cigarettes. The continuously growing interest from consumers and many important policymakers in tobacco harm reduction is very well aligned with the Group's vision.**

## THE TOBACCO AND NICOTINE MARKET

Smokeless tobacco products primarily include snus, moist snuff, various forms of chewing tobacco, such as traditional US chewing tobacco, chew bags and tobacco bits, as well as niche products, such as nasal tobacco and dissolvables. Smokeless tobacco is a growing tobacco category consumed in many parts of the world in different types and formats but is still a small category compared to cigarettes.

In Scandinavia, the dominant form of smokeless tobacco is snus. In the US, snus is a small but growing segment, while the dominant forms of smokeless tobacco are moist snuff and chewing tobacco. In other parts of the world, such as in India and certain countries in Africa and Asia, local variants of oral and nasal smokeless tobacco products are consumed in relatively large volumes. In the European Union (EU) and certain other countries, the sale of snus is prohibited while other tobacco products are allowed to be sold.

Large global tobacco companies rely on cigarettes for the bulk of their revenues and profits, and cigarettes account for roughly 90 percent of all tobacco consumed globally.<sup>1)</sup> Swedish Match does not produce cigarettes. Generally, cigarette consumption has been declining over the past decade in most developed countries, while in many emerging markets, cigarette consumption has continued to increase.<sup>1)</sup> Other smoking products sold globally include fine-cut and roll-your-own tobaccos, cigars, and pipe tobacco. Of these product categories, Swedish Match only participates with its machine made mass market cigars in the US market.

In recent years, new markets have developed for products that both include tobacco, i.e. heated tobacco products, and those that rely on nicotine derived from tobacco, such as nicotine pouches without tobacco (a market where Swedish Match actively participates) and e-cigarettes/vaping products.

The global tobacco market is exposed to ever increasing levels of restrictions and regulations, as governments and other regulatory and non-governmental organizations seek to reduce tobacco consumption, and, most notably, traditional cigarette consumption. These regulations, along with taxation measures, have had impacts on tobacco growing, production, product availability, packaging and labeling, consumer pricing, and location of use. At the same time, there is a growing understanding of the continuum of risk concept and an evidence-based approach to tobacco and nicotine products regulation.

## TRENDS

The global tobacco market is undergoing a significant shift in consumption trends, most notably away from cigarettes. Tobacco regulations are becoming increasingly restrictive. Adjacent product categories to cigarettes have grown in focus and importance to meet consumer needs for safer products and products without the disadvantages of second-hand smoke. Many of these product categories deliver nicotine without combusted tobacco. Examples in these categories include snus, moist snuff, e-cigarettes/vaping products, heated tobacco products, and non-pharmaceutical nicotine containing products.

Consumer engagement has become increasingly important within certain product categories. For example, educating consumers about snus and nicotine pouches without tobacco and its less harmful health characteristics compared to cigarettes is key to help build category awareness.

## SHORT FACTS

- The global tobacco market is composed of smoking tobacco products, such as cigarettes, cigars, and pipe tobacco, and smokeless tobacco products, such as, snus, moist snuff, and chewing tobacco.
- The largest segment is cigarettes, accounting for roughly 90 percent of all tobacco consumed globally.
- Smokeless tobacco is a growing tobacco category but is still a small category compared to cigarettes.
- In Scandinavia, the dominant form of smokeless tobacco is snus. In Sweden, for example, snus consumption has continued to grow which to a large extent explains the decline in the use of cigarettes. Medical consensus recognizes snus manufactured according to the GOTHIA TEK® standard as a dramatically safer alternative to cigarettes.
- In recent years, the market for new, innovative nicotine products, has increased. Nicotine pouch products without tobacco and e-cigarettes/vaping products are examples of products available in certain markets as alternatives to traditional tobacco products.



Swedish Match's store in Lund, Sweden, opened during 2018.

<sup>1)</sup> Source: Euromonitor.

## LOCAL DIFFERENCES FOR SMOKELESS PRODUCTS

### North America

In the US, the dominant form of smokeless tobacco is fermented moist snuff. Moist snuff has its origins from products brought over by Scandinavian immigrants. Moist snuff has traditionally been consumed in a loose format, although consumption of moist snuff in pouch

format has increased rapidly in recent years. Snus, which is pasteurized and not fermented, is a small and relatively recent product category. Nicotine pouches without tobacco is a small but rapidly growing segment. Traditional US chewing tobacco consumption is in a long term state of

decline but this category nevertheless remains a significant part of the US smokeless tobacco market. Smokeless tobacco is also available on the Canadian market.



### Europe

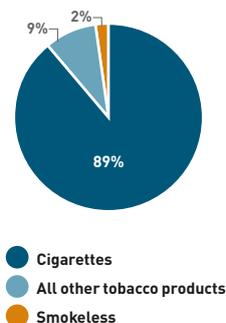
In Scandinavia, smokeless tobacco consumption has a long tradition, with snus being the dominant form. Today, there are more snus users than cigarette users in Sweden. In Norway, the transformation from a small traditional snus market to a market where the consumption of cigarettes has shifted to snus, especially among younger adults, has been pronounced. In both Sweden and Norway, snus has historically been used by men, while in recent years has become increasingly appealing among women. In Denmark and Finland, there are also historical ties to snus. Chewing products, which includes chew bags, is a small but growing segment in certain European markets.

In European markets outside Scandinavia, smokeless tobacco traditionally has been consumed as a chewing tobacco product or as nasal snuff. Although scientifically recognized as a safer alternative to cigarettes, tobacco products for oral use (such as snus) are banned within the EU while cigarettes, chewing tobacco, nasal snuff and certain other smokeless tobacco products are allowed to be sold. In certain European countries, most particularly in central Europe and in the alpine regions, smokeless products enjoy greater use.

### Asia and Africa

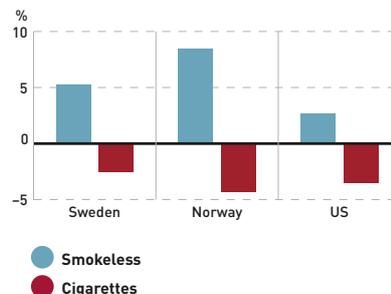
Local variants of other oral and nasal smokeless tobacco products are consumed in relatively large volumes in certain countries. In Asia, local chewing products include products such as gutkha and zarda in India, and tobacco mixed with betel, in Indonesia for example. In North Africa, chemma is a widely used product. These types of products in Asia and Africa, often contain significantly higher levels of undesired compounds compared to snus.

GLOBAL TOBACCO MARKET (VALUE)<sup>1)</sup>



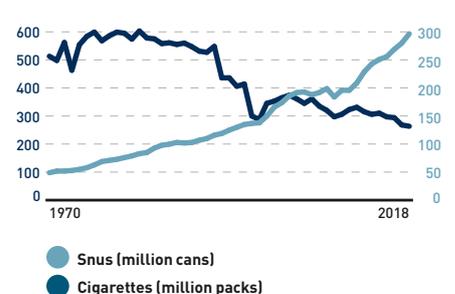
Smokeless tobacco is a small tobacco category compared to cigarettes.

ANNUAL GROWTH RATES OF CIGARETTES AND SMOKELESS, 2010-2018 (CAGR)<sup>2)</sup>



Consumption of snus in Scandinavia as well as snus and moist snuff in the US has been growing in recent years.

TOBACCO CONSUMPTION IN SWEDEN 1970-2018 (VOLUME)<sup>3)</sup>



In Sweden, snus consumption has been growing while cigarette consumption has been declining.

<sup>1)</sup> Source: Euromonitor. The segment "All other tobacco products" includes e-cigarettes.  
<sup>2)</sup> Source: Swedish Match and industry estimates.  
<sup>3)</sup> Source: Swedish Match estimates.

# Our markets

## Snus and pouch products without tobacco in Scandinavia

The Scandinavian snus market is estimated to have amounted to more than 430 million cans in 2018, up by approximately 6 percent from previous year.<sup>1)</sup> Consumption has been migrating from traditional loose products to pouch products, which at the end of 2018 accounted for more than 85 percent of volumes in Scandinavia.<sup>1)</sup> Swedish Match holds the leading position in Scandinavia with Sweden being the largest market. The segment for nicotine pouch products has been growing in both Sweden and Norway<sup>2)</sup>. The Scandinavian market also includes pouch products with neither nicotine nor tobacco.

### Main brands

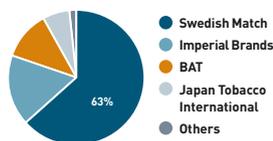
Snus, Sweden: *General, Göteborgs Rapé, Kaliber, Kronan, Ettan, Grov, Catch*

Snus, Norway: *General, G.3, G.4, The Lab, Nick & Johnny*

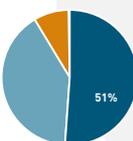
Nicotine pouches without tobacco, Sweden: *ZYN*  
Pouch products with neither nicotine nor tobacco, Sweden and Norway: *Onico*

### Competition

#### SWEDEN<sup>1)</sup>

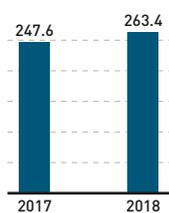


#### NORWAY<sup>1)</sup>



### Shipment volumes (million cans)

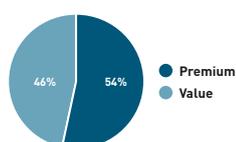
#### SNUS<sup>3)</sup>



### Segment

#### SNUS CONSUMPTION BY PRICE SEGMENT

##### SWEDEN<sup>1)</sup>



##### NORWAY<sup>1)</sup>



<sup>1)</sup> Swedish Match's estimates using Nielsen data (excluding tobacconists for Sweden), full year 2018.

<sup>2)</sup> In Norway, nicotine pouch products contain a small amount of tobacco.

<sup>3)</sup> Includes volumes from Gotlandssnus from acquisition date, August 22.

## Snus and nicotine pouches without tobacco outside Scandinavia

The main market for Swedish snus and nicotine pouches without tobacco outside Scandinavia is the US. The US snus category in recent years has shown growth and in 2018 was estimated by Swedish Match to be around 60 million can market. Swedish Match holds the number 3 position in this market. Swedish Match is currently also active in the snus markets in Canada and Malaysia. A relatively new product category in the US is nicotine pouches without tobacco. This category is small, but is growing at a rapid pace and the market size in 2018 is estimated to have been more than 13 million cans.

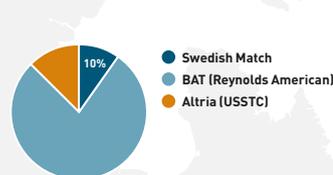
### Main brands

Snus: *General*

Nicotine pouches without tobacco: *ZYN*

### Competition

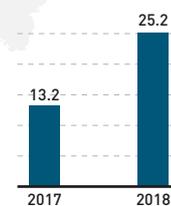
#### SNUS IN THE US<sup>1)</sup>



<sup>1)</sup> Swedish Match and industry estimates, full year 2018, on a can equivalent basis.

### Shipment volumes (million cans)

#### SNUS AND NICOTINE POUCHES WITHOUT TOBACCO OUTSIDE SCANDINAVIA



## Moist snuff in the US

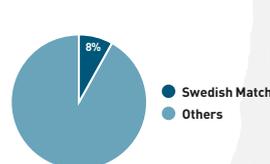
The moist snuff market in the US is concentrated in the southern and mid-Atlantic states. In 2018, the market is estimated by Swedish Match to amount to more than 1.5 billion cans, with growth in the pouch segment offsetting declines for loose products. The pouch segment accounts for approximately 17 percent of the total moist snuff market. Swedish Match holds the number 3 position for moist snuff in the US.

### Main brands

*Longhorn, Timber Wolf*

### Competition

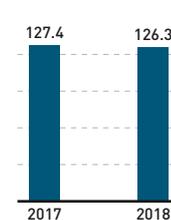
#### MOIST SNUFF<sup>1)</sup>



<sup>1)</sup> Swedish Match and industry estimates, full year 2018, on a can equivalent basis.

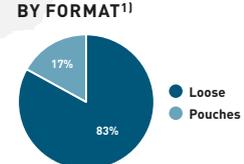
### Shipment volumes (million cans)

#### MOIST SNUFF



### Segment

#### MOIST SNUFF CONSUMPTION BY FORMAT<sup>1)</sup>

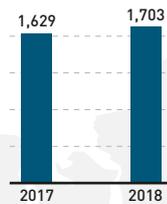


## Cigars in the US

Swedish Match estimates that the US machine made (mass market) cigar market, excluding little cigars<sup>1)</sup> (a segment in which Swedish Match does not participate), grew by approximately 4 percent in volume terms in 2018 and amounts to approximately 7.5 billion cigars. The market is highly competitive with extensive activity for low priced and promotional products. Swedish Match is the largest participant in the natural leaf segment and also participates in the larger homogenized tobacco leaf segment. For the total market of mass market cigars in the US, Swedish Match estimates that it holds the number 2 position based on actual shipments.

### Shipment volumes (million sticks)

#### MASS MARKET CIGARS

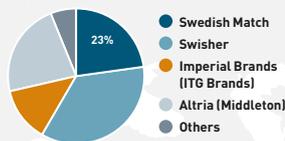


### Main brands

*Garcia y Vega, Game by Garcia y Vega, 1882, White Owl, Jackpot*

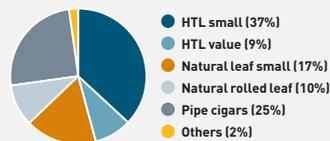
### Competition

#### MASS MARKET CIGARS<sup>2)</sup> (EXCLUDING LITTLE CIGARS)



### Segment

#### MASS MARKET CIGARS<sup>2)</sup>



<sup>1)</sup> Little cigars are typically filter tipped and packaged in packs of 20 (similar to cigarette packaging).  
<sup>2)</sup> Swedish Match and industry estimates for mass market cigars excluding little cigars, full year 2018.

## Lights worldwide

Lights products have been used for a variety of occasions. The market for traditional match products has been declining in most markets over the past decade. Lighter use has shown growth in some markets, most notably in Asia. Swedish Match has a strong presence in Latin America, especially for matches in Brazil, as well as in large parts of Europe and Asia Pacific.

### Main brands

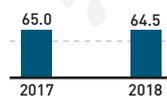
Matches: *Solstickan* (Sweden), *Nitedals* (Norway), *Fiat Lux* (Brazil), *Redheads* (Australia)  
 Lighters: *Cricket* (globally)

### Competition

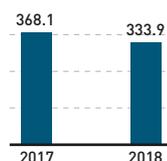
Match competition varies widely between markets. Lighter competitors include Bic, Tokai, Flamagas, and a number of other smaller manufacturers.

### Shipment volumes

#### MATCHES (billion sticks)



#### LIGHTERS (million units)



## Chewing tobacco in the US and Europe

Swedish Match sells chewing tobacco in the US, as well as chew bags and tobacco bits in certain European markets. The US chewing tobacco market is in a long term state of volume decline and it is estimated that the market declined by approximately 5 percent in 2018. Swedish Match holds the leading position for chewing tobacco in the US. Within the premium segment, where Swedish Match has a leading position, the decline was more pronounced and is estimated by Swedish Match to have been approximately 10 percent. During the year, Swedish Match has been gaining share in both the premium and value segment with slower than industry volume declines.

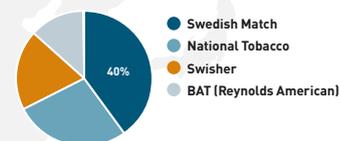
In Europe, the market for chew bags is small, but growing. Denmark is one of the larger markets and is estimated by Swedish Match to amount to more than 2 million cans. After acquiring V2 Tobacco during 2017 and Oliver Twist in 2018, Swedish Match has broadened its geographical footprint for its chewing products. The competitive landscape within this category has seen new players in the market during recent years.

### Main brands

Chewing tobacco, the US: *Red Man*  
 Chew bags, Europe: *Thunder, General Cut*  
 Tobacco bits, Europe: *Oliver Twist*

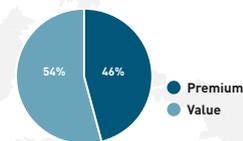
### Competition

#### CHEWING TOBACCO IN THE US<sup>1)</sup>



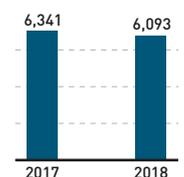
### Segment

#### CHEWING TOBACCO IN THE US<sup>1)</sup>



### Shipment volumes (thousand pounds)

#### CHEWING TOBACCO IN THE US<sup>2)</sup>



### Significant markets for chew bags in Europe

Germany  
 Denmark  
 Switzerland  
 Slovenia  
 Czech Republic

<sup>1)</sup> Swedish Match and industry estimates, full year 2018.  
<sup>2)</sup> Excluding contract manufacturing.

## SWEDISH MATCH'S ORGANIZATION

# How we operate

**Flexible and innovative, Swedish Match works to have the right strategy, people, competencies, products, and structure in place in order to rapidly meet changing market conditions. The Swedish Match organization comprises three divisions and the Corporate functions. Swedish Match operates in eleven countries and our products are sold across the globe.**

## Europe Division

Europe Division<sup>1)</sup> is responsible for the snus and smokeless businesses in Sweden, Norway and Denmark, including development, manufacturing, marketing, and sales. The division is also responsible for marketing smokeless tobacco products and nicotine pouches in the rest of Europe. In addition, Europe Division manufactures snus and nicotine pouches for markets outside of Europe which are sold by other divisions within Swedish Match. Europe Division is responsible for developing new smokeless products and adapting the existing product portfolio. Focus is on strengthening the Company's position in the smokeless category and growing the category through efficient sales processes, marketing activities, and product development.

## US Division

US Division is responsible for the sales and marketing for its smokeless and cigar businesses in the US. For all products except snus, the division is also responsible for both the supply chain and manufacturing of cigars, chewing tobacco, moist snuff, and nicotine pouches for the US market. The division also focuses on building the category for snus and nicotine pouches without tobacco in this home market.

## Lights Division

Lights Division markets matches and lighters throughout the world and is responsible for the manufacturing of these products. The division also sells complementary products sourced from third party manufacturers, mainly to the Brazilian market. Lights Division has its own sales forces in Brazil and Turkey as well as a wide network of distribution partners worldwide. Distribution of certain other Swedish Match products is handled through the distribution networks of Lights Division.

## Corporate functions

Corporate functions provide services to Swedish Match's divisions. Corporate functions include finance, business control, legal, IR, sustainability, scientific affairs, communications and public affairs, procurement, IT, central HR, as well as a distribution function.

<sup>1)</sup> In 2018, Scandinavia Division was renamed Europe Division and the Owensboro plant was moved organizationally to the US Division.



## OPERATING LOCATIONS

### US

- Production of moist snuff, nicotine pouches without tobacco, chewing tobacco, cigars
- Sales offices
- 990 employees

### Dominican Republic

- Production of cigars
- 2,481 employees

### Brazil

- Production of matches, lighters
- Sales offices
- 503 employees

### Belgium

- Public Affairs offices
- 2 employees

### Netherlands

- Production of lighters
- 97 employees

### Switzerland

- Treasury offices
- 2 employees

### Norway

- Sales offices
- 45 employees

### Sweden

- Head office
- Production of snus, pouch products without tobacco, matches
- Sales offices
- 1,242 employees

### Denmark

- Production of chew bags, tobacco bits, snus
- Sales offices
- 95 employees

### Turkey

- Sales offices
- 14 employees

### Philippines

- Production of lighters
- Sales offices
- 191 employees

The number of employees refers to the average number of employees during 2018.



## RISKS AND RISK MANAGEMENT

# Managing risks

## – a part of conducting business

Swedish Match strives to ensure that the risks taken are deliberate. It is important for us to understand the risks to which our business is exposed and make informed decisions. Risks need to be managed efficiently in order for the Group to be competitive, to operate safely, and to achieve financial stability and growth.

### BEING COMPETITIVE

- Performance oriented culture
- High quality products
- Leveraging strong brands
- Thorough consumer insight
- At the forefront of product innovations
- Efficient manufacturing
- Knowledgeable and agile sales force

### OPERATING SAFELY

- Ethical business conduct
- Strict supplier requirements
- Thorough workplace safety and loss prevention programs
- Appropriate insurance program
- Meeting regulations by being well prepared and in active dialogue with governments and regulatory agencies
- Compliance with laws and regulations

### BEING FINANCIALLY STABLE

- Strict financial policies in place and monitoring by Board of Directors
- Transaction currency hedging via matching of buying and selling currencies – production and sales to large extent in same countries
- Clear priority use of cash, ensuring that the fulfillment of commitments is not jeopardized

### Risk management within Swedish Match

Swedish Match applies a systematic risk management model, which includes risk reviews as well as loss prevention, continuity planning, crisis management and insurance programs.

The Swedish Match Board of Directors determines the Group's strategic plans and associated risks based on recommendations from the Group Management Team (GMT). The Board of Directors oversees the Group's risk management processes and on a recurring basis is informed about the existing and emerging risks as well as on related mitigation activities. Each division, as well as Corporate functions, is responsible for managing the risks associated with their plans, and if required, coordinating risk management activities with other units. Appropriate competencies in the organization and a governance

structure with clear responsibilities set the prerequisites for risk management at the local level. The Code of Conduct further ensures an organizational culture that helps to prevent taking those risks deemed to be unacceptable.

To efficiently manage risks, existing and potential risks need to be known. Swedish Match strives to establish a broad understanding among its employees of the concepts and importance of risk management. Employees in all parts of the organization are encouraged to identify and report events and circumstances which are indications of risks. Existing and potential risks are regularly discussed within the divisional management teams and the GMT. A framework of policies is in use to ensure that the responsibilities are communicated and understood and that the management teams have the right tools to drive risk management.

### Annual ERM process

To identify and assess the major risks to which the Group is exposed, an annual Enterprise Risk Management (ERM) process is conducted and consolidated at division level. This is part of the strategic planning process. The resulting risks, including probability, impact, interrelations with other risks, mitigation activities and monitoring, are presented to the GMT. The GMT presents risks identified at division level, alongside a consolidated picture for the entire Group, to the Board of Directors. This process helps to ensure that appropriate actions are taken to reduce, prevent or mitigate undesired risks. Based on ERM results, strategies are developed to manage new or changed risks. Risk responses include risk avoidance, risk reduction, risk sharing or risk acceptance.

## RISK AREAS

Important risks to address arise in the areas of competition, production, regulation, and finance among other areas.<sup>1)</sup>

### Competition

Swedish Match operates in highly competitive markets, which requires an agile organization in a continually changing environment. There is a risk of lost sales from volumes and/or price in case Swedish Match cannot provide a better offering to the consumer than do competitors. Swedish Match continuously monitors the competitive environment and assesses changing consumer needs. To meet these consumer needs, the Company conducts consumer and market research and closely follows market trends. This insight forms the basis for product positioning, product portfolio decisions and product development and ensures consumers are offered high quality products that meet their needs.

### Production

Production facilities are exposed to risk of various harmful incidents such as fires and machinery breakdown, as well as potential natural disasters and other catastrophic events, along with effects related to climate changes<sup>2)</sup>. Such incidents may affect both production facilities and employees. Production interruptions could cause quality or delivery problems. In order to avoid delivery problems or other production interruptions, Swedish Match has implemented a loss prevention and continuity planning program. Periodic inspections are conducted by an independent third party at all major production facilities that are identified as critical. These inspections assess to what level the production facilities meet the Swedish Match safety standards and whether there are investments or actions required to reduce risk. The purpose of the continuity planning is to minimize any negative impact of an incident.

### Suppliers

A loss of a key supplier or a supplier's non-compliance with regulations or unethical behavior could be harmful to the Group. Potential consequences are delivery or quality problems or difficulties in the interaction with other stakeholders

including sales to consumers. Selected suppliers of production inputs are reviewed by the procurement departments on a recurring basis. The suppliers' own financial stability and risk management systems are an important consideration for Swedish Match. As a complement to the internal reviews, at times an independent third party conducts risk inspections at critical suppliers.

Swedish Match strives to work with suppliers who have a healthy, long term financial position and who support our values. Our Supplier Code of Conduct specifies what we expect and require from our suppliers in terms of employment and labor practices, workplace practices, ethical business practices and environmental management practices. The Supplier Code of Conduct forms the basis for our relationship with suppliers and is an integral part of our significant business agreements. Risk assessment forms the basis for our efforts to identify and mitigate specific risk in dialogue with prioritized suppliers. We have procedures in place, and under continuous development, to further emphasize sustainable supply chain management.

### Regulation

Swedish Match is exposed to a high degree of regulation from various authorities. Regulations could have restricting impact on how the Group can operate its business and interact with its stakeholders or direct financial impact in the form of increased taxes or imposed fees. Regulations, many related to the Group's involvement in the tobacco industry, concern among other issues, tobacco excise taxes, marketing, packaging and warning label requirements, ingredients, reporting to authorities, product approvals, and introduction of new products. Many authorities have and continue to implement various forms of restrictions on sales and usage of tobacco and other nicotine containing products. Swedish Match closely monitors the development of tobacco regulation and regularly shares information and opinions with governments and other regulatory agencies on issues that affect the Group's operations.

Most importantly Swedish Match needs to continue to provide consumers with

less harmful alternatives to cigarettes and strive toward the vision of a world without cigarettes, with evidence based regulations for our products. A critical activity is to educate and inform decision makers about Swedish Match's tobacco products, especially snus and its dramatically less harmful health characteristics compared to cigarettes. More information on harm reduction can be found on page 18.

### Financial

The dynamic financial market conditions are continuously changing with changing currency exchange rates, interest rates and availability of funds. A weakening of certain major currencies, such as the USD versus the SEK, could cause lower financial results presented in SEK from the translation of foreign operations. The transaction exposure is relatively low as most production is located in the country where sales are conducted. Higher interest rates could have a negative impact on net finance expense.

Swedish Match has a large part of its business being conducted outside Sweden with a significant part in the US. The currency exchange rate development is not in the control of Swedish Match. Acknowledging that there is a speculative element in hedging the currency translation exposure, Swedish Match has decided to normally not hedge this exposure. However, Swedish Match is mindful of the cash impact from currency rate changes and strives to regularly distribute dividends from its foreign subsidiaries to the Swedish parent company.

Swedish Match is a highly cash generative company with a stable financial policy. Excess cash not needed by Swedish Match is distributed to shareholders by means of both dividends and share repurchases. Swedish Match is optimizing its cost of capital by ensuring an appropriate leverage. In order to manage interest rate risk and refinancing risk, the Group strives to have an even spread of maturities. In addition, Swedish Match shall as a general rule secure financing for the coming twelve months before any share repurchases are executed.

<sup>1)</sup> More information on risks can also be found in the Report of the Board of Directors and financial risks presented in Note 26 Financial instruments and financial risks to the Group Consolidated Financial Statements.

<sup>2)</sup> Swedish Match's value chain is exposed to various climate-related risks, such as extreme weather events, changes in precipitation patterns as well as reputational risks. Climate risks are identified through other risk assessment processes covering production, suppliers, regulation and financial aspects. Where climate risks are identified to be substantial and call for action, Swedish Match addresses the risks with the same priority as other financial and operational risks.

## REGULATORY ENGAGEMENT

# Regulation – harm reduction is gaining ground

**Swedish Match believes that smokers should have access to viable, non-combustible tobacco and nicotine alternatives with dramatically lower negative health effects compared to cigarettes.**

Swedish Match believes that tobacco regulation will continue to become more global in character and steadily increase in scope. It is Swedish Match's aspiration to see a move from "one-size-fits-all" tobacco regulation to an approach that takes into account the differences between product categories and their accompanying risk profiles. Smokeless tobacco and nicotine regulation should ultimately be based upon standards which strive to ensure that consumers receive attractive products with the highest possible product quality with minimal risk i.e. product standards based on the same principles as food regulation.

Truly effective regulation must be evidence based, and requires an exchange of knowledge and experience between governments and industry. Swedish Match believes that better regulation is achieved by maintaining focus on those who are directly affected by the regulation – consumers, customers/retailers and manufacturers. Swedish Match monitors relevant regulatory developments and is actively engaged with stakeholders in various ways, while recognizing that regulatory decisions will ultimately be at the discretion of the lawmaker.

There is an increasingly enlightened approach toward harm reduction in, for example the US, UK, some countries in Europe, and New Zealand. In the US, the Food and Drug Administration (FDA) has reaffirmed its intention to regulate in a manner that will encourage consumers to migrate from cigarettes to less harmful products. The FDA's

stated philosophy is very well aligned with our vision and should be beneficial for both General snus and ZYN nicotine pouches from a regulatory perspective. Certain other countries continue to take an alternative approach by not recognizing the positive role these types of products can have in reducing the harm caused by cigarette smoking. In several of these markets, we are actively working to change the situation toward the more enlightened approach, sometimes through litigation. We have, for instance, unsuccessfully challenged the ban on snus within the EU in the European

Court of Justice and have been litigating the disproportionate and discriminatory decision to fold snus into the Norwegian plain packaging regulation.

Swedish Match monitors and evaluates the emerging scientific data and interacts with the scientific community. Swedish Match considers itself accountable to all stakeholders in addressing and informing them about the established science and relevant product information.

Swedish Match is also committed to preventing the availability of nicotine products to minors. The Company engages with retailers to ensure that they properly understand the need to enforce required age-verification upon purchase of nicotine products. Swedish Match cooperates with retailers in order to reduce the growing volume of illicit products which raise risks of unregulated quality and distort competition on the market.



*Patrik Hildingsson, Vice President Communications and Public Affairs, and Marie-Louise Heiman, Senior Vice President Group Legal Affairs, at the Swedish Match Annual General Meeting.*

## REGULATORY DEVELOPMENTS IN THE US

In 2017, the US FDA announced a new comprehensive regulatory plan for tobacco. In the announcement, FDA Commissioner Dr. Scott Gottlieb acknowledged that there is a difference in risk profile for different tobacco and nicotine containing products. He envisioned a world where cigarettes lose their addictive potential through reduced nicotine levels and where less harmful products, efficiently delivering satisfying levels of nicotine, are available to those adults who need or want them. The FDA announcement was an important step forward for scientifically based regulation of tobacco and nicotine products but there has been little tangible progress on these matters during 2018. Instead, FDA has focused on the alleged role that flavors in e-cigarettes and tobacco products may play in attracting youth.

## REGULATORY DEVELOPMENTS IN EUROPE

Tobacco products for oral use, except those intended to be smoked or chewed, have been banned in the EU since 1992. As Swedish snus is neither smoked nor chewed, it is prohibited for sale. Upon Sweden's entry into the EU in 1995, the country was granted a permanent exemption from the sales ban on snus. Cigarettes and other types of traditional smokeless tobacco products (including certain Asian/African varieties, chewing tobacco and nasal snuff) can all be legally sold within the EU. The EU ban on sale of snus has been the subject of a ruling by the European Court of Justice (ECJ) in 2018. In its judgement the court states that EU legislature has a broad discretion within the area at issue and that this implies that judicial review is limited. These limitations apply both to measures decided by the EU legislature and to the basic facts on which these measures have been based. Based on such limited review the court decided not to remove the ban. During the year, the ECJ has also ruled on the definition of chewing tobacco following a request from a German court. The German court will now decide on if a particular chewing tobacco product fall within the scope of allowed chewing tobacco.

In March 2018, the Swedish Government submitted a proposal to the Parliament for new legislation on tobacco and similar products. Proposed measures included the EU mandated track and trace system for tobacco products, an outdoor smoking ban in certain public places and restaurants, a ban on consumer self-

service for all tobacco products at point of sale, a ban on tobacco advertising at point of sale other than in specialty tobacco shops and, for snus, a minimum of 20 pouches per can. The Parliament adopted the proposal in December 2018 but with important amendments. The ban on consumer self-service and advertising at point of sale was rejected as it did not reflect the difference in health effects between snus and cigarettes.

In Norway, plain packaging regulation for snus came into force on July 1, 2017 and all products were required to be in plain packaging in the trade from July 1, 2018.

In Switzerland, the Government has made a proposal to the Parliament to lift the Swiss ban on snus. The final decision by Parliament and implementation are expected to take several years.



*Plain packaging for snus in Norway.*

## SWEDISH MATCH'S OPINION ON REGULATIONS:

- Regulation must take into account the relative risk among different tobacco products.
- The EU ban on Swedish snus is discriminatory, disproportionate, violates the free trade and subsidiarity principles and distorts the function of the internal market. It deprives the EU consumers of access to a dramatically safer alternative to cigarettes.
- The EU Tobacco Products Directive (2014/40/EU) violates the fundamental consumer right to be informed of content and product taste by banning product information disclosure on packages.
- All smokeless tobacco products should be subject to consistent and competition neutral product regulation based on product quality and consumer protection (i.e. similar to food standards).

## HARM REDUCTION

# From harm reduction to harm elimination

**Although nicotine has the potential for addiction, the health risks are almost exclusively caused by the way nicotine is delivered. Any drug delivered by inhalation of smoke will inevitably cause serious harm to public health. Replacing cigarettes with other nicotine delivery products, such as snus and nicotine pouches, which do not involve the inhalation of smoke will therefore provide a substantial benefit for public health.**

When Nicotine Replacement Therapy (NRT) in the form of chewing gums started to be introduced in the early 70's, it was a controversial concept widely opposed by anti-tobacco campaigners but harm reduction with the help of nicotine started to gain ground. It took 30 years of the marketing of nicotine as a "safe and effective" medication before the concept of harm reduction gained real political and legislative attention. Today nicotine is deemed so safe that no prescription is required for patches, flavored gums or lozenges in most developed markets.

In 2008, the American Association of Public Health Physicians (AAPHP) became the first medical organization in the US to officially endorse tobacco harm reduction as a strategy to reduce smoking related mortality. A year later, the US Food and Drug Administration (FDA) decided to encompass the tobacco harm reduction approach and allowed tobacco companies to seek a Modified Risk Tobacco Product (MRTP) order for a specific tobacco product. FDA has also made harm reduction a part of its comprehensive regulatory plan for tobacco and has reaffirmed its intention to "push" consumers away from cigarettes toward less harmful products.

The strongest proof of concept for tobacco harm reduction is Sweden. Increased snus use by Swedes during the last four decades has been accompanied by a rapid decrease in cigarette smoking and a decline in tobacco-related disease and mortality.<sup>1)</sup> Sweden has the lowest incidence of smoking as well as the lowest tobacco related morbidity and mortality in the western world, despite a western average incidence of nicotine use.<sup>2)</sup>

Over the years there has been a number of studies suggesting that cigarette smokers who switched to products like Swedish snus are more successful in quitting smoking compared to smokers who used NRT. Consumer market research by Swedish Match of its ZYN nicotine pouch products indicates that those products are also used by tobacco consumers looking for less harmful alternatives.

The low incidence of smoking in Sweden and its association with the use of snus (often called the "Swedish experience" in scientific literature) is not a result of the public health community campaigning to persuade smokers to switch to snus or from industry advertising. This underscores not only the power of consumer movements, but also raises the important question – what can be achieved with official harm

reduction endorsement, regulatory industry incentives for developing cleaner nicotine containing consumer products, and proportionate regulation based on a product risk profile?

Swedish snus and ZYN, along with other forms of nicotine delivery products which have acceptable safety characteristics, have the potential not only to reduce harm caused by smoking but to eliminate it. Swedish Match does not believe that more rigorously enforced policies and regulations against cigarettes alone will get us to a world without cigarettes, but that the availability of a wide range of high quality nicotine containing products that are deemed attractive and enjoyable by smokers will. The public spending to achieve this is minimal and the public savings are enormous.

“Strategies should be pursued that encourage the use of the cleanest and safest form of nicotine delivery!”

**Mitch Zeller, Director, Center for Tobacco Products, US FDA, May 2013**

“Nicotine itself is not especially hazardous, and if nicotine could be provided in a form that is acceptable and effective as a cigarette substitute, millions of lives could be saved.”

**Harm reduction in nicotine addiction: Helping people who can't quit, British Royal College of Physicians, 2007**

“To the extent that certain products are shown to be less harmful, they could help reduce the overall death and disease toll from tobacco use... This is a function of the existence of a continuum of nicotine-delivering products that pose differing levels of risk to the individual.”

**Reducing harm from nicotine, Ann McNeill, Royal College of Physicians, March 2012**

<sup>1)</sup> Foulds et al, Effect of smokeless tobacco (snus) on smoking and public health in Sweden, Tobacco Control 2003;12:349-359.

<sup>2)</sup> Le Houezec J et al, Tobacco, nicotine and harm reduction, Drug & Alcohol Review, Volume 30, Issue 2 (2011).

## SNUS AND HEALTH

- The availability of snus in Sweden and Norway reduces the prevalence of smoking.
- There is no evidence of a link between snus and increased risk for lung cancer.
- There is no evidence of a link between snus and increased risk for oral cancer.
- Swedish men demonstrate the lowest incidence of any form of tobacco related cancer in the western world.

More information and references on snus and health are available on the Company's website, [www.swedishmatch.com/snus-and-health](http://www.swedishmatch.com/snus-and-health).

## SNUS AND MOIST SNUFF

# Growing snus and ZYN



**Markets for smokeless alternatives, including snus and moist snuff, as well as innovative products, such as nicotine pouches without tobacco, have been growing in volume in both Scandinavia and the US. As the market leader in Scandinavia and a significant participant in the US, Swedish Match participates in this growth and is well positioned for further growth.**

In Scandinavia, Swedish Match has experienced growing snus volumes in both the Swedish and Norwegian markets. In the US, the snus market continued to grow, and Swedish Match has outpaced the market. On the US moist snuff market, Swedish Match offers attractive alternatives in the fastest growing formats – pouches and tubs. Nicotine pouches is a relatively new category, and here, the volume development for the Company's products has demonstrated an impressive growth trajectory.

### Strategy

Swedish Match's vision is a world without cigarettes, providing consumers enjoyable alternatives that are both satisfying and dramatically safer than smoking. Smokeless alternatives, including snus and moist snuff, as well as innovative products (such as nicotine pouches) play an important part in moving toward the vision. In Scandinavia, consumer preference for snus versus cigarettes has increased over the years, especially among younger adults in Norway. Swedish Match is dedicated to further developing the growing snus categories in Scandinavia, the US, and certain other markets, thereby contributing significantly to improved public health.

The Company's major competitive strengths include its superior quality products, in depth know-how, and ability to quickly adapt to evolving consumer needs. The Company's strengths also include offering both traditional and modern high quality products with

both well established and new brands, and its capabilities in the areas of analyzing the needs of consumers, conducting research, product innovation, and servicing customers.

Swedish Match will leverage its unique snus and moist snuff platform and continue to innovate and develop new and improved products with outstanding quality and value. Swedish Match will endeavor to drive category growth and maintain its leading position in Scandinavia. It will also work to develop the snus and nicotine pouch categories in the US and establish a strong presence in the market. Swedish Match will work to build on its position in the US moist snuff market, targeting the faster growing segments. Swedish Match will explore opportunities for Swedish snus and other innovative smokeless products in both existing and new markets.

### Financial development

Sales for the product segment during the year increased by 12 percent to 6,127 MSEK (5,484). Operating profit for the year grew by 18 percent to 2,791 MSEK (2,358). In the Scandinavian market, Swedish Match's sales grew on higher volumes and positive net price/mix effects. In the US, Swedish Match's moist snuff sales increased in local currency from improved pricing. The total net operating result related to the sales of snus and nicotine pouches without tobacco outside Scandinavia improved significantly. The operating margin was 45.6 percent (43.0) for the year.

## SCANDINAVIA

Swedish Match is the leading snus producer in Scandinavia and enjoys strong market positions in both Sweden and Norway. In Sweden, *General* is the largest brand in the premium priced segment, while *Kronan* and *Kaliber* are among the leading brands in the value priced segment.<sup>1)</sup> In Norway, *General* is the largest Swedish Match brand on the market, including its *G.3* and *G.4* assortment. In addition to its traditional snus products, Swedish Match offers its nicotine pouch product, *ZYN*, in Sweden. Swedish Match also offers *Onico* in both Sweden and Norway, the number one brand in the segment for products with neither nicotine nor tobacco.

### Market

The Scandinavian snus market is estimated to have amounted to more than 430 million cans in 2018, up by approximately 6 percent from the previous year.<sup>1)</sup> Over the past several years, consumption has been moving from traditional loose products to pouch products, which at the end of 2018 accounted for more than 85 percent of volumes in Scandinavia.<sup>1)</sup> Swedish Match's Scandinavian shipment volumes measured in number of cans grew by more than 6 percent, while underlying organic volumes (excluding hoarding and year-end calendar effects as well as acquisition effects) are estimated to have increased by approximately 3 percent.

Sweden has approximately one million consumers, and growing.<sup>2)</sup> It is estimated that more than 20 percent of Swedish men and more than 5 percent of Swedish women use snus on a regular basis. The overall percentage of women using snus has been growing in recent years, while their use of cigarettes has declined.<sup>2)</sup>

The Swedish snus market is estimated by Swedish Match to have grown by approximately 6 percent in volume terms in 2018 versus

the prior year. The growth of the Swedish snus market in 2018 was mainly attributable to growth in the premium segment, which for the full year increased its share of total market to 54 percent in terms of volume.<sup>1)</sup> This is a change in dynamic, as for many years the value segment has been growing its share of market. Within the premium segment, there has been a continued shift away from the more traditional higher-priced pouch and loose products toward pouch products with somewhat lower consumer price points. While volumes grew within the value segment, the pace of growth was more modest than for the premium segment.<sup>1)</sup>

In Sweden, Swedish Match's market position is strongest in the premium segment, and the Company's volumes grew during the year. The Company however lost market share in this segment. Within the value segment, competition remained intense during the year, and Swedish Match's volumes and market share declined.

In Norway, the snus market volume has grown by approximately 20 percent over the past three years. During 2018, as in 2017, growth moderated slightly compared to recent years' levels and was around 6 percent versus the prior year.<sup>1)</sup> Swedish Match's market share in volume terms in this market is estimated to have declined by less than 1 percentage point.<sup>1)</sup> Unlike the Swedish snus market, the Norwegian market is an all premium market. In Norway, there has been a rapid growth for all-white nicotine pouch products which in Norway contains a small amount of tobacco. The all-white nicotine pouch segment now accounts for more than 11 percent of the total Norwegian snus market, which makes this segment larger than the segment for loose snus.<sup>1)</sup>

<sup>1)</sup> Source: Swedish Match estimates of can volume using Nielsen data (excluding tobacconists in Sweden), full year 2018.

<sup>2)</sup> Source: Ipsos Sweden, Market Report, 2017.

## Gotlandssnus – a portfolio of premium, high-quality products



### Swedish Match has acquired Gotlandssnus

On August 22, Swedish Match acquired 95 percent of Gotlands Snus AB (Gotlandssnus).

Founded in 2002, Gotlandssnus develops, produces and sells both snus and pouch products with neither nicotine nor tobacco, with sales in Sweden, the US, Asia and parts of Europe. The company sells popular brands such as Jakobsson's (snus) and

Qvitt (pouch products with neither nicotine nor tobacco), and its production facility is located on the island of Gotland, Sweden. Gotlandssnus produces approximately 4 million cans per year with annual sales of approximately 50 MSEK. The company has approximately 40 employees.

## Highlights

In Sweden, Swedish Match held its strong position in the premium segment, despite efforts by competition with new products. The *One* series of attractively priced premium snus, based on innovative technology, has continued to complement *XR* in the popular priced premium segment. *XR* and *One* have drawn consumers from both higher and lower priced products, and have supported volume growth for premium brands of pouch products. Swedish Match has during the year increased the distribution of the nicotine pouch product *ZYN* in Sweden and has also expanded the assortment with the addition of *ZYN Slim*. *ZYN Slim* has a somewhat softer and fuller mouth feel than *ZYN Mini Dry*. *ZYN* was first launched on the US market prior to being offered in Sweden, and the reception from the trade and consumers has been positive also in Sweden. The all-white nicotine pouch segment which in Sweden includes products with little or no tobacco (while in Norway includes only products that contain tobacco) is smaller than in Norway but the segment has experienced growth and accounted for more than 3 percent of the Swedish market by the end of 2018.<sup>1)</sup> In the value segment in Sweden, Swedish Match has a strong position. During the year, the Company implemented a packaging and product upgrade for the *Kaliber* brand.

In Norway, modern snus products continued to show positive trends. To address a challenging competitive situation, Swedish Match introduced line extensions under the *G.3* range, with functional properties such as a soft fit, minimal drip and a long-lasting snus experience. *G.3 Load* and *G.3 T.N.T* were launched during the year, which are both stronger products in the slim white dry format. In the rapidly growing all-white nicotine pouch segment, the Company launched new products under the *G.4* brand, including *G.4 CRYO*, an all-white extra strong product. The *G.4* range, first launched in 2017, was developed utilizing state of the art technology and provides a soft mouth feel. While modern snus products supported market growth in Norway, volumes continued to decline for loose snus and for the more traditional pouch products, which contributed negatively to Swedish Match's share performance in this market as Swedish Match has particularly strong positions in these segments. As of July 1, 2018, all snus products sold in Norway have to be in plain packaging.

On August 22, 2018, Swedish Match acquired 95 percent of the shareholding in Gotlandssnus AB. Gotlandssnus develops, produces, and sells both snus and pouch products with neither nicotine nor tobacco, with sales in Sweden, the US, Asia, and parts of Europe. Well-known brands are *Jakobsson's* (snus) and *Qvitt* (pouch products with neither nicotine nor tobacco). The production facility is located in Romakloster, on the island of Gotland, Sweden.

The Swedish Match snus stores provide a unique consumer experience, where snus users can learn more about snus and the Swedish Match range of products. Snus stores are also an ideal venue to present new products. Starting with a store in downtown Stockholm at the end of 2012, the concept now includes locations in Gothenburg and Lund, as well as in locations close to the Norwegian border – Strömstad, Åre, and Charlottenberg. Swedish Match also provides the snus store experience online through its e-commerce service.

<sup>1)</sup> Source: Swedish Match estimates of can volume using Nielsen data (excluding tobacconists in Sweden), full year 2018.



Ali Forough, Business Director Sweden, Europe Division.

In the US, Swedish Match's moist snuff brands include Longhorn and Timber Wolf. During the year, General snus in the US refreshed its packaging, featuring bright modern colors, an updated shield and redesigned in-store signage. ZYN is Swedish Match's brand for nicotine pouches in this market.



## THE US

The Swedish Match brand portfolio for moist snuff is positioned in the value priced segment, with traditional loose products as well as pouch products. *Longhorn* is Swedish Match's largest brand in the US market.

Swedish Match sells snus in the US mainly under the *General* brand, priced in line with premium priced moist snuff products. *ZYN* is Swedish Match's brand for its nicotine pouches in this market.

### Market

Moist snuff is sold throughout the US and volumes are particularly strong in the southern and mid-Atlantic states. The vast majority of moist snuff users in the US are men. The moist snuff market is highly price competitive. In 2018, the US moist snuff market is estimated by Swedish Match to have declined 1 percent in volume terms compared to the previous year, and amounted to more than 1.5 billion cans, with the pouch segment accounting for approximately 17 percent of this market. Swedish Match's moist snuff volume measured in number of can equivalents was lower compared to last year. For the full year 2018, Swedish Match estimates its market share by volume of the moist snuff market to be approximately 8 percent.

The US snus market amounted to approximately 60 million cans in 2018.<sup>1)</sup> A relatively new category on the US market is nicotine pouches. The market growth potential for snus and nicotine pouches combined is strong, appealing to a wide segment of the adult tobacco consuming population who desire discrete, spitless alternatives with or without tobacco.

### Highlights

The premium segment of the moist snuff market declined in 2018, while the value segment grew.<sup>1)</sup> There was continued intensive competitive activity among large competitors, especially in the value segment. While Swedish Match's volume and market share declined for its higher priced brands in the value segment, the Company has maintained its position with its *Longhorn* brand, as well as strengthened its position with pouch products in that rapidly growing segment.

Approximately 83 percent of moist snuff in the US is sold in the traditional loose format<sup>1)</sup>, but over the past several years, the percentage of moist snuff sold in pouches has increased. Swedish Match estimates the growth in the pouch segment to have been approximately 6 percent in volume terms in 2018. While volumes declined for loose products, the Company experienced solid volume growth for its pouch assortment, reaching an all time high market share of approximately 7 percent in the pouch segment.

Swedish Match continued its efforts behind snus and nicotine pouches in the US market. The trends are encouraging and in 2018, as a result of both higher volumes and improved pricing, the Company experienced its first profitable year in the US with these products.

In the US, the Company markets the *General* snus brand – an authentic Swedish snus, available in tobacconists, convenience, and other select stores. The brand's visual identity was updated during the year through the roll-out of a new can design. The Company also launched *Thunder Xtreme*, the first strong snus product, in a limited scale on the US market.

During the year, Swedish Match expanded the availability of *ZYN*, a range of nicotine pouch products, in the western US. By the end of 2018, *ZYN* was available in approximately 13,500 stores. While distribution increased compared to the prior year, growing volumes for *ZYN* were mainly attributable to increased sales volume per store. The Group has invested significant resources into US production capacity of *ZYN* – a project that was initiated in 2017 with this capacity to increase during 2019. A national launch of *ZYN* in the US is planned during the second quarter of 2019.

## SNUS AND NICOTINE POUCHES OUTSIDE SCANDINAVIA AND THE US

Outside the Group's home markets, Swedish Match continues its efforts to establish Swedish snus in selected markets. Swedish Match sees good opportunities for its snus and nicotine pouch products over the longer term. In 2018, Swedish Match was present for example with snus in Canada and Malaysia as well as with nicotine pouches in the Czech Republic.

<sup>1)</sup> Source: Swedish Match and industry estimates.

## FACTS AND FIGURES

### SNUS AND MOIST SNUFF HIGHLIGHTS

- Strong market growth in Scandinavia.
- Volume and sales growth in both Sweden and Norway, aided by price increases.
- Acquisition of 95 percent ownership stake in Gotlandssnus.
- Higher sales and operating profit for US moist snuff.
- Exceptional volume growth for ZYN in the US from faster velocity as well as higher store count.

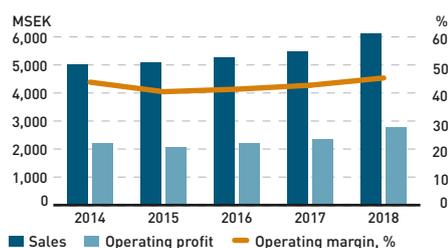
#### KEY DATA<sup>1)</sup>

MSEK	2018	2017 <sup>2)</sup>	2016
Sales	6,127	5,484	5,277
Operating profit	2,791	2,358	2,197
Operating margin, %	45.6	43.0	41.6
Investments in property, plant and equipment	518	211	247
Average number of employees	1,327	1,204	1,184

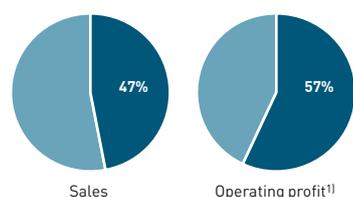
<sup>1)</sup> Excluding larger one-time items.

<sup>2)</sup> Restated in accordance with IFRS 15.

#### SALES AND OPERATING PROFIT



#### SHARE OF GROUP TOTAL 2018



<sup>1)</sup> Excluding Other operations.

### SNUS AND POUCH PRODUCTS WITHOUT TOBACCO IN SCANDINAVIA

#### Main brands:

**Snus, Sweden:** General, Göteborgs Rapé, Kaliber, Kronan, Ettan, Grov, Catch

**Snus, Norway:** General, G.3, G.4, The Lab, Nick & Johnny

**Nicotine pouches without tobacco, Sweden:** ZYN

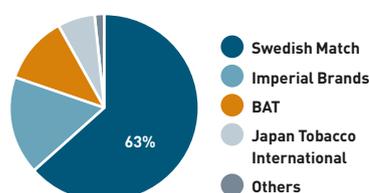
**Pouch products with neither nicotine nor tobacco, Sweden and Norway:** Onico

#### SWEDISH MATCH MARKET SHARES

Market shares (percent) <sup>1)</sup>	2018	2017	Change, pts
Snus, Sweden, total	63.4	65.7	-2.3
Snus, Sweden, premium	88.3	91.6	-3.2
Snus, Sweden, value	34.6	36.5	-1.8
Snus, Norway, total	51.3	52.2	-0.8

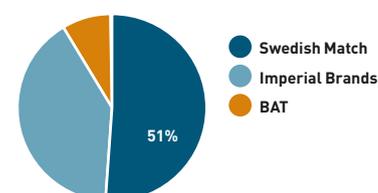
<sup>1)</sup> Source: Swedish Match estimates of can volume using Nielsen data (excluding tobacconists for Sweden), 1 January - 31 December, 2018. Data for both the current and prior year periods include brands acquired since 2017.

#### COMPETITION - SNUS IN SWEDEN



Source: Swedish Match estimates of can volume, using Nielsen data (excluding tobacconists), full year 2018.

#### COMPETITION - SNUS IN NORWAY



Source: Swedish Match estimates of can volume, using Nielsen data, full year 2018.

### SNUS, NICOTINE POUCHES AND MOIST SNUFF IN THE US

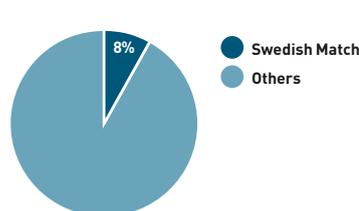
#### Main brands:

**Moist snuff:** Longhorn, Timber Wolf

**Snus:** General

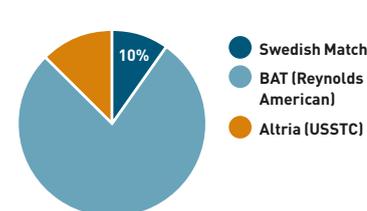
**Nicotine pouches without tobacco:** ZYN

#### COMPETITION - MOIST SNUFF IN THE US



Source: Swedish Match and industry estimates, full year 2018, on a can equivalent basis.

#### COMPETITION - SNUS IN THE US



Source: Swedish Match and industry estimates, full year 2018, on a can equivalent basis.

### SWEDISH MATCH SHIPMENT VOLUMES SUMMARY

Shipment volumes (millions of cans)	2018	2017	Change, %
Snus, Scandinavia <sup>1)</sup>	263.4	247.6	6
Moist snuff, US	126.3	127.4	-1
Snus and nicotine pouches, outside Scandinavia <sup>1)</sup>	25.2	13.2	91

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

## OTHER TOBACCO PRODUCTS

# All time high cigar volume

Sales for Other tobacco products primarily comes from cigars and chewing tobacco for the US market. Swedish Match has also expanded its presence in Europe with chew bags and tobacco bits. The product segment experienced another growth year in both sales and operating profit, mainly from record cigar volumes.

In the US, Swedish Match maintains a strong presence with its machine made cigars, especially within the natural leaf segment<sup>11</sup> where the Company has the leading position, and holds the number one position for chewing tobacco. Swedish Match also sells other chewing products,

such as chew bags and tobacco bits, in the European niche chewing tobacco market.

### Strategy

In the product segment Other tobacco products, Swedish Match works to maximize long term profitability, leveraging its strong market presence and trusted brands.

For cigars, Swedish Match will drive profitable growth through strong sales and marketing execution, while maintaining strict cost discipline. The Company continues to adapt its assortment in order

to maintain its leadership in offering high quality products with outstanding value with a focus on products in growing segments.

For chewing tobacco in the US, Swedish Match will capitalize on its leading position in the category and continuously drive productivity improvements. By mitigating the impact of volume declines through cost focus and price leadership Swedish Match can ensure good profitability in this declining category. For chew bags, Swedish Match will continue to grow and establish new international markets based on the Company's strong capabilities and brands.

### Financial development

Sales for the product segment for the year increased by 13 percent to 5,240 MSEK (4,634), while operating profit increased by 10 percent to 1,956 MSEK (1,776). In local currency, sales for the year were 11 percent higher with growth coming from cigars. Sales for chewing tobacco increased, principally due to the addition of the acquired V2 Tobacco and Oliver Twist chewing tobacco businesses. Operating profit in local currency increased by 8 percent compared to the prior year. The operating margin for the product segment was 37.3 percent (38.3).



<sup>11</sup> Natural leaf cigars: cigars which have binders and wrappers made of parts of selected tobacco leaves cut specifically to form the binders and/or wrappers. The main distinctions between natural leaf cigars and hand rolled cigars are that they contain short filler tobacco versus long filler tobacco and that machines are utilized in the later steps of the manufacturing process.



## CIGARS

Swedish Match maintains a strong presence with machine made cigars in the US. Its portfolio of products is one of the broadest portfolios on the US market with flavored, natural, and sweet varieties available under well-known mass market brands such as *Game*, *White Owl*, *Jackpot*, and *Garcia y Vega*.

### Market and highlights

It is estimated by Swedish Match that the market for US machine made mass market cigars grew by approximately 4 percent in volume terms in 2018 and amounted to approximately 7.5 billion cigars excluding little cigars<sup>1)</sup> (a segment in which Swedish Match does not participate). Swedish Match's cigar volumes reached a new record level, increasing by 5 percent. During 2018, the market remained highly competitive with extensive activity for lower priced and promotional products. Swedish Match

estimates that the Company's share of market was approximately 23 percent in 2018. Swedish Match participates in both the homogenized tobacco leaf (HTL) segment<sup>2)</sup>, which is the largest segment, and the natural leaf segment, a smaller but growing segment in which Swedish Match holds the leading market position. Within the natural leaf segment, rolled leaf cigars have experienced rapid growth.

During 2018, Swedish Match expanded distribution for a number of cigar products under brands such as *Game*, *Garcia y Vega*, and *White Owl*. A price increase on the rolled leaf assortment was implemented during the year which enabled improved profitability for these products to be more in line with the Company's other natural leaf cigar products. The volume growth for *Game* and *Garcia y Vega* natural leaf cigars was particularly strong, and was a major contributing factor for increased sales

and operating profit. The demand for the Company's rolled leaf cigars has increased dramatically, which during the latter part of the year led to tightened tobacco supplies. Swedish Match's HTL volumes declined in 2018 with its *White Owl* and *Jackpot* brands. During the year, FDA related costs increased for cigars from both higher user fees (on increased volume) and required changes to packaging and point-of-sale materials.

<sup>1)</sup> Little cigars are typically filter tipped and packaged in packs of 20.  
<sup>2)</sup> Homogenized tobacco leaf (HTL) cigars: Cigars which have binders and wrappers made of tobacco leaves that have been ground, mixed with water, homogenized and rolled into sheets to ensure a consistency of look, feel, and quality.



## CHEWING TOBACCO

Swedish Match is the largest participant in the US chewing tobacco category, with the market's number one selling brand, *Red Man*. Swedish Match also sells chew bags, a modern form of chewing tobacco available in pouch format, in certain European markets and the largest brands are *Thunder* and *General Cut*. Swedish Match also has a presence with its *Oliver Twist* tobacco bits in Europe.

### Market and highlights

The US market for chewing tobacco is in a long term state of volume decline. It is estimated by Swedish Match that the market in 2018 declined in line with historical trends. The decline was more pronounced in the premium segment where Swedish Match has a leading position. In this segment, the decline was approximately 10 percent. In the value segment, which declined at a more modest pace than the premium segment, there was growth for the big bag category.

For Swedish Match, the US chewing tobacco business is an important and profitable part of the Other tobacco products portfolio with solid cash flow generation. Swedish Match's chewing tobacco shipments (excluding contract manufacturing volumes) declined slightly less than the market. Swedish Match has increased its share in both the premium and value segments. With the more rapid decline of the premium segment, there has been a shift in the Swedish Match portfolio toward lower priced brands.

The Group's *Red Man* brand is by far the largest chewing tobacco brand in the US, accounting for approximately one third of all volumes sold on that market. Swedish Match brands account for approximately 40 percent volume share of the market.<sup>1)</sup>

With declining chewing tobacco consumption in the US market, Swedish Match works to reduce costs and maintain operating efficiency while also addressing pricing in order to ensure

good profitability. For instance, Swedish Match has a contract manufacturing agreement with National Tobacco, whereby Swedish Match produces the chewing tobacco range of this competitor in the Owensboro, Kentucky, US facility. Swedish Match's strong market share allows this business to remain highly cash generative. Also, as the market declines, Swedish Match is well positioned to maintain its share position over time in each of the pricing segments and packaging formats.

In Europe, modern chewing tobacco products, such as chew bags, represents a very interesting opportunity for Swedish Match as it has proven to be a viable smokeless alternative in some markets. In 2017, Swedish Match acquired V2 Tobacco, a manufacturer of both chew bags and snus with production in Silkeborg, Denmark. The V2 acquisition has helped to broaden Swedish Match's footprint for these types of products in Europe and certain other markets. Swedish Match's brand portfolio now includes *General Cut*, *Göteborgs Rapé* and *Thunder*. During 2018, Swedish Match's chew bag products were available in a number of markets including Germany, Denmark, Switzerland, Slovenia, and the Czech Republic. Expanding Swedish Match's offerings of innovative smokeless products in line with the strategy provides greater consumer choice in both existing and new markets.

On April 3, 2018, Swedish Match acquired House of Oliver Twist A/S, a Danish manufacturer of tobacco bits made of processed tobacco strands under the brand *Oliver Twist*. Main markets are in Scandinavia and certain other EU countries. The production facility is located in Odense, Denmark.

<sup>1)</sup> Source: Swedish Match and industry estimates, full year, 2018.

## FACTS AND FIGURES

### OTHER TOBACCO PRODUCTS HIGHLIGHTS

- Higher sales and operating profit in local currencies, led by cigars.
- Strong year for cigars despite growth constraints due to the shortage of tobacco supplies.
- Good year for US chewing tobacco with a slight increase in operating profit.
- First full year with V2 Tobacco.
- Acquisition of House of Oliver Twist increases depth to our chewing tobacco offerings.

#### KEY DATA<sup>1)</sup>

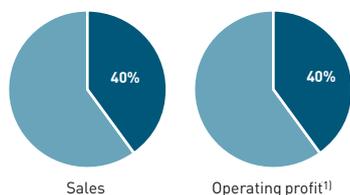
MSEK	2018	2017	2016
Sales	5,240	4,634	4,283
Operating profit	1,956	1,776	1,705
Operating margin, %	37.3	38.3	39.8
Investments in property, plant and equipment	74	88	191
Average number of employees	3,102	2,839	2,396

<sup>1)</sup> Excluding larger one-time items.

#### SALES AND OPERATING PROFIT



#### SHARE OF GROUP TOTAL 2018



<sup>1)</sup> Excluding Other operations.

### CIGARS IN THE US

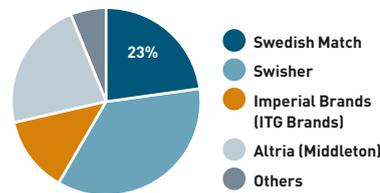
#### Main brands:

*Garcia y Vega, Game by Garcia y Vega, 1882, White Owl, Jackpot*

#### SWEDISH MATCH US SHIPMENT VOLUMES

Shipment volumes	2018	2017	Change, %
Cigars, millions of sticks	1,703	1,629	5
Chewing tobacco, thousands of pounds (excluding contract manufacturing volume)	6,093	6,341	-4

#### COMPETITION – US MASS MARKET CIGARS (EXCLUDING LITTLE CIGARS)



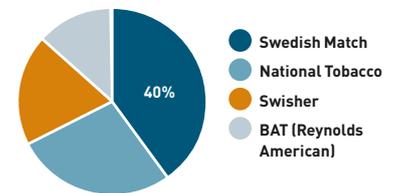
Source: Swedish Match and industry estimates, full year, 2018.

### CHEWING TOBACCO IN THE US

#### Main brand:

*Red Man*

#### COMPETITION – US CHEWING TOBACCO



Source: Swedish Match and industry estimates, full year, 2018.

### CHEWING TOBACCO IN EUROPE

#### Main brands:

**Chew bags:** *Thunder, General Cut*

**Tobacco bits:** *Oliver Twist*

#### SIGNIFICANT MARKETS FOR CHEW BAGS

Germany

Denmark

Switzerland

Slovenia

Czech Republic

## Oliver Twist – over 200 years of enjoyment

On April 3, Swedish Match acquired House of Oliver Twist A/S, a privately held Danish smokeless tobacco company, headquartered in Odense, Denmark.

House of Oliver Twist A/S has over 200 years of history. The company develops, produces and sells chewing tobacco bits made of processed tobacco strands under the brand *Oliver Twist*. The company's main markets are in Scandinavia and certain other European countries. The company has 33 employees and annual revenues amount to approximately 60 MDKK.



## LIGHTS

# Efficiency drive to manage profitability



**Swedish Match's matches and lighters are sold across the globe and the most important markets are in Europe and Asia, as well as in Brazil and parts of Africa.**

For lighters, Swedish Match manufactures and sells the *Cricket* brand, with its range of disposable lighters and specialty products for both household and outdoor lighting needs. *Cricket* lighters are well known for their quality, unique design and a number of safety features, such as a fixed flame technology, child safety mechanisms, and fire resistant lighter bodies.

Match brands tend to be local, with one brand being iconic in its own country. The Company's match assortment includes products for a wide variety of uses, in sizes and formats that fit every fire lighting need. Swedish Match also sells complementary products, mainly under the Fiat Lux brand in Brazil.

## Strategy

With its portfolio of well-known brands and strong market positions, Swedish Match works for continuous operational excellence in the Lights product segment. The Company is committed to maintaining and improving its already efficient manufacturing operations as well as

capitalizing on its market positions. With its high and demanding quality standards, fast and flexible production, and ongoing customer feedback, Swedish Match is able to provide consumers and customers with the quality products they demand at attractive prices. Swedish Match will work to grow its sales and profitability for both matches and lighters by tightly controlling costs and strengthening the overall presence for its premium lighter and match products. Swedish Match will also focus on further developing its business for complementary products.

## Financial development

Sales for the Lights product segment for the year declined by 4 percent to 1,246 MSEK (1,291). Operating profit declined by 11 percent to 189 MSEK (211). The operating margin was 15.2 percent (16.4).

## Market and highlights

The match market is in a long term state of decline in most countries where Swedish Match has a presence. The largest Swedish

Match markets are in Europe, Brazil, and parts of Africa. For lighters, market volumes are flat to declining in most developed markets, while growing in many developing countries. For lighters, the largest Swedish Match markets are located in Asia and Europe, while it also maintains a strong presence in Brazil. Most markets for matches and lighters remain highly competitive.

Swedish Match also sells complementary products, such as light bulbs, batteries, razors, and certain other products. The main Swedish Match market for complementary products is Brazil.

During the year, restructuring programs to reduce costs and improve efficiency were conducted in Sweden at the Tidaholm match factory and in Brazil, for its match manufacturing as well as the optimization of the Rio de Janeiro sales office.



## Tidaholm match factory – 150 year anniversary

In many ways, the match factory in Tidaholm, Sweden, founded in 1868 by Hans Henric von Essen and given the name Tändsticksfabriks AB Vulcan, was the cornerstone of the town itself. The factory grew and, by the end of the 1870's, its matches were being sold around the world, helping to establish the phrase "Made in Sweden" as a stamp of quality worldwide. Vulcan was already the world's largest match

factory prior to its mergers with the match factories in Jönköping, Uddevalla and Anneberg in 1902.

The factories became part of Kreuger's large group of match companies in 1917 when Svenska Tändsticksaktiebolaget was formed by Ivar Kreuger.

Today, 150 years later, the facility in Tidaholm is one of the most modern match factories in the world.

### MATCHES

#### Main brands:

*Solstickan* (Sweden), *Nitedals* (Norway), *Fiat Lux* (Brazil), *Redheads* (Australia)

During the year, Swedish Match maintained significant or leading market positions in its largest markets for matches, including Sweden (*Solstickan*), Norway (*Nitedals*), Brazil (*Fiat Lux*) and Australia (*Redheads*). Sales for matches declined, as positive price/mix effects could not fully compensate for the lower volumes and negative currency effects. Operating profit was up, partly due to lower overheads.

### LIGHTERS

#### Main brand:

*Cricket* (globally)

Swedish Match offers a wide range of lighter products which include both premium disposable lighters and utility lighters. With its flexible and efficient manufacturing process, Swedish Match is able to quickly manufacture and deliver both mainstream and special order varieties to satisfy customer requirements for quality, reliability, design, and innovation.

The lighter business is characterized by variability in volumes and mix, depending on the timing and type of products delivered, geography, and currency fluctuations. Lighter sales and operating profit declined on lower volumes. More than half of the full year volume decline in lighter shipments was attributable to the discontinuance of shipments of third-party manufactured lower priced lighters to the UK market. Higher nylon prices negatively impacted the financial performance.

### COMPLEMENTARY PRODUCTS

Swedish Match offers a portfolio of complementary products mainly on the Brazilian market, including disposable razors, batteries and light bulbs under the *Fiat Lux* brand. Sales of complementary products increased in 2018 compared to the prior year.

## FACTS AND FIGURES

### LIGHTS HIGHLIGHTS

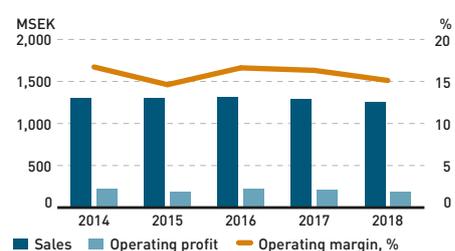
- Volumes down for matches and lighters.
- Lower sales and operating profit down on soft performance for lighters.
- Cost pressure on raw material inputs, notably nylon for lighters.
- Restructuring programs implemented to reduce costs and improve efficiency.

#### KEY DATA<sup>1)</sup>

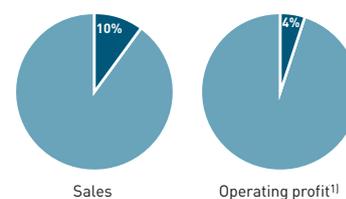
MSEK	2018	2017	2016
Sales	1,246	1,291	1,314
Operating profit	189	211	219
Operating margin, %	15.2	16.4	16.7
Investments in property, plant and equipment	40	47	76
Average number of employees	967	1,095	1,201

<sup>1)</sup> Excluding larger one-time items.

#### SALES AND OPERATING PROFIT



#### SHARE OF GROUP TOTAL 2018



<sup>1)</sup> Excluding Other operations.

#### SWEDISH MATCH SHIPMENT VOLUMES GLOBALLY

Shipment volumes	2018	2017	Change, %
Matches, billion sticks	64.5	65.0	-1
Lighters, million units	333.9	368.1	-9

#### COMPETITION

Match competition varies widely between markets. Lighter competitors include Bic, Tokai, Flamagas, and a number of other smaller manufacturers.

## SUSTAINABILITY

# Our approach to sustainability

## CEO comment

“ At Swedish Match we believe that with our vision of a world without cigarettes and our dedicated organization, focused on developing and offering enjoyable smokeless products, we provide clear benefits to public health by helping to end cigarette use. *Improve public health* is therefore one of our six focus areas. The other five focus areas have also been selected with a view where Swedish Match can make a direct impact on society.

This past year we have made good progress in identifying and conducting activities where we can take active steps in each of the focus areas, and some of those steps are highlighted in this sustainability section.

During 2018, we have worked to ensure that ownership and action in our sustainability work is strongly supported at the local operating level within each division, where efficient and creative ideas and solutions are best placed and followed through. In addition to the financial and operational reporting, the divisions are now responsible to provide quarterly activity and progress updates regarding the focus areas to the CEO and CFO, providing a positive forum for discussion of opportunities and risks. Much of the sustainability work at the corporate level is related to gathering and compiling information, and, as such, there is the need for clear and accurate analysis and reporting. From mid-2019, the CFO will therefore be responsible for Corporate sustainability at the Group level.

Our communications and engagement efforts, both internally and externally, help us to grow stronger, to gain greater understanding of the issues we face, and help us to find new ways to work. Ultimately, our aim is to deliver strong and sustainable financial results to our shareholders, and this is best achieved when we have the right products, talented and dedicated employees, and other stakeholders who support our work and our vision. We invite all of our stakeholders to engage with us by reading this sustainability report, exploring our website, and providing feedback in order to help us to make further progress.”



**Swedish Match's vision is a world without cigarettes. Offering tobacco consumers alternative products to cigarettes is at the core of what we do. Pursuing our vision represents a great commercial opportunity as well as a significant contribution to society. This is where we are likely to have the largest positive impact on society. We can also have a positive impact through how we manage our business, work with our suppliers and customers, and produce our goods.**

Our sustainability strategy emphasizes six areas – public health, ethical business practices, equal opportunity, greenhouse gases, waste, and child labor. Our focus areas both require a long term

view and are material to our Company. Our vision of a world without cigarettes is central to our sustainability strategy and how we can contribute to making the world a better place.

In our focus area **Improve public health**, we intend to displace cigarettes with attractive sources of nicotine for recreational use (such as Swedish snus and other nicotine containing products like ZYN), which, apart from their addictive character, have little or no adverse health effects. We strive to develop products that are attractive to cigarette consumers and to inform them about the relative health risks of different nicotine containing products, to allow them to make an informed choice.

In our focus area **Ensure ethical business practices**, our Code of Conduct provides the basic platform for the way we do business. We work diligently to keep the Code of Conduct top of mind through training and dialogue within the Company.

In our focus area **Support equal opportunity**, we are dedicated to having an open and inclusive environment where all employees have equal opportunities to achieve their full potential. We have zero tolerance for discrimination.

In our focus area **Reduce greenhouse gases**, we set out to do our part in reaching the global targets on climate change, considering emissions in our full value chain.

In our focus area **Reduce waste**, we work systematically to reduce waste in production. We enhance the effectiveness of our work by sharing best practices across the Group.

In our focus area **Eliminate child labor**, we recognize that child labor represents a serious human rights violation in many parts of the world, including areas where we source raw tobacco. We are committed to improving our risk analyses and processes to proactively reduce and eventually eliminate child labor and related human rights issues in our value chain.

### Group-common roadmap

Our focus areas form the basis for our common roadmap; this is where we put extra effort and coordinate external reporting of our progress. Swedish Match is a global company made up of largely autonomous local units. While we take a common group approach in our focus areas, we at the same time allow for differences and tailored targets and actions at the local and divisional levels. Sustainability work spans across a broad array of topics, and for best impact and transparency we believe that group-wide efforts and reporting are most effective if concentrated to key areas of focus. Other sustainability efforts relevant to our Company, outside the scope of our focus areas, will continue to be encouraged and are best managed locally. This includes, for example, operational health and safety and emphasizing the well-being of our employees.

### Assessing materiality

The most recent materiality analysis, conducted in 2016, forms the basis for our identified focus areas. The process was directed by the Group Management Team (GMT). Key internal stakeholders, representing all divisions, as well as external stakeholders and expertise provided input to the analysis. Relevant sustainability frameworks<sup>1)</sup> were consulted in the process to define the issues that are material to Swedish Match. Materiality was assessed based on the severity of issues in the global context, the Company's actual impact, our potential to directly or indirectly influence the issue, as well as its impact on the long term viability of our business.

### Stakeholder dialogue

We engage with our prioritized stakeholders, including but not limited to our employees and investors, as part of our normal way of doing business. Through internal channels, such as townhall meetings and intranet communications, we share examples of where we are and where we can make a difference in our focus

## OVERALL GOALS



**Improve public health.** Our goal is to eliminate cigarette use and tobacco related morbidity and mortality by offering smokers attractive sources of nicotine for recreational use (such as Swedish snus and other nicotine containing products like ZYN).



**Ensure ethical business practices.** At Swedish Match, we will take the necessary steps to ensure that ethical business practices are maintained within our own company and in our relationships with all outside parties.



**Support equal opportunity.** Our continuing objective is to be a truly open and inclusive employer. In this environment, with zero tolerance for discrimination, all employees have equal opportunity to achieve their full potential – resulting in a more diverse workplace.



**Reduce greenhouse gases.** Our goal is to reflect the commitments outlined in the Paris Agreement and thereby reduce emissions of greenhouse gases in our value chain.



**Reduce waste.** Our goal is to reduce waste generated at our own production facilities.



**Eliminate child labor.** Our goal is the elimination of child labor in the Company's value chain.

areas. We also meet with sustainability representatives of various shareholders, to learn more about their issues, and to help them to better understand our efforts and rationale.

### Integrating sustainability

Sustainability is inherent in our value proposition, meaning that it is managed and driven from the highest levels of our organization. Our GMT has the overall responsibility for Swedish Match's efforts on sustainability. GMT and other leaders within the Group are committed and involved in the process to define and further develop the strategy. The CEO reports to the Board of Directors on progress. Division heads are responsible for implementing the strategy in the division under their responsibility.

At Group level, the sustainability function facilitates the process towards implemented strategy, and gathers and compiles information to facilitate communication of work and results to our important stakeholders.

<sup>1)</sup> Frameworks referred to include the UN Sustainable Development Goals, the UN Global Compact, the UN Guiding Principles on Business and Human Rights, and the GRI Standards framework.

SWEDISH MATCH IN THE GLOBAL COMMUNITY

# Our value chain

Swedish Match manufactures snus, pouch products without tobacco, moist snuff, chewing tobacco, cigars, matches and lighters at 15 facilities<sup>1)</sup> – in Sweden, the US, the Dominican Republic, Denmark, the Netherlands, the Philippines and Brazil.

The value chain for our products includes research and development of new and refined products, raw material extraction and production, processing at suppliers, manufacturing at Swedish Match’s facilities, transportation and distribution between the various value chain stages, and sales through retailers (customers) as well as consumer use and final disposal of product.

FOCUS AREAS



Raw materials for our products come from many geographies and are mostly sourced through outside parties. There are strict requirements in sourcing.

With the GOTHIA TEK® quality standard for snus, for example, there needs to be careful testing, at several stages of the value chain, and selection of raw tobacco. Testing often starts at the farm level. This way of working has influence on the long term standards for other tobacco products as well as for other raw material supplies.



For the Swedish market, and for distribution to the Norwegian market, Swedish Match has its own distribution company, SMD Logistics. Other nicotine products, such as chew bags, tobacco bits, and nicotine pouches are distributed through own and third parties in Europe. Moist snuff, US chewing tobacco and cigars, alongside snus and nicotine pouches without tobacco are distributed to the US market primarily via third party distributors. Matches and lighters are distributed through a wide network of partners, worldwide. In Brazil, matches, lighters, and complementary products are distributed through local partners.



The primary sales channels for our products are convenience stores, tobacconists, gasoline stations, and supermarkets. Other channels include bars, restaurants, airports, and ferries, along with e-commerce, and dedicated snus stores in various markets.

Tobacco products are subject to extensive requirements in local laws and regulations and our marketing departments work closely with our legal departments to ensure compliance.



Our Supplier Code of Conduct forms the basis of our relationship with suppliers. Our greatest risks, impacts and potential for improvements in these stages of the value chain relate to ethical business practices, child labor and human rights, as well as greenhouse gas emissions. These areas are in focus in our supplier due diligence and dialogue. To reach our goals in several focus areas we are dependent on fruitful collaboration with our suppliers and sub-suppliers.



The policies that guide us in our daily operations are outlined in our Code of Conduct, which applies to all within the Group. It also forms the foundation for our sustainability strategy and results.

Our employees drive innovation and ideas and methods to be a more successful company. Their opportunities to develop to their full potential are an important component in this success and in our sustainability efforts. Our employees are the “drivers and doers” behind maintaining high standards of quality in our products, improving procurement practices addressing carbon intensities, reducing waste, eliminating risks and prevalence of child labor and ensuring high standards of business conduct in our value chain.



We are committed to providing attractive alternatives to cigarettes, such as snus and nicotine pouches without tobacco, contributing to improved public health. Our products are intended for adult consumers only. We use a structured approach to consumer insight, assessing consumers’ needs, trends and brand values to influence innovation. Our R&D facilities work to develop new products and to monitor and improve existing products in line with the GOTHIA TEK® quality standard (for snus).

<sup>1)</sup> Includes House of Oliver Twist in Odense, Denmark and Gotlandssnus in Romakloster, Sweden, that were acquired during the year.

**Code of Conduct** The Code of Conduct represents the commitment of Swedish Match and of all employees to conduct business activities in a responsible manner and consistent with applicable laws and regulations.

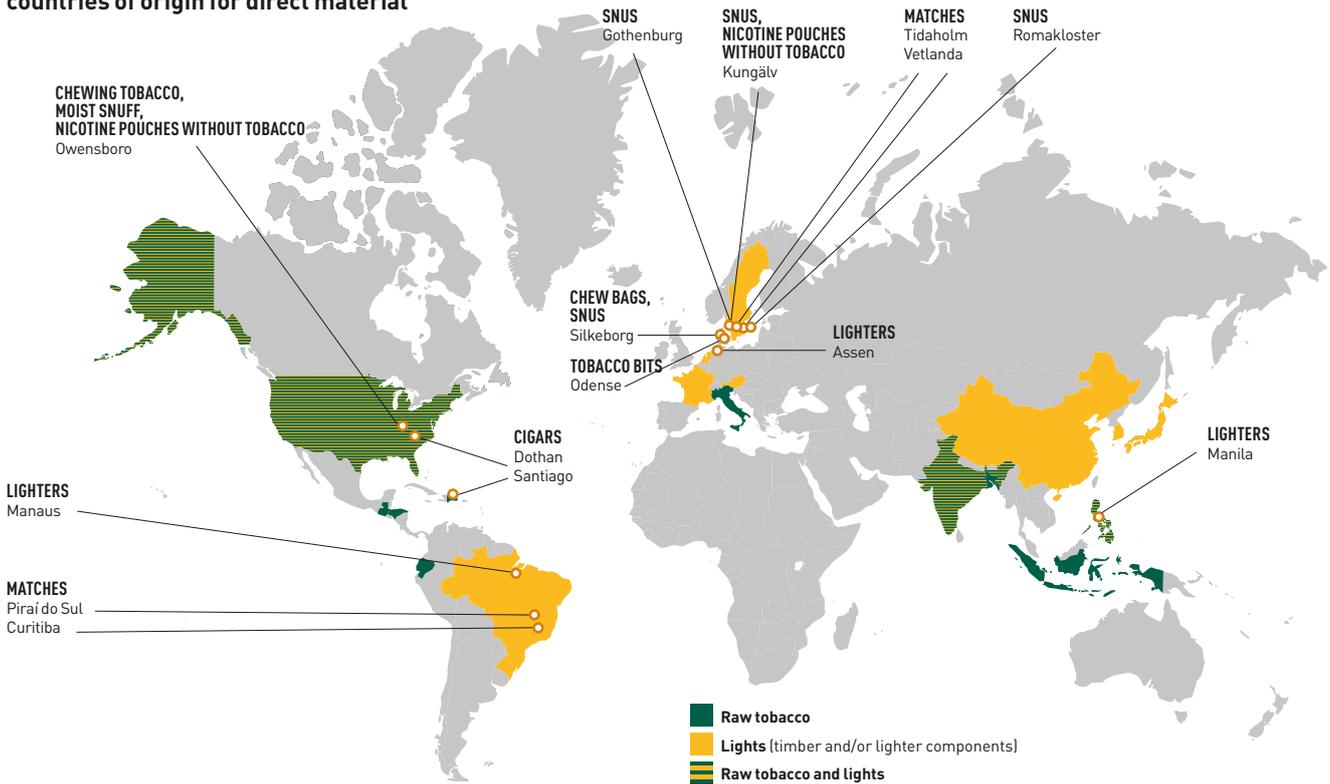
**Supplier Code of Conduct** The Supplier Code of Conduct, reflects Swedish Match’s own Code of Conduct and specifies what the Company expects and requires from its suppliers.

## PRODUCTION FACILITIES

Snus is produced in our factories in Kungälv, Gothenburg and Romakloster, Sweden, as well as in Silkeborg, Denmark. Nicotine pouches without tobacco are produced in Kungälv, Sweden and Owensboro, Kentucky, the US. Chew bags are produced in Silkeborg, Denmark. Tobacco bits are produced in our factory in Odense, Denmark. Moist snuff and US chewing tobacco are produced in our factory in Owensboro. Cigars are produced in our factories in Dothan, Alabama,

the US, and in Santiago, the Dominican Republic. Matches are manufactured in our factories in Vetlanda (splint) and Tidaholm (matches and fire starters), Sweden, and Pirai do Sul (splint) and Curitiba (matches), Brazil. Lighters are manufactured in Assen, the Netherlands, Manila, the Philippines and Manaus, Brazil. All production facilities satisfied the requirements of their permits during 2018.

### Swedish Match production facilities and major countries of origin for direct material



## DIRECT MATERIALS

The main direct materials are raw tobacco, timber, nylon and lighter components, as well as packaging material such as cardboard, plastics and metalized films. Materials are sourced from different parts of the world.

### Raw tobacco

Raw tobacco for snus, moist snuff, chewing tobacco, and cigars is sourced through major international suppliers. Swedish Match sources raw tobacco from 19 countries. Ten of these countries (pictured in map above) account for 90 percent of Swedish Match’s raw tobacco purchases. The largest sources come from India, Indonesia, and the US.

### Timber

Timber for our match production is grown and sourced locally, close to our factories in Sweden and Brazil. Approximately 99 percent of the timber for production of matches in Brazil is grown in Swedish Match’s own plantations. The remaining volume is sourced from local suppliers. Our plantations consist

of roughly 5,700 hectares of planted poplar and pine in the south of the Paraná state and in the north of the Santa Catarina state. Our plantations adhere to strict growing requirements beyond those levels set by local laws and regulations.

Aspen used for the production of matches in Sweden is sourced from the southern part of Sweden in the vicinity of our splint factory and is primarily sourced through major timber suppliers. Relatively small quantities are also sourced directly from individual forest owners. Swedish Match Industries AB, the entity producing matches in Sweden, is certified according to FSC’s standards for Chain of Custody and Controlled Wood.

### Nylon and lighter components

Raw material and components for lighters consist of nylon and liquefied petroleum gas, as well as spark wheels, flint stones, and top caps, made of various metals, e.g. aluminum, steel and brass. These materials are mainly sourced from suppliers in China, France, and South Korea.

### Core values



### Quality standards

- *GOTHIA*TEK® for snus
- *MATCH*TEK® for matches produced in Sweden



## IMPROVE PUBLIC HEALTH

**Our goal is to eliminate cigarette use and tobacco related morbidity and mortality by offering smokers attractive sources of nicotine for recreational use (such as Swedish snus and other nicotine containing products like ZYN).**

### ACTIVITIES AND HIGHLIGHTS 2018

Engaged in public awareness campaigns with the objective of increasing understanding of the health benefits of snus and ZYN compared to cigarettes.

- ✓ Revised application to the FDA which would allow *General* snus to be marketed as a Modified Risk Tobacco Product.
- ✓ Increased distribution and sale of ZYN, our nicotine pouch product without tobacco, in the US and Sweden and launch of ZYN in the Czech Republic.

### Our commitment

Swedish Match is committed to displacing cigarettes by continuing to develop and to commercialize other alternative sources of nicotine – which will undoubtedly improve public health. Although nicotine has the potential for addiction, the individual and the societal harm is caused by the way nicotine is most commonly delivered. Nicotine, just like caffeine, is in general terms safe to use. Cigarette smoking is the dominant delivery device of nicotine, and it causes death and diseases among users, due to the combustion of tobacco.

In line with our vision of a world without cigarettes, one objective is to increase the awareness of the positive role that snus and nicotine pouches without tobacco can play in improving public health.



The scope of this focus area is the entire value chain.

### Product quality and safety

The objective of Swedish Match's quality standard GOTHIA TEK®, applied to our Swedish snus products is to eliminate or reduce harmful or potentially harmful constituents, naturally found in tobacco (and other common crops), to a level that meets comparable food standards. The standard sets maximum levels in finished products for sixteen unwanted constituents of which only three are regulated by the Swedish Food Act. For a list of constituents and current levels, please visit the Company's website.

During 2018, Swedish Match has taken significant strides in increasing the presence and availability of its nicotine pouch product ZYN which does not contain tobacco and which demonstrates our commitment to being at the forefront in offering a modern and safe alternative to smoking.

### Product attractiveness among adult users of tobacco

At the core of Swedish Match's research and development efforts is the consumer, i.e. adult male and female smokers. Behavioral, sensorial and other needs expressed by smokers are carefully assessed and incorporated in our product development processes. Product appeal is highly important in order to successfully encourage people to switch from cigarettes to other nicotine containing products with favorable risk profiles. These types of products can also go a long way in reducing or potentially eliminating smoking initiation. Consequently, modern nicotine replacement therapies (NRTs) are available in various flavors and formats. The same logic is applicable for other harm reduction products such as snus and ZYN; the more appealing a specific product is, the more likely it is to be used by smokers. It is encouraging that the public dialogue that the FDA (US Food and Drug Administration) has initiated, highlights the role that flavors play in encouraging adult cigarette users to switch to harm reduction products.

Swedish Match has continued to expand its offerings of new products appealing to cigarette consumers. During the year, the ZYN portfolio in Sweden has been broadened to include new slim varieties. ZYN is an all-white pouch product and Swedish Match's first nicotine pouch product without tobacco. ZYN represents a further step in Swedish Match's work to reduce unwanted constituents in its products. No traces of the three unwanted constituents regulated by the Swedish food standard for snus can be found in ZYN. In addition, we have increased our range of all-white snus products under the G.4 brand in Norway with the aim of reaching cigarette consumers who have previously rejected snus. Just like for ZYN, the three unwanted constituents regulated for snus under the Swedish Food Act are below detection level in the G.4 products.

In Sweden and Norway, Swedish Match defines success of product attractiveness by tracking the share decline of daily smokers among total daily tobacco users. In Sweden, the share of daily cigarette smokers among daily tobacco users has declined over the years and was 39 percent in 2018<sup>1)</sup>. In Norway the share of daily cigarette users increased to 50 percent in 2018<sup>2)</sup> (48 percent in 2017). In North America, snus and nicotine containing pouch products categories are small but growing. Swedish Match defines success in terms of volume growth of its snus and nicotine containing pouch products.

### Openness and transparency

Most smokers are unaware of the wide differences in risk profiles among various tobacco and nicotine containing products. The consequence is that smokers are left only with the option "quit or die", and far too many of those who find it difficult to quit will die prematurely.

Consumers are seeking and have a right to factual information about product options available to them. That implies that manufacturers, including Swedish Match, must be open and transparent about what we know about our products including scientific findings regarding health impact. We should communicate this to consumers where we are legally allowed to do so. We should also encourage authorities to give factual and unbiased information about the relative harm of different tobacco products and encourage regulators to regulate tobacco products differently based on their risk profile.

<sup>1)</sup> Source: The Public Health Agency of Sweden (Folkhälsomyndigheten).

<sup>2)</sup> Source: Statistics Norway (Statistisk Sentralbyrå).

During 2018, we have submitted an amended application to the FDA for our snus products to receive Modified Risk Tobacco Product (MRTP) status in the US. The claim in the application for which we seek approval is “Using General Snus instead of cigarettes puts you at a lower risk of mouth cancer, heart disease, lung cancer, stroke, emphysema and chronic bronchitis”. If such MRTP status is granted, we would be allowed to communicate this claim which would better educate US smokers.

As far back as in 2001, Swedish Match decided to make its GOTHIA TEK® quality standard available to its consumers and other relevant stakeholders. Levels of unwanted constituents in finished products are disclosed. Swedish Match only conducts limited scientific studies on its own but monitoring and compilation of scientific advancements are continuously conducted in a systematic manner. A summary of relevant scientific evidence on snus is also available on our Company website.

We define the success of our openness and transparency efforts by annually assessing consumer understanding of relative risk between snus and cigarettes in our home markets. In 2018, our consumer surveys show that in the general population in Sweden and Norway, 68 percent and 62 percent respectively have identified snus as posing a lower risk to health compared to cigarettes. In the US, this number is 12 percent which highlights the scale of public misconception of relative risk.

### Protecting vulnerable consumer groups

All products are not for everyone and some consumer groups should not use certain products. This is particularly true for tobacco and other nicotine containing products which are intended for adult use only. Certain other consumer groups are also deemed vulnerable.

A total abstinence from all forms of nicotine is advised to pregnant women for the entirety of gestation as nicotine may impact pregnancy outcomes including lower birth weights.

Product attractiveness among adult users of tobacco	2018	2017	2016
Share of daily cigarette smokers among daily tobacco users in Sweden <sup>1</sup> , %	39	45	45
Share of daily cigarette smokers among daily tobacco users in Norway <sup>2</sup> , %	50	48	55
Volume growth of snus and nicotine pouches without tobacco in North America, %	87	65	24

<sup>1</sup> Based on a survey done every other year (latest in 2018).

Source: The Public Health Agency of Sweden (Folkhälsomyndigheten).

<sup>2</sup> Source: Statistics Norway (Statistisk Sentralbyrå).

Consumer understanding of relative risk between snus and cigarettes <sup>1</sup>	The US	Sweden	Norway
Snus presents less health risks than cigarettes, %	12	68	62
Snus presents equal or higher health risks than cigarettes, %	68	27	29
Don't know, %	20	5	9

<sup>1</sup> Swedish Match consumer perception study.

## “Under 18: No Nicotine” policy

Swedish Match has an “Under 18: No Nicotine” policy which is a strengthening of our long standing “Under 18: No Tobacco” policy. This policy firmly states that all tobacco as well as nicotine-containing products shall only be sold to adults of legal tobacco age in each market, and who are 18 years of age or older. This means that we shall not direct any marketing, advertising or promotion of tobacco or nicotine containing products to persons under the age of 18 or if any higher age restriction applies locally.

To prevent the use of tobacco and nicotine by underage persons, we are committed to educating, informing and cooperating on an ongoing basis with retailers, distributors and public officials.



## ENSURE ETHICAL BUSINESS PRACTICES

At Swedish Match, we will take the necessary steps to ensure that ethical business practices are maintained within our own company and in our relationships with all outside parties.

### ACTIVITIES AND HIGHLIGHTS 2018

In addition to Code of Conduct training, for both new and existing employees, further efforts have been taken with more concentrated training to target groups within the Company concerning anti-corruption and bribery. New training modules related to the Code of Conduct have also been developed.

- ☑ 96 percent of employees have completed training on the Company's Code of Conduct.
- ☑ 90 percent of targeted employees have completed training on anti-corruption and bribery.
- ☑ Launch of a specific training program concerning fair competition.

### Our commitment

Swedish Match is committed to sound business ethics in all our business activities and relations with stakeholders, both within our own operations and regarding outside parties. We build relationships through honesty and integrity and, at a minimum, comply with all laws and regulations in the countries in which we operate. We believe that business relationships, when built on common values, mutual respect and trust, become valuable and dynamic. Ethical business practices are an integral part of our periodic risk assessments. We have procedures and processes in place to ensure that the potential risks within this area are properly addressed.

### TARGETS

- All employees are aware of, understand and act according to our Code of Conduct
- All significant suppliers confirm that they share Swedish Match values as stated in our Supplier Code of Conduct



The scope of this focus area is our own operations as well as our relationships with third parties; suppliers, distributors, and retail customers.

### Our Code of Conduct

Our policies on practices regarding employment and labor, ethical business, the environment and workplace are based on the principles of the UN Global Compact. Our policies are outlined in our Code of Conduct (the Code) and underpinned by Group principles/procedures and local policies. Our Code represents the commitment of Swedish Match and of all its employees to

conduct business activities in a responsible manner, consistent with applicable laws and regulations. It applies to all employees within the Swedish Match Group, regardless of location or role. Our Code forms the foundation for our sustainability approach and efforts. It is reviewed internally and approved by the Swedish Match Board of Directors on an annual basis.

Our Code covers, among other things, our commitment to and guidance on respect for human rights and internationally proclaimed human rights conventions and guidelines, including non-discrimination and fair treatment, employment terms, freedom of association, the right to collective bargaining, the elimination of forced or compulsory labor as well as of child labor. The Code includes guidance on anti-corruption and anti-bribery practices, as well as gifts, loans and hospitality, and fair competition. It also includes guidance on eco-efficiency and the importance of following a precautionary principle in environmental management, as well as occupational health and safety, competence development, talent management, and supplier due diligence.

#### Communication and training

We keep track of our employees' awareness of the Code, and whether our employees have reviewed or been informed about the Code, through employee opinion surveys. Mandatory training on the Code is done through e-learning to supplement town hall meetings and similar events. In 2018, 96<sup>1)</sup> percent of the workforce has completed the training. Our target is for all employees to have participated in the training on an ongoing basis. Matters addressed in the Code are continuously communicated to employees through, for example, the Company's intranet.

#### Corruption and bribery

At Swedish Match we have zero tolerance towards corruption and bribery. Swedish Match shall not participate in, or through third parties, endorse any corrupt practices. This is clearly stated in our Code. During 2018, we have developed and implemented a specific training on anti-corruption and anti-bribery. In 2018, 90 percent of targeted employees<sup>2)</sup> have completed the training and activities will continue in 2019.

#### Fair competition

It is our belief that healthy competition contributes to increased business opportunities, improvement of economic performance and the reduction of cost for products and services. Competition between competitors shall be conducted in a fair manner and in compliance with competition laws. Our legal departments support the divisions on compliance with the relevant legislation when entering into agreements with our counterparties and performing market activities. All employees within sales and marketing as well as management teams throughout the Group are continuously trained within fair competition through face-to-face training. E-learning programs and tailor-made compliance manuals are also used to educate personnel within this area and will continue to be used targeting employees within e.g. sales and marketing, procurement as well as research and development. During 2018, additional specific e-learning on fair competition has been launched. In 2018, 80 percent of targeted employees<sup>3)</sup> completed the training.

<sup>1)</sup> Relates to individual training for employees with personal e-mail accounts. In addition, group session training has been performed for employees in factories without personal e-mail accounts.

<sup>2)</sup> Targeted employees includes all white-collar employees.

<sup>3)</sup> Targeted employees includes employees within sales, marketing, procurement, as well as other roles that may be affected by competition law in our European businesses.

*Raising concerns and the whistleblower function*

To further secure sound business ethics within the organization, we encourage all employees to speak up if they become aware of behavior that is not in line with the Code. When raising a concern, employees can always contact their managers, their manager's immediate manager, division heads, or the HR or legal departments. Swedish Match also has a whistleblower function that provides every employee with the opportunity to report suspicion of non-compliance with the Code to the Chairman of the Audit Committee. A concern can be raised anonymously. All raised concerns are treated seriously and investigated, considering the integrity of the reporting person. Suitable actions are taken in cases of misconduct. All raised concerns and actions are reported to the Audit Committee. External auditors are also present at the time of these reports.

During 2018, 22 issues have been raised and evaluated. Some of these issues required actions and new routines put in place, while others were found unsubstantiated and required no further actions. One of these issues have resulted in criminal charges against one employee who was convicted of involvement in theft of snus products from Swedish Match's factory in Gothenburg.

**Our Supplier Code of Conduct**

Our Supplier Code of Conduct reflects Swedish Match's Code of Conduct and specifies what we expect and require from our suppliers in terms of employment and labor practices, workplace practices, ethical business practices and environmental management practices. Requirements are based on and comply with international conventions and guidelines<sup>1)</sup>. The Supplier Code of Conduct forms the basis for our relationship with suppliers and is an integral part of most of our significant business agreements.

Swedish Match strives to work with suppliers who have a healthy long term financial position and chooses suppliers who also support Swedish Match's requirements regarding ethical business practices

and other sustainability aspects. Swedish Match has 130 significant suppliers of direct material<sup>2)</sup>. During 2018, we have assured confirmation that 98 percent of our significant suppliers of direct material share the same values as Swedish Match by signing our Supplier Code of Conduct or through their own Codes of Conduct and mechanisms to monitor e.g. business integrity and human rights impacts in their supply chain.

We are in increasingly frequent and recurring dialogue with our suppliers on our fundamental values. Activities include communication of requirements in the Supplier Code of Conduct, follow-up on adherence through supplier assessments and audits as well as further dialogue on priority issues to ensure continued improvement. The overall aim is to increase proactivity in our further dialogue on sustainability. During 2018, we have continued our work to systemize common approaches on supply chain management for purchased direct materials.

Ethical business practices	2018	2017	2016
Share of employees that have completed training on our Code of Conduct <sup>1)</sup> , %	96	95	60
Share of targeted employees that have completed fair competition e-learning, %	80	N/A	N/A
Share of targeted employees that have completed anti-corruption/anti-bribery training, %	90	78	N/A
Share of significant suppliers of direct material that share the same values as Swedish Match <sup>2)</sup> , %	98	96	N/A

<sup>1)</sup> Relates to individual training for employees with personal e-mail accounts. In addition, group session training has been performed for employees in factories without personal e-mail accounts.  
<sup>2)</sup> No comparable figures for 2016 can be provided due to changes in methodology.

<sup>1)</sup> The international conventions and guidelines referred to here are the UN Universal Declaration of Human Rights, the UN Convention on the Rights of the Child, the ILO Conventions (No's. 001, 014, 029, 030, 087, 098, 100, 105, 106, 111, 138 and 182), and the OECD Guidelines for Multinational Corporations.

<sup>2)</sup> A significant supplier of direct material is defined as a supplier with which Swedish Match has an annual spend of above 400,000 USD. Suppliers below spend limit that belong to an industry classified as high risk in relation to business integrity and human rights violations have been included regardless of spend, this includes all suppliers of raw tobacco.





## SUPPORT EQUAL OPPORTUNITY

Our continuing objective is to be a truly open and inclusive employer. In this environment, with zero tolerance for discrimination, all employees have equal opportunity to achieve their full potential – resulting in a more diverse workplace.

### ACTIVITIES AND HIGHLIGHTS 2018

The Company was actively engaged in programs to increase diversity and gender balance.

- ☑ Equal pay audits conducted in the US and Sweden showed no significant gaps when factoring length of service and special skills.
- ☑ Continued focus on recruitment of diverse workforce.
- ☑ Completed the first Big Match program to provide work opportunities to new immigrants to Sweden.

### Our commitment

At Swedish Match we put equal opportunities first and foremost in our work toward non-discrimination and diversity. We are dedicated to having an open and inclusive work environment where all our employees shall have equal opportunities to achieve their full potential, regardless of personal status. We work diligently to ensure there is zero tolerance for discrimination. As such, we take a proactive approach against structural discrimination and toward increased diversity at all levels within our Company.

### OBJECTIVES

- No employees should feel that they are, or could be, the subject of discrimination at the workplace
- To have at least 40 percent of each gender in senior management
- To increase diversity in cultural backgrounds



The scope of this focus area is our own operations.

### Zero tolerance for discrimination

We are committed to non-discrimination in all employment practices, policies, benefits and procedures. Neither employees, nor potential employees, should feel that they are or could be the subject of discrimination at Swedish Match. All violations are taken seriously. Procedures are in place to ensure that swift action is taken to investigate and resolve employee concerns without fear of retaliation. There are several different ways in which an employee may raise a concern, including talking to the employee's manager, or the manager's immediate manager, or to the Company's General Counsel. The employee may also file a complaint anonymously through the whistleblower function, subject to local laws and regulations, which is available on the Company's intranet.

### Decentralized functions for Human Resources

At Swedish Match, our businesses are driven locally as is the Human Resources function (HR). We have a decentralized HR organization due to the fact that regulations and societal context vary between countries. Many initiatives are taken each year to ensure that we create and maintain an inclusive work environment. For example, we provide access to ongoing training, gender equality programs, equal pay analyses and equal employment opportunity efforts. Through the HR Council we are creating common ground within the Group. The primary focus is on exchanging ideas and knowledge. We have increased our focus on diversity with particular focus on both gender and cultural background during the past year. Employee well-being is tracked regularly through a global employee opinion survey, which includes parameters on discrimination.

### Cooperating for equal opportunities in a performance based culture

We are convinced that a diverse workforce and diverse management groups are positive for our business. Diversity adds value in and of itself, and diversity improves our chances of recruiting the best talent. We believe that gender and cultural background are the areas where there may be a higher risk for potential discrimination and/or areas where the Company could benefit most from an increased focus.

In order to achieve diversity and a truly performance based culture where all employees feel that they have the same possibility to develop to their full potential we have to drive a performance culture where hiring and/or promotion is based on competence, performance and attitude.

We must consciously work with our Company culture to make sure that it is inclusive and promotes diversity. This includes tangible initiatives, that are recognized to address diversity relating to gender and cultural background. We will follow all applicable laws related to discrimination and the protection of minorities. We must look for and react forcefully to any indications of discrimination, including with regard to salary. We must also work to make sure we find the best candidates, and that also means that in external recruitments we shall always seek out diversity in the candidate pool.

#### *Promoting opportunities and gender balance*

We believe that gender diversity at all levels of the organization benefits the Company in many ways. Gender balance targets are set locally striving for greater balance over time, particularly with regard to more senior levels within the organization. As such, we have a Group goal of having at least 40 percent of each gender in senior management<sup>1)</sup>.

From 2017, all divisions as well as corporate functions are required to present status and changes in gender balance within their organizations, on both a total unit level and with regard to management. These status updates are reviewed by the Group Management Team and provide greater awareness and involvement from both the divisions and from senior management.

#### *Promoting opportunities for those in protected groups and those from other cultural backgrounds/country of origin*

To encourage greater diversity at the management level and for employees throughout the organization, KPIs have been established for the US and Sweden to track and report externally the number and percent of managers and other employees who fall under certain classifications. From 2017, our businesses in

<sup>1)</sup> Defined as participants in the Group Long Term Incentive Plan, composed of 42 individuals in 2018.

both the US and Sweden are required to present status within their organizations, on both a total unit level and with regard to management, pertaining to protected groups and those from other cultural backgrounds or country of origin.

In Sweden, information is being gathered to identify the number of employees who are either born in Sweden, in countries outside of Sweden, or who have two parents born in another country. In the US, ethnic or racial background is a factor which is reviewed.

## INCREASING EQUALITY

During the year, Swedish Match's efforts on gender equality was broadened to cover equality in general and an Equality Plan was developed for the Company's operations in Sweden, Norway, Belgium and Switzerland. Swedish Match should be and be perceived as a company that promotes diversity and is free from discrimination. At Swedish Match, competence, performance, and attitude is what matters in recruiting, retaining and developing employees. The concept of diversity encompasses the seven grounds of discrimination covered by Swedish law: sex, ethnicity, religion or other belief, disability, transgender identity or expression, sexual orientation, and age.

The new Equality Plan is the beginning of comprehensive efforts on actions based on the grounds of discrimination. These actions will include various knowledge-enhancing activities, talent development programs, an Equal Opportunity Council, ensuring correct salary processes, and communication on role models.

## AFFIRMATIVE ACTION PLAN IN THE US

In the US, equal employment of all employers is required by law. In addition to the US legal requirements, Swedish Match completes Affirmative Action Plans annually to analyze and monitor equal opportunity initiatives. An Affirmative Action Plan is a strategic tool to ensure that we as a company are taking proactive steps to attract, hire, train, promote and retain protected groups, ensuring equal pay for equal work and establishing "Good Faith" efforts to move toward full representation. In this analysis, we compare our workforce to the relevant labor force, establish goals and timetables for correcting areas of opportunity, develop plans to reduce areas that are not fully utilized with minorities and women and monitor our progress.

## CULTURAL DIVERSITY IN SWEDEN / THE BIG MATCH

During 2018, Swedish Match launched a program called The Big Match to provide work opportunities for immigrants that have recently arrived to Sweden. This initiative is directed towards foreign-born academics who generally have more difficulties getting into the Swedish job market but possess competence the Company needs. The purpose of the program has been to bring new competence and experience to the Company by providing 10 internships during a period of four to six months as well as offering the potential for employment at the end of the program. The program included mentors who assisted the participants in work related issues as well as cultural integration in Sweden. Four participants were employed at the end of the program.

Senior management gender representation <sup>1)</sup>	2018	2017	2016
Total number of senior management	42	46	56
Share of female members in senior management, %	21	15	14
Share of male members in senior management, %	79	85	86

<sup>1)</sup> Defined as participants in the Company's Long Term Incentive (LTI) program.

Group management and Board of Directors <sup>1)</sup>	2018	2017	2016
Total number of members in Group management	8	9	8
Share of female members in Group management, %	13	22	25
Total number of members in Board of Directors <sup>1)</sup>	10	10	11
Share of female members in Board of Directors <sup>1)</sup> , %	30	40	45
Total number of members in Board of Directors appointed by the Annual General Meeting	7	7	7
Share of female members in Board of Directors appointed by the Annual General Meeting	43	43	43

<sup>1)</sup> Swedish Match AB, including employee representatives.

Employees	2018	2017	2016
Total number of employees <sup>1)2)</sup>	6,036	5,240	5,460
Share of female employees, %	41	39	35
Share of female managers <sup>3)</sup> , %	27	22	22
Share of female white collar employees, %	34	32	31
Share of female blue collar employees, %	43	45	37

<sup>1)</sup> The figure for total number of employees represents figures at December 31. Due to differences in methodologies, this figure does not correspond to the figure for average number of employees in Note 6 Personnel, page 80.

<sup>2)</sup> Including temporary employees.

<sup>3)</sup> Managers with direct reports.

Employees on discrimination <sup>1)</sup>	2018	2016	2014
Share of employees who agree that their working group is free from discrimination at work, %	92	94	92

<sup>1)</sup> The Group employee survey is conducted every second year. In 2016 the question was if the employee was free from discrimination at work. In 2018 the question was broadened to refer to the employees working group.

	Affected group's share <sup>1)</sup> , %	
	2018	2017
Cultural background		
<i>Employees</i>		
Sweden	26	25
The US	17	17
<i>Managers<sup>2)</sup></i>		
Sweden	13	12 <sup>3)</sup>
The US	10	10

<sup>1)</sup> In Sweden the affected group is defined as managers born outside Sweden or born in Sweden with two parents born outside Sweden. In the US, the affected group is defined as non-caucasian.

<sup>2)</sup> In Sweden the managers are defined as managers and any other employees with one of the hundred highest salaries in the Swedish Match workforce.

<sup>3)</sup> Revised due to adjusted data from SCB, Statistiska centralbyrån.



Paola Midence and Edmundo Lazo Ledezma participated in the program and are now Swedish Match employees.

## CO<sub>2</sub> ↓ REDUCE GREENHOUSE GASES

Our goal is to reflect the commitments outlined in the Paris Agreement and thereby reduce emissions of greenhouse gases in our value chain.

### ACTIVITIES AND HIGHLIGHTS 2018

Employing a science-based approach and a commitment to the Paris Agreement, Swedish Match has actively pursued programs to reduce greenhouse gas emissions.

- ☑ Uses 100 percent green electricity in our facilities in Gothenburg, Tidaholm and Stockholm, Sweden.
- ☑ Switched entirely from natural gas to bio gas in the Gothenburg manufacturing facility toward the latter part of the year.
- ☑ Initiated programs to reduce carbon intensity for input materials (such as converting to cigar packaging with lower aluminium content).
- ☑ Reduced plastic use in the cans used for moist snuff pouch products in the US.
- ☑ Installed solar panels generated 232 MWh electricity in our facilities in Manila, the Philippines, and Assen, the Netherlands.
- ☑ Initiated project to further reduce the use of nylon for lighter bodies.

### Our commitment

Our operations are highly dependent on resilient eco systems; we cannot do business without significant input of raw material from nature. The effects of climate change pose a risk to all of us. At Swedish Match, we acknowledge the severity of this issue and we welcome the rising ambitions within the corporate sector at a global scale. We commit to do our part in addressing climate change and to set science-based targets for our business' value chain.

We assess risk related to climate change on a recurring basis for our own operations and for raw material supplies. With a value chain perspective, we have good opportunities to contribute in creating a positive impact through collaboration with partners, enhanced assessments and directed mitigation and adaptation actions, in the longer term.

### TARGETS

Reduce emissions of greenhouse gases (GHG) by 75 percent by 2050, with 2017 as the base year, in our value chain (Scopes 1, 2 and 3), resulting in:

- A commitment to reduce GHG emissions by 4 percent per year, every year, until 2050
- A reduction target of 12 percent by 2020, and by 41 percent by 2030

<sup>11</sup> Figures described in this section are based on best available information and are subject to revision. Revised figures will be presented on the Company's website when available.

<sup>12</sup> Data excludes facilities acquired in 2017 and 2018; V2 Tobacco, House of Oliver Twist, and Gotlandssnus.

<sup>13</sup> International standard for calculating and reporting climate impact from business activities.

<sup>14</sup> Business travel is allocated to Scope 3 in the GHG accounting but has been included in our own operations in the distribution of emissions across our value chain stages.

<sup>15</sup> Main sources of reference for emission factors include DEFRA, Ecoinvent and IEA.

<sup>16</sup> IPCC Fourth Assessment Report.



The scope of this focus area is the entire value chain. Emissions of greenhouse gases are distributed across the value chain stages as depicted above.

### Accounting for greenhouse gas emissions in our value chain<sup>11,12</sup>

We have assessed and reported greenhouse gas (GHG) emissions from our own facilities (Scope 1 direct emissions), emissions from purchased energy used in our own operations (Scope 2 indirect emissions), and part of other indirect emissions including emissions both upstream and downstream in our value chain not covered in Scope 2 (Scope 3 other indirect emissions), according to the Greenhouse Gas Protocol<sup>13</sup>, since 2008. In 2016, we extended our scope for GHG emissions and mapped the full value chain according to the Corporate Value Chain Standard (Scope 3) of the Greenhouse Gas Protocol.

The GHG emissions across the value chain amount to 205,606 tons CO<sub>2</sub>-equivalents (CO<sub>2</sub>e) for the year 2018. Raw material and supplier stages (lifecycle data for purchased goods and services) account for 64 percent of total emissions. Factory/Warehouse/Office account for 19 percent (Energy and fuel use, waste generated in our own operations as well as business travel<sup>14</sup>). Transport and distribution account for 5 percent. The customer (chillers for snus in stores) and consumer stages (use of lighters and matches as well as end-of-life treatment of products) account for 7 and 5 percent respectively.

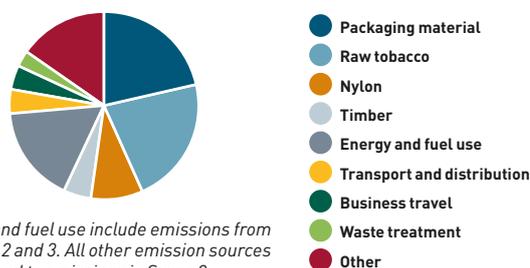
Figure *Main sources of GHG emissions* depicts the distribution of the footprint across main emission sources. Direct emissions (Scope 1) and indirect emissions (Scope 2) account for 15 percent of the total GHG emissions. The remaining 85 percent includes emissions both upstream and downstream (Scope 3) in our value chain where a larger part of the emissions stem from the extraction and production of raw materials, e.g. tobacco, timber and nylon, as well as packaging material.

Our GHG accounting includes the full Scope 3. Generic emission factors have been used to a large extent to calculate emissions<sup>15</sup>. All six GHGs covered by the Kyoto Protocol<sup>16</sup> are included in the calculations and assumptions and emission factors have followed a conservative approach.

### Reducing GHG emissions in a science-based manner

We have developed an emission reduction strategy with science-based targets, based on the revised measurement made in 2016. Science-based targets are in line with the level of decarbonization

#### MAIN SOURCES OF GHG EMISSIONS



Energy and fuel use include emissions from Scope 1, 2 and 3. All other emission sources correspond to emissions in Scope 3.

required to keep the rise in global temperature below 2°C compared to pre-industrial levels<sup>1)</sup>. In this process we have been guided by the methodology of the Sectoral Decarbonization Approach<sup>2)</sup> (Other Industry<sup>3)</sup> pathway) and made use of the associated calculation tool to form a basis for our decision. Our aim is to reduce emissions by 75 percent by 2050, with 2017 as the base year. This would render absolute emission reductions of 4 percent per year, every year, until 2050. Our interim targets are emission reductions of 12 percent by 2020 and of 41 percent by 2030. We have committed to set these targets through the Science Based Targets Initiative (SBTi) and a submission for validation was completed in 2018. SBTi has now assessed the submission, and, in March 2019 approved the targets set.

Our GHG reduction targets have been set by the Group Management Team and approved by the Swedish Match AB Board of Directors. The responsibility to achieve the targets has been delegated to heads of our divisions. This organization ensures that targets are integrated into, and continuously followed-up upon, as part of normal business operations and review processes.

## CDP

Swedish Match annually reports information on governance, risk and opportunities and climate data to CDP<sup>4)</sup> Climate. By reporting to CDP, our stakeholders are provided with more information about Swedish Match's initiatives and their results.

<sup>1)</sup> As described by the Intergovernmental Panel on Climate Change (IPCC).

<sup>2)</sup> Sectoral Decarbonization Approach (SDA): A method for setting corporate emission reduction targets in line with climate science (2015). [www.sciencebasedtargets.org](http://www.sciencebasedtargets.org).

<sup>3)</sup> The "Other industry" sector includes all industries that cannot be allocated to the industry sectors Iron & steel, Cement, Aluminum, Pulp & paper and Chemicals & petrochemicals, e.g. food, beverage and tobacco processing.

<sup>4)</sup> CDP (formerly Carbon Disclosure Project) is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.

## Actions

In the process of setting targets, we have identified a wide range of actions to be taken in pursuit of reducing our value chain emissions. Action plans have been set and responsibilities have been distributed across the Group for main sources of emissions. Initial actions include revisiting procurement practices and replacing materials and energy (resources) with alternatives of lower carbon intensity, using resources more efficiently, engaging with business partners, and, in the longer term, developing products with lower carbon intensity. We will also continuously aim to enhance our accuracy in the GHG accounting, which will help us to find further potential for reduction and to set the right priorities for our actions.

Greenhouse gas emissions (metric tons CO <sub>2</sub> e)	2018 <sup>1)</sup>	2017 <sup>2)</sup>	2016 <sup>2)</sup>
Scope 1	9,173	9,917	10,860
Scope 2	21,088	20,031	20,061
Scope 3	175,344	177,280	182,215
<b>Total emissions</b>	<b>205,606</b>	<b>207,229</b>	<b>213,137</b>
<b>Total emissions (per MSEK sales)<sup>3)</sup></b>	<b>16.3</b>	<b>18.9</b>	<b>19.0</b>
<b>Percent change in total emissions</b>	<b>-1%</b>	<b>-3%</b>	<b>N/A</b>

<sup>1)</sup> Data excludes facilities acquired in 2017 and 2018; V2 Tobacco, House of Oliver Twist, and Gotlandssnus.

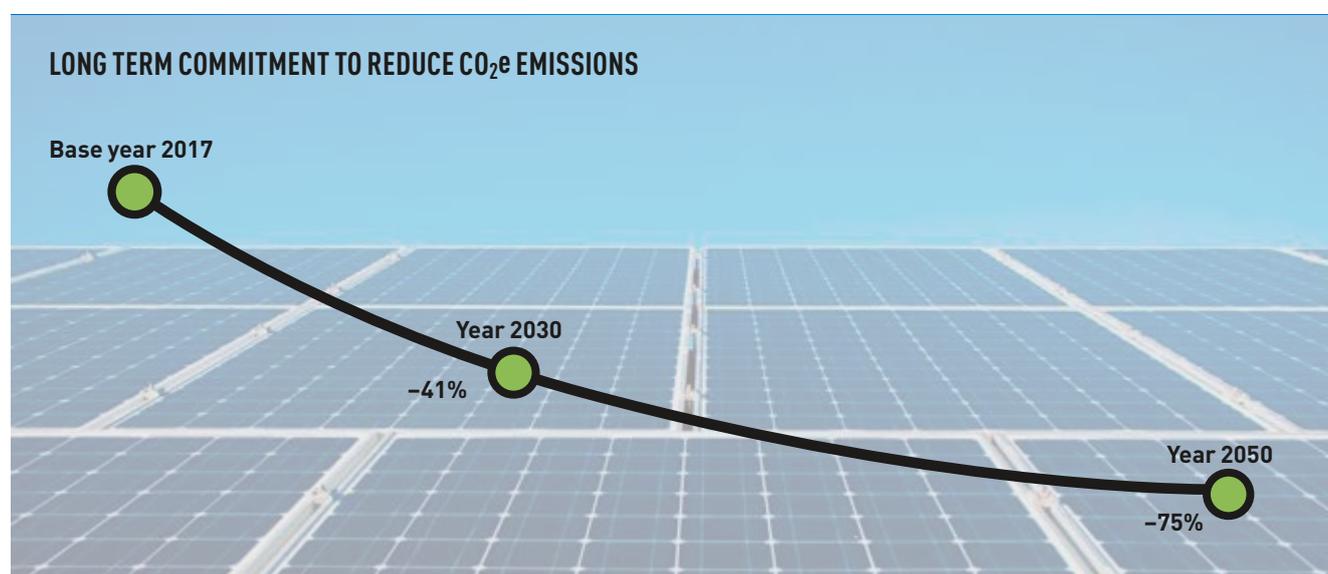
<sup>2)</sup> Figures restated for Scope 3 emissions due to refined data collection.

<sup>3)</sup> Figures restated following further analysis.

Energy use in our own operations (MWh)	2018 <sup>1)</sup>	2017 <sup>2)</sup>	2016
Direct energy use	84,700	90,045	99,970
Indirect energy use	87,489	85,495	84,145
<b>Total energy use</b>	<b>172,190</b>	<b>175,540</b>	<b>184,115</b>
<b>Total energy use (per MSEK sales)<sup>2)</sup></b>	<b>13.7</b>	<b>16.0</b>	<b>16.4</b>

<sup>1)</sup> Data excludes facilities acquired in 2017 and 2018; V2 Tobacco, House of Oliver Twist, and Gotlandssnus.

<sup>2)</sup> Figures restated following further analysis.



Swedish Match has taken a number of positive actions in its efforts to reduce greenhouse gas emissions. One example is the installation of solar panels at the lighter manufacturing facilities in the Netherlands and the Philippines.



Our goal is to reduce waste generated at our own production facilities.

### ACTIVITIES AND HIGHLIGHTS 2018

Swedish Match has initiated several programs to reduce waste, including hazardous waste, in its production facilities.

- ☑ Initiated project to reduce nylon usage for lighter bodies which should result in notable waste reduction in production in the coming years.
- ☑ Increased the recycling rate for packaging materials, such as cardboard, cartons as well as metals in the US and the Dominican Republic.
- ☑ Efforts made to avoid waste disposal entirely and/or reduce landfill through recovery of raw materials in production, including tobacco, for our cigar operations.
- ☑ Reduced the use of chemicals and other hazardous waste in all production facilities, for example by relooking at the methods and products used in cleaning and maintenance.

### Our commitment

At Swedish Match we work continuously and systematically to assess risk and reduce the negative impact on the environment.

### TARGETS

- Keep total waste, per unit of sales, generated at our facilities constant
- Reduce hazardous waste by 10 percent, per unit of production, on an annual basis, and by 50 percent by 2025
- Reduce waste to landfill by 10 percent, per unit of production, on an annual basis, and by 50 percent by 2025



The scope of this focus area is our own production facilities.

### Managing environmental performance

Most of our production facilities which existed prior to 2017 (10 of 12) are ISO 14001 certified. Non-certified factories are our match factories in Curitiba and Pirai do Sul, Brazil. Businesses acquired<sup>1)</sup> since 2017 include facilities that are not ISO 14001 certified. As part of our environmental management, we continuously assess risk and work to reduce impact on the environment. Environmental impact from our production facilities mainly constitutes the use of energy,

materials, chemicals as well as waste and emissions to air and water from different processing steps. All facilities have action plans to continuously improve their environmental performance. This work has been in focus in our production facilities for a long time, it is directed locally and, to a large extent, in close dialogue with local authorities and other stakeholders.

### Reducing waste

We have completed a material flow analysis for all our facilities<sup>2)</sup>, including input flows to our systems in terms of materials, chemicals and energy as well as output flows in terms of products, packaging material, waste and emissions to air and water flows. The results of this analysis have led us to conclude that emissions to air and water flows from our facilities are low and within limits of requirements set in our environmental permits. Potential issues that could arise in our regular risk assessments are handled as part of our local environmental management.

The results have also led us to conclude that, as for our Group-wide focus on environmental issues other than greenhouse gases, we focus on reducing waste generated in our own operations. We have set Group-common targets for waste at our own facilities as well as treatment of this waste. One target is to keep total waste volumes constant at the same time as, according to projections, production volumes increase for the majority of our product categories. Other targets aim to push waste up the waste hierarchy, away from landfill and towards recovery and recycling, as well as to reduce hazardous waste.

We continuously work on reducing the use of packaging material and other materials associated with our products by looking for alternative materials that are partly renewable and/or recycled, and with lower carbon intensity. We are also looking into the possibilities of increasing the recycling rate for packaging material at the end of product life.

Total waste (metric tons) <sup>1)</sup>	2018	2017 <sup>2)</sup>	2016 <sup>2)</sup>
Non-hazardous waste	25,821	26,918	23,879
Hazardous waste	584	689	772
Hazardous waste (per unit of production) <sup>3) 4)</sup>	0.48	0.51	0.52
<b>Total waste</b>	<b>26,405</b>	<b>27,607</b>	<b>24,651</b>
<b>Total waste (per MSEK sales)<sup>4)</sup></b>	<b>2.1</b>	<b>2.5</b>	<b>2.2</b>
<b>Total waste (per unit of production)<sup>3) 4)</sup></b>	<b>32.78</b>	<b>33.03</b>	<b>29.79</b>

<sup>1)</sup> Data excludes facilities acquired in 2017 and 2018; V2 Tobacco, House of Oliver Twist, and Gotlandssnus.

<sup>2)</sup> Figures restated due to refined data collection.

<sup>3)</sup> Unit of production uses weighted average based on millions of cigars, matches, lighters and cans of snus and thousands of pounds of chewing tobacco.

<sup>4)</sup> Figures restated following further analysis.

Treatment method (metric tons) <sup>1)</sup>	(%)	2018	2017 <sup>2)</sup>	2016 <sup>2)</sup>
Recovery, including energy recovery	78	20,544	21,780	19,251
Landfill	13	3,295	2,981	2,459
Landfill (per unit of production) <sup>3) 4)</sup>		12	11	9
Recycling	6	1,708	1,933	1,794
Hazardous waste treatment	2	584	689	772
Composting	1	274	224	374

<sup>1)</sup> Data excludes facilities acquired in 2017 and 2018; V2 Tobacco, House of Oliver Twist, and Gotlandssnus.

<sup>2)</sup> Figures restated due to refined data collection.

<sup>3)</sup> Unit of production uses weighted average based on millions of cigars, matches, lighters and cans of snus and thousands of pounds of chewing tobacco.

<sup>4)</sup> Figures restated following further analysis.

<sup>1)</sup> Pertains to V2 Tobacco (August 31, 2017), House of Oliver Twist (April 3, 2018), and Gotlandssnus (August 22, 2018).

<sup>2)</sup> Excluding the factories from acquisitions of V2 Tobacco, House of Oliver Twist, and Gotlandssnus.



## ELIMINATE CHILD LABOR

Our goal is the elimination of child labor in the Company's value chain.

### ACTIVITIES AND HIGHLIGHTS 2018

Swedish Match has continued to actively work to improve our supplier due diligence and relationships, especially for tobacco suppliers.

- ☑ Actively participated in an industry-wide collaboration to move forward with a more robust platform beyond current Sustainable Tobacco Programme.
- ☑ Supported three schools (427 pupils) in selected communities in the Philippines in an after school program to mitigate the risk of child labor, in collaboration with a major tobacco supplier.
- ☑ Expanded supplier assessment to include our cigar leaf operations, as well as for suppliers in countries with identified risks, such as China, for our lighter business.
- ☑ 98 percent of significant suppliers of direct material have confirmed that they share the same values as Swedish Match.

### Our commitment

Swedish Match respects the rights of the child, including the right to education, the right to rest and play and the right to have the child's basic needs met, in accordance with the UN Convention on the Rights of the Child. Swedish Match does not consent to child labor anywhere in our value chain.

The minimum age for work should be above the age for finishing compulsory schooling, which is generally 15 years of age, or 14 years according to exceptions for developing countries. If relevant national legislation has set a higher age, this age applies. Work that is likely to be hazardous or harmful to the child's health as well as physical, mental, spiritual, moral or social development or that interferes with the child's education shall not be performed by young workers – children between 15 or 18 years of age. In the case of family farms, children of farmers between the ages of 13 and 15 years or above the minimum age for light work as defined by the country's law, whichever affords greater protection, can do light work on their own family's farm, as long as it does not threaten their health and safety, or hinder their education or vocational orientation and training.

We are dependent on raw material from agriculture and forestry for our products. According to the International Labour Organization, ILO, approximately 152 million children are involved in child labor worldwide; 71 percent of these children are found in agriculture. With tobacco being an agricultural product, there is a significant risk of child labor. The issue of child labor is extensive and complex; it requires commitment from us as well as from farmers, suppliers, governments and other manufacturers.

We respect universal human rights and support internationally proclaimed human rights conventions and guidelines. We recognize the role we play in respecting these rights and in making sure that they are upheld and respected for the people impacted by our business, in the areas where we operate and from which we source materials.

### OBJECTIVE

- Improve our ability to identify, prevent and mitigate child risks and other sustainability risks in our supply chain
- 100 percent child labor free tobacco



The scope of this focus area is mainly upstream in our value chain.

### Assessing risk related to business integrity and human rights<sup>1)</sup>

We assigned external expertise to refine our previous assessment of risk related to business integrity and human rights in our value chain in late 2016. This risk assessment forms the basis for our efforts to assess and mitigate specific risk in dialogue with prioritized suppliers. The risk landscape in relation to all suppliers of direct material was reassessed based on manufacturing country or origin of raw material, known category and industry risks<sup>2)</sup> as well as annual level of spending. A more in-depth social impact assessment was pursued at industry-level, to identify potential and specific human and labor rights risks for a limited number of higher risk categories of direct material.

Out of our 130 significant suppliers of direct material<sup>3)</sup> a total of 86 suppliers<sup>4)</sup> were classified as high risk based on industry and/or country of origin. The majority of resulting high risk suppliers in this assessment are suppliers of raw tobacco, the remaining part are suppliers of lighter components or finished products sourced in Asia and Europe. The results confirm our long term focus on suppliers of raw tobacco in our efforts to manage our supply chain more sustainably. The results also confirm our continued focus on child labor and child rights, with child labor and women and child risks rated as the top specific human rights risks, followed by forced labor/debt bondage, hazardous exposure to chemicals and limited access to safe drinking water/sanitation, for the tobacco category.

### Supplier due diligence

We have systems and procedures in place to monitor adherence to our Supplier Code of Conduct. The monitoring is most advanced and proactive for the raw tobacco purchases for our snus products. For the raw tobacco for other smokeless products, the monitoring is more compliance-oriented. The major due diligence tools for the raw tobacco supply chain are the Sustainable Tobacco Programme (STP) and associated procedures. The monitoring for direct material other than raw tobacco, has been enhanced through group-common procedures. We work to maintain a proactive dialogue on prioritized sustainability issues with relevant significant suppliers of direct material.

<sup>1)</sup> Data excludes facilities acquired in 2017 and 2018; V2 Tobacco, House of Oliver Twist, and Gotlandssnus.

<sup>2)</sup> Classification of risk has been done based on geographical location and the Corruption Perception Index of Transparency International (CPI), cross-referenced with Maple Croft's Human Rights Index and complemented with specific industry-related risk of human and labor rights violations.

<sup>3)</sup> A significant supplier of direct material is defined as a supplier with which Swedish Match has an annual spend of above 400,000 USD. Suppliers below spend limit that belong to an industry classified as high risk in relation to business integrity and human rights violations have been included regardless of spend, this includes all suppliers of raw tobacco.

<sup>4)</sup> This includes all suppliers of raw tobacco regardless of country of origin.

## ADHERENCE TO THE SUPPLIER CODE OF CONDUCT

			FOLLOW UP ON ADHERENCE TO SUPPLIER CODE OF CONDUCT	DIALOGUE
DIRECT MATERIALS	RAW TOBACCO	Snus	SUSTAINABLE TOBACCO PROGRAMME	PROACTIVE
		Moist snuff & Chewing tobacco		COMPLIANCE ORIENTED
		Cigars	INTERNAL ROUTINES	
	OTHER DIRECT MATERIALS	All products		

OUR SUPPLIER CODE OF CONDUCT FORMS THE BASIS FOR OUR RELATIONSHIP WITH SUPPLIERS

### Raw tobacco

Swedish Match sources its raw tobacco primarily from global suppliers (such as Alliance One, ITC and Universal Leaf) who in turn source tobacco from individual farmers. The STP is a due diligence program for sustainability aspects in tobacco growing and manufacturing. It was jointly developed by the tobacco industry in 2015; implementation started in 2016 and the first review cycle was completed at the end of 2018. Through the STP, we assure adherence to the requirements on, for example, human rights, labor practices, health and safety, as well as environmental issues, set forth in our Supplier Code of Conduct. Our suppliers continuously perform risk assessments in relation to these requirements and establish action plans for continuous improvement, for both our suppliers and for the suppliers of our suppliers. Farmers are subject to regular training on relevant aspects of the program with the purpose of improving conditions on the farm, yields and livelihoods.

Several criteria relating to child labor and child risks in the tobacco growing and manufacturing supply chain are under assessment and review through the STP. These include, but are not limited to, employment or recruitment of child labor and performance of dangerous or hazardous tasks within the supplier facilities (tier one); employment of children on supplying farms (generally tier two), identification of dangerous and hazardous work on supplying farms, exposure to hazards on supplying farms for persons below the age of 18 years old, and farmer's children helping out with light work on supplying family farms as well as their school attendance along with the identification of prompt action issues and procedures to address them.

Swedish Match has 57 suppliers of raw tobacco. The STP covers raw tobacco for the production of snus, moist snuff and US chewing tobacco. The STP covers 47 percent of our purchased raw tobacco volumes and 47 percent of raw tobacco suppliers.

During 2018, some raw tobacco suppliers for cigars participated in a pilot review conducted by a third party supplier. The review mapped several principles and criteria used within the STP against Swedish Match sustainability focus areas.

#### Assessment and review through STP

Our tobacco suppliers for the production of snus, moist snuff and US chewing tobacco perform annual self-assessments with regard to adherence to the requirements in the STP, for their own part as well as for the farmers from whom they purchase. This forms the basis for dialogue between our Leaf Operations departments and suppliers, as well as for the third party reviews. Our suppliers' field technicians train and assist farmers in their daily work to assure

compliance with the STP requirements and to optimize crop yield. The field technicians continually monitor farm operations. If matters require immediate attention, actions will be taken to resolve the matter.

On a three-year basis, suppliers are audited and rated by a third-party auditor, AB Sustain. During the past three years 29 reviews have been conducted by AB Sustain. The Leaf Operations departments participated in three of these reviews to better understand how the STP affects the work and procedures of our suppliers and to build on the review results.

#### Conducting dialogue with suppliers

Our Leaf Operations departments evaluate risk and tailor the continued dialogue on the basis of self-assessments, third party reviews and resulting action plans for improvement. Suppliers and farmers are visited regularly to strengthen relationships and to pursue a proactive dialogue, including follow-up on action plans. The proactivity and structure in this dialogue varies between the inflows of raw tobacco to Swedish Match. We have worked on systemizing, and structuring documentation on, this dialogue in a consistent way for raw tobacco covered in STP. We have defined a procedure on how to interpret, take action and follow up on STP results which has been implemented on a larger scale during the year.

#### Direct material other than raw tobacco

The due diligence for direct materials other than raw tobacco builds on our Supplier Code of Conduct. At present this process primarily covers tier one suppliers. The tier one suppliers are continuously screened for compliance and risk in relation to ethical business practices, including child labor issues. In addition to this, we encourage our suppliers to develop their own supplier standards and monitoring procedures.

Swedish Match has 73 significant suppliers of direct material other than raw tobacco. During the year we have continued implementation of the group-common procedure, developed in 2017, to assess supplier adherence to requirements set forth in our Supplier Code of Conduct. The procedure includes self-assessment and desktop screening. Based on the assessment results, further dialogue has been conducted during the year with the 29 of our 31 suppliers assessed in late 2017. Some of these suppliers have also been subject to light audits conducted by Swedish Match. Results from these dialogues and light audits provide input to prioritizing suppliers subject to further reviews during 2019.

## ECLT Foundation

Swedish Match is a member of and represented on the board of the ECLT Foundation – Eliminating Child Labour in Tobacco Growing. This involvement provides us with a platform to continuously keep the issue high up on the agenda, exchange experience and knowledge within this field, and follow projects to tackle the issue on the ground. As an ECLT Foundation member, Swedish Match has signed a Pledge of Commitment (the Pledge). The Pledge is a sector-wide agreement to uphold robust policy on child labor, conduct due diligence and provide for remediation consistent with the United Nations Guiding Principles on Business & Human Rights. This action reinforces our policies and practices and aligns with international best practices established by the International Labor Organization (ILO). For more information on ECLT Foundation and the Pledge, see the ECLT Foundation's website, [www.eclt.org](http://www.eclt.org).



Supply chain management <sup>1)</sup>	2018	2017	2016
<b>Total number of significant suppliers of direct material</b>	<b>130</b>	<b>118</b>	<b>136</b>
<b>Raw tobacco</b>			
Number of raw tobacco suppliers <sup>2)</sup>	57	51	61
Number of farms visited by Swedish Match Leaf Operations	119	123	122
Share of raw tobacco volumes included in STP, % <sup>3)</sup>	47	53	59
Number of self-assessments performed by raw tobacco suppliers	27	24	26
Number of third party reviews performed on raw tobacco suppliers during the 2016–2018 review cycle	29	12	8
<b>Direct materials other than raw tobacco</b>			
Number of high risk suppliers of direct material other than raw tobacco	29	19	N/A

<sup>1)</sup> Data excludes facilities acquired in 2017 and 2018; V2 Tobacco, House of Oliver Twist, and Gotlandsnsus.

<sup>2)</sup> Raw tobacco suppliers are viewed as individual suppliers per country. All raw tobacco suppliers are classified as high risk regardless of country of origin.

<sup>3)</sup> For cigars, 11 third party reviews have been conducted outside of STP, corresponding to 80 percent of purchased raw tobacco volumes.

## The “Let’s PLAY” After School Program

In complement to our due diligence we have supported an after school program in the Philippines during the year. This is a project under Universal Leaf’s “Let’s PLAY” program, providing after school activities in selected communities where children have been observed to participate in harvest activities, giving children an alternative to working and allowing them to thrive in new activities. Along with conducting interesting alternative activities and improving the quality of the children’s health and education, the objective is also to increase awareness of parents, teachers and community leaders on child labor prevention. This project complements other activities, implemented by this supplier, to mitigate the risk of child labor. Swedish Match’s engagement in this project complement our own efforts to manage our supply chain sustainably. Learnings from participating in the program also provide us with enhanced understanding of conditions on the ground in areas from which we source raw tobacco. Assessment of the program has shown an increased community awareness on the tobacco industry fight against child labor as well as no incidences of child labor in the identified areas of the after school activities. Swedish Match will continue the support of the program in 2019.

“The Philippine After School Program has proven to be an effective instrument in addressing child labor issues for entire communities. No child labor issues have been found in tobacco areas where the project is operational”.

**Martin Olsson, Director of Leaf Operations**

## Auditor’s report on the statutory sustainability report

To the general meeting of the shareholders in Swedish Match AB (publ), corporate identity number 556015-0756.

### Engagement and responsibility

It is the Board of Directors who is responsible for the statutory sustainability report for the year 2018-01-01 – 2018-12-31 on pages 30–47 and that it has been prepared in accordance with the Annual Accounts Act.

### The scope of the audit

Our examination has been conducted in accordance with FAR’s auditing standard *RevR 12 The auditor’s opinion regarding the statutory sustainability report*. This means that our examination of the statutory sustainability report is substantially different and less in scope than an audit conducted in accordance with International

Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

### Opinion

A sustainability report has been prepared.

Stockholm, March 14, 2019

Deloitte AB  
Peter Ekberg  
Authorized Public Accountant

# Employer of choice

**Swedish Match understands that our success is heavily dependent on the success of our employees. When great people working for a great company are developed, engaged and retained, they become true ambassadors for Swedish Match. Everything we do in Human Resources and every decision we make is based on those core beliefs.**

## **Human Resources: How HR works**

The majority of the Group's HR activities are handled locally within the Group's divisions. Local units are represented by dedicated HR professionals, who ensure clear communication and coordination of efforts relating to the Company's employees.

The HR organizations support the Company's efforts in managing talent and leadership development, work to provide clear and consistent documentation of activities, and uphold employee practices consistent with the Code of Conduct and local laws and regulations, among other tasks.

## **Retaining and developing talent: Keeping the right people by meeting their needs**

Recruitment is just the first phase of an employee's career at Swedish Match. Keeping that talent and momentum going is challenging but also very rewarding – for the employee, the manager, the department and for Swedish Match. We believe there are key areas requiring continual effort to ensure employee satisfaction and engagement.

## *Communication*

In order to be effective, communication must go two ways – both to and from the employee. Swedish Match believes that it is crucial to the success of the Company that employees be allowed and encouraged to share ideas, observations and suggestions. Additionally, we conduct confidential employee opinion surveys globally through an outside agency that allows our employees the opportunity to rate their job and company satisfaction on a regular basis. Survey results are utilized by the Company to follow up on and improve areas of opportunity within the organization.

## *Feedback and recognition*

Clear expectations are set by managers, so that employees understand what they are working toward and what they need to do to meet those expectations. Performance discussions are held and can be initiated at any time by either the manager or the employee. Both managers and employees are expected to actively participate in this process by both giving and receiving feedback. At Swedish Match, recognition is regular, targeted to real successes and used to reinforce our values and reward positive, desired behaviors.



## **Recruitment of Talent:**

### **GETTING THE RIGHT PEOPLE, IN THE RIGHT PLACES AT THE RIGHT TIME**

We aim to attract and retain a diverse workforce of top talent, in which we all benefit from different perspectives, varying experiences and unique ideas that will drive our business. In order to obtain the best talent, Swedish Match focuses on being the best employer. Swedish Match utilizes many methods to ensure that we are sourcing the best talent, including Employer Branding efforts and internal talent programs and are confident that our efforts will continue to ensure a strong and dynamic competence base to meet or exceed both short and long term challenges.

## Pride

We believe that our core values not only shape our workplace, but also affect the way we interact with one another – both personally and professionally – inside and outside of work. Swedish Match is well known for being a good corporate citizen and is firmly anchored to the communities in which we operate.

### Support

Employees are given the necessary tools to do their job well. We strive to ensure that workloads are manageable, obstacles to success are removed, supplies and equipment are readily available, and there are enough people to do the work. Support also comes in the form of personal and medical leaves when appropriate, health and retirement plans, employee assistance programs and commitment to work/life balance.

### Empowerment

Employees of Swedish Match are empowered to make decisions about and take responsibility for how they do their jobs. Employees are encouraged to be involved in the Company, make suggestions, be innovative, serve on committees and work teams and attend appropriate meetings and offer input on work processes that affect their job.

### Leadership

It is of importance that all Swedish Match employees believe in the Company's vision and its core values and understand how their daily work and embracing these values contribute to the Company's vision. It is equally important that employees see how leadership exemplifies our core values and our Code of Conduct each and every day. Successful leadership continues to be a main focus. We remain committed to growing leaders at all levels of the organization to ensure current and future success.

### Professional development

Employees have access to training and development, through on-the-job training, internal training, external seminars and training programs, and tuition reimbursement. During this past year, nearly all senior management vacancies were also filled internally.

### Teamwork

Swedish Match believes that employees should be able to work in a supportive environment. At Swedish Match, we remain focused on issues and encourage employees to be proactive problem solvers. To do this, we recognize that employees must feel that it is acceptable to make mistakes with leadership support. We support team

efforts and encourage teamwork. No one at Swedish Match works completely independently – from Boards to Management teams, departments, cross-functional teams, committees, and more. We all have the opportunity to not only “learn from” but also to “teach” each other new things every day.

### Compensation and benefits

Swedish Match compensation philosophy and practice is to offer competitive salaries and flexible benefit programs that meet the needs of our most important assets – our employees. The benefit package includes internally equitable and externally competitive salaries, as well as such benefits as paid time off for holidays and vacations, insurances, retirement benefits and support to various other quality of life programs.

### Work environment

Swedish Match works diligently to ensure that all employees work in an inspiring work environment, free from any type of harassment or discrimination. We are likewise dedicated to providing ergonomically sound workplaces, free from health and safety hazards. Health and safety committees and structures are in place in all operating units and safety training and wellness programs are in place at the various workplaces. Potential safety and health concerns are of primary importance. Factory audits are conducted both internally and by external third parties. Additionally, Swedish Match supports the International Labour Organization (ILO) Core Conventions regarding labor rights and believes that all employees should be free to form associations and to engage in collective bargaining. According to Swedish Match's Code of Conduct, all employees should be free to join or form (non-violent) assembly or associations.



## SHAREHOLDER INFORMATION

# Shareholder communication

## SWEDISH MATCH'S INFORMATION CHANNELS



## COMPANY WEBSITE

The Swedish Match Company website – [swedishmatch.com](http://swedishmatch.com) – is the principal source of information about the Group and provides a broad range of information which is relevant to both the financial community and other stakeholders. The website provides current and historical financial information as well as information about the Group's product segments, vision and strategy, corporate governance, sustainability efforts, and much more. It also includes both historic and current share price information. Telephone conferences in English are held in connection with Swedish Match's interim and year-end reports and can be accessed live on the website. Press releases, presentations, downloadable annual and interim reports, as well as information about the Annual General Meeting, can be found in the "Investors" section. There is also a subscription service for receiving press releases and financial reports by e-mail.



## FINANCIAL REPORTS

Swedish Match's financial reports are available on the Company's website. It also includes an archive of annual reports dating back to 1996, when Swedish Match became a listed company, as well as interim reports dating back to 1997. As from 2017, all financial reports are exclusively distributed in electronic format.

Shareholders can subscribe to financial reports via e-mail through our subscription service. The subscription may be cancelled at any time via the "Unsubscribe" link at the end of any subscription e-mail. For any questions, you can contact us by e-mailing [investorrelations@swedishmatch.com](mailto:investorrelations@swedishmatch.com) or by writing to Swedish Match AB, Investor Relations, SE-118 85 Stockholm, Sweden.

## IR ACTIVITIES

**Swedish Match's Investor Relations department is responsible for providing relevant company and financial information to shareholders, investors, analysts and the financial media.**

Regular investor and analyst meetings provide ongoing information about the Company, current events and operational changes. Presentations of Swedish Match's

results, operations and activities are made for investors and analysts in conferences, and on roadshows generally after the release of the interim report.

During 2018, in addition to quarterly reporting and telephone conferences, Swedish Match conducted a number of international roadshows, and presented in conferences, reaching a broad range of investors and analysts who want to learn

more about the Group. Presentations and meetings for investors and the financial community were held in, among other cities, Boston, Copenhagen, Edinburgh, Frankfurt, Geneva, London, Madrid, New York, Paris, Stockholm, and Zurich. Some of the topics that were of particular interest to investors and analysts during 2018 included growth of the US businesses for cigars, snus, and nicotine pouches (i.e.

## CALENDAR

<b>April 3, 2019:</b>	Record date for Annual General Meeting
<b>April 9, 2019:</b>	Annual General Meeting
<b>April 10, 2019:</b>	Ex-dividend date
<b>April 11, 2019:</b>	Proposed record date for dividend
<b>April 16, 2019:</b>	Proposed date for dividend payment

<b>May 9, 2019:</b>	Interim report January–March
<b>July 18, 2019:</b>	Half year report January–June
<b>October 25, 2019:</b>	Interim report January–September
<b>February 12, 2020:</b>	Full year report 2019
<b>March, 2020:</b>	Annual report for 2019

[www.swedishmatch.com](http://www.swedishmatch.com)

Visit Swedish Match subscription service:  
[www.swedishmatch.com/subscribe](http://www.swedishmatch.com/subscribe).



## ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of Swedish Match AB (publ) will be held on April 9, 2019, at 3.30 p.m. CET at the Skandia cinema, Drottninggatan 52, in Stockholm, Sweden. Doors to the AGM will open at 2.30 p.m. For more information about the Annual General Meeting 2019, please refer to the Governance Report on page 115.

[www.swedishmatch.com](http://www.swedishmatch.com)

More information is available on the Company website [www.swedishmatch.com/agm](http://www.swedishmatch.com/agm).



## DIVIDEND

The Board of Directors proposes an increased ordinary dividend per share of 10.50 SEK (9.20). The proposed record date for entitlement to receive a cash dividend is April 11, 2019. If the AGM approves the Board's proposal, the dividend will be paid through Euroclear Sweden AB on April 16, 2019.

## CONTACTS

### Investor Relations and Corporate Sustainability

Emmett Harrison  
Tel: +46 (0)8-658 01 73  
[investorrelations@swedishmatch.com](mailto:investorrelations@swedishmatch.com)

Emmett Harrison is responsible for Investor Relations matters, financial communication to media, shareholders, analysts, and other stakeholders. Emmett Harrison is also responsible for the Corporate Sustainability function.



### External Communications

Djuli Holmgren  
Tel: +46 (0)8-658 02 61  
[contactus@swedishmatch.com](mailto:contactus@swedishmatch.com)

Djuli Holmgren is responsible for the development of the Swedish Match annual report and the Company website along with other external communications activities.



ZYN), the competitive dynamics for snus – particularly in Sweden and Norway, as well as past and potential regulatory developments in the US, Sweden, the rest of the EU, and Norway.

During 2018, Swedish Match held a number of presentations for non-institutional shareholders organized by the Swedish Shareholders' Association (Aktiespararna), an independent

organization working in the interests of private individuals who invest in stocks, mutual funds and other stock related securities. Founded in 1966, the organization has approximately 70,000 members and is represented throughout Sweden. Swedish Match for example participated in events hosted in Borås, Ronneby, Stockholm, and Västerås. The main focus with the presentations has been

on providing a brief overview of Swedish Match, as well as providing more details on certain topics that are of high relevance to shareholders of Swedish Match.

LISTING: NASDAQ STOCKHOLM, LARGE CAP SYMBOL: SWMA MARKET CAP AT YEAR END<sup>3)</sup>: 59.4 BILLION SEK NO. OF SHARES AT YEAR END: 175,950,000 ISIN CODE: SE0000310336

# The share

The Swedish Match share is listed on Nasdaq Stockholm. Total share capital on December 31, 2018 amounted to 390 MSEK, distributed among 175,950,000 shares with a quotient value of 2.2138 SEK each. Each share carries one vote.

## Turnover<sup>1)</sup>

Total turnover in 2018 amounted to 194,781,893 Swedish Match shares on Nasdaq Stockholm, with an average daily volume of 0.8 million shares. The turnover velocity of the share on Nasdaq Stockholm, was 107 percent during the year, compared with the average turnover velocity of 48 percent for Nasdaq Stockholm.

## Trading platforms<sup>2)</sup>

During 2018, 64 percent of total trading volume of Swedish Match was handled through the Nasdaq Stockholm trading platform. The distribution of trade between other exchanges in number of shares traded during the year was: 16 percent for Chi-X, 15 percent for BATS and 5 percent for Turquoise.

## Share price development and market capitalization<sup>1)</sup>

Swedish Match's market capitalization at year-end 2018 amounted to 59.4 billion SEK, an increase of 2.5 billion compared with December 31, 2017.<sup>3)</sup> The share price rose by 8 percent during the year, while the

OMXS30 Index declined by 11 percent. The lowest price paid during the year was 299.50 SEK on February, 6 and the highest price paid was 533.80 SEK on August, 21.

## Ownership structure<sup>3) 4)</sup>

At year-end, ownership outside of Sweden corresponded to 78.5 percent of total share capital, an increase of 5.7 percentage points compared with 2017. Swedish ownership interests, totaling 21.5 percent, were distributed among institutions with 4.2 percent of the share capital, mutual funds with 7.3 percent, and private individuals with 10.0 percent.

## Dividend

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

## Repurchase of own shares

Swedish Match complements dividends with share repurchases to distribute excess cash to its shareholders. Repurchase of own shares is in principle a reverse new share issue, and provides the opportunity to continuously work to optimize the capital structure. The size and scope of the share buy-backs depend on Swedish Match's financial position, net profit, anticipated future profitability, cash flow, investments, and expansion plans. Other factors that influence buybacks are efficient availability of credit, the Group's interest and tax expenses as well as the earnings available for distribution. For more information about the Swedish Match share repurchase program, please refer to *Note 20 Equity* in the Group financial statements.

<sup>1)</sup> Source: Nasdaq Stockholm.

<sup>2)</sup> Source: SIX Financial Information.

<sup>3)</sup> Excluding shares held in treasury by Swedish Match AB, which corresponded to 3.26 percent of the total number of shares as per December 31, 2018.

<sup>4)</sup> Source: Monitor by Modular Finance AB, data derived from various sources including Euroclear Sweden AB and Morningstar. Certain shareholders may, through custodial accounts, have had different holdings than are apparent from the shareholders' register.

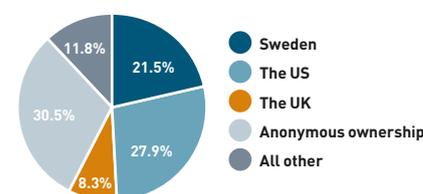
## Largest shareholders

Largest shareholders <sup>1)</sup>	Number of shares	Holding in percent	Votes in percent
BlackRock	9,947,174	5.7	5.8
Cedar Rock Capital	5,794,235	3.3	3.4
Vanguard	5,185,421	2.9	3.0
SEB Funds	4,575,628	2.6	2.7
Oppenheimer	4,345,000	2.5	2.6
Gabelli/GAMCO	3,901,600	2.2	2.3
Nordea Funds	3,760,245	2.1	2.2
JP Morgan Asset Management	3,585,430	2.0	2.1
Invesco	3,178,894	1.8	1.9
Fidelity International (FIL)	2,143,709	1.2	1.3
<b>Subtotal 10 owners</b>	<b>46,417,336</b>	<b>26.4</b>	<b>27.3</b>
Other	123,793,369	70.4	72.7
<b>Subtotal</b>	<b>170,210,705</b>	<b>96.7</b>	<b>100.0</b>
Shares held by Swedish Match	5,739,295	3.3	0.0
<b>Total</b>	<b>175,950,000</b>	<b>100.0</b>	<b>100.0</b>

<sup>1)</sup> Registered direct ownership and ownership through trustees. Certain shareholders may, through custodial accounts, have had different holdings than are apparent from the shareholders' register.

Source: Monitor by Modular Finance AB, data derived from various sources including Euroclear Sweden AB and Morningstar, as of December 31, 2018. Totals may be affected by rounding.

## OWNERSHIP STRUCTURE – SHARE CAPITAL BY COUNTRY



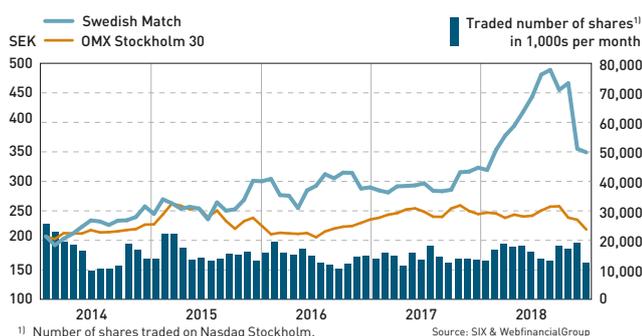
Source: Monitor by Modular Finance AB, according to Euroclear Sweden AB, as of December 31, 2018. "All other" also includes shareholders with 500 shares or less in the US, UK, and Sweden. Note that shares held by Swedish Match in treasury are excluded.

[www.swedishmatch.com](http://www.swedishmatch.com)

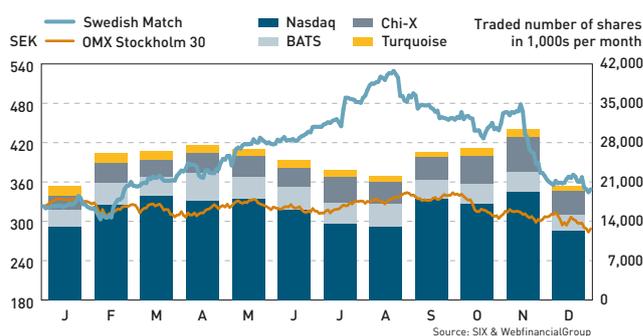
More information is available on the Company website [www.swedishmatch.com/investors](http://www.swedishmatch.com/investors).



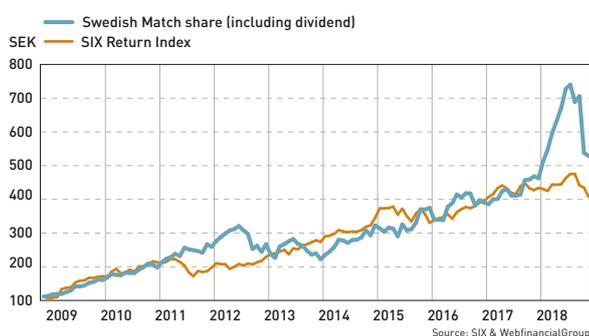
## SHARE PRICE AND TURNOVER 2014–2018



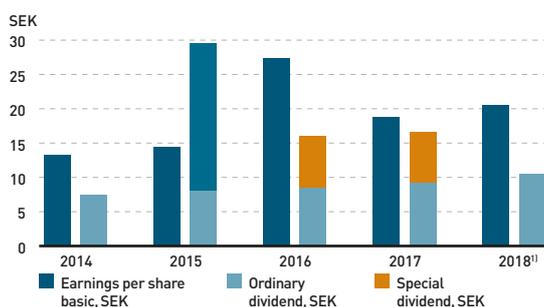
## SHARE PRICE AND TURNOVER 2018



## TOTAL RETURN 2009–2018



## EARNINGS AND DIVIDEND PER SHARE 2014–2018



## Transfer of capital to Swedish Match's shareholders

MSEK	2018	2017	2016	2015	2014	Total
Dividend paid	2,911	2,908	5,522	1,464	1,453	14,259
Repurchase of own shares, net	2,512	2,590	1,249	1,854	836	9,042
<b>Total</b>	<b>5,423</b>	<b>5,498</b>	<b>6,771</b>	<b>3,318</b>	<b>2,289</b>	<b>23,301</b>

Dividend proposed for calendar year 2018 to be paid in 2019 is 1,787 MSEK, based on the number of shares outstanding at the end of 2018.

Share distribution<sup>1)</sup>

Size of holding	No. of owners	No. of owners, %	No. of shares	Holding, %	Votes, %
1 – 1,000	53,630	93.5	8,808,641	5.0	5.2
1,001 – 5,000	3,128	5.5	6,224,947	3.5	3.7
5,001 – 20,000	363	0.6	3,311,498	1.9	1.9
20,001 – 50,000	88	0.2	2,868,578	1.6	1.7
50,001 – 100,000	41	0.1	2,912,783	1.7	1.7
100,001 – 1,000,000	99	0.2	33,302,272	18.9	19.6
1,000,001 –	20	0.0	60,934,019	34.6	35.8
<b>Subtotal</b>	<b>57,369</b>	<b>100.0</b>	<b>118,362,738</b>	<b>67.3</b>	<b>69.5</b>
Anonymous ownership	–	–	51,847,967	29.5	30.5
Shares held by Swedish Match	1	0.0	5,739,295	3.3	0.0
<b>Total</b>	<b>57,370</b>	<b>100.0</b>	<b>175,950,000</b>	<b>100.0</b>	<b>100.0</b>

<sup>1)</sup> Including shares held by Swedish Match as well as custodial ownership.

Source: Monitor by Modular Finance AB, data derived from Euroclear Sweden AB as of December 31, 2018. Totals may be affected by rounding.

## Share data

	2018	2017 <sup>4)</sup>	2016	2015	2014
Earnings per share, basic, SEK					
Including larger one-time items <sup>1)</sup>	20.63	18.88	27.38	14.48	13.23
Including larger one-time items and excluding income from STG	20.63	18.38	26.44	12.62	11.55
Excluding larger one-time items and income from STG	20.63	16.40	14.39	12.79	11.55
Earnings per share, diluted, SEK					
Including larger one-time items <sup>1)</sup>	20.63	18.88	27.38	14.48	13.22
Including larger one-time items and excluding income from STG	20.63	18.38	26.44	12.62	11.54
Excluding larger one-time items and income from STG	20.63	16.40	14.39	12.79	11.54
Dividend per share, SEK	10.50 <sup>2)</sup>	16.60	16.00	29.50	7.50
Dividend yield at year-end, %	3.01 <sup>2)</sup>	5.14	5.52	9.83	3.06
Dividend pay-out ratio, excluding larger one-time items, %	51 <sup>2)</sup>	101	104	205	57
Market price at year-end, SEK	349.10	323.20	289.80	300.20	244.80
Market capitalization at year-end, billion SEK <sup>3)</sup>	59.4	56.9	53.5	56.7	47.9
P/E ratio <sup>5)</sup>	16.9	17.1	10.6	20.7	18.5
EBIT multiple <sup>5)</sup>	14.6	14.2	9.6	16.1	14.8
Total return, %	12.7	17.6	6.9	26.2	22.4
Average number of shares, basic	173,445,540	180,096,690	187,116,474	193,506,546	198,475,824
Average number of shares, diluted	173,445,540	180,096,690	187,116,474	193,530,266	198,583,328
Number of shareholders	57,370	54,682	54,046	49,806	47,952

<sup>1)</sup> Full year 2017 includes dividends received from the investment in STG.

<sup>2)</sup> Dividend for 2018 is the Board's proposal. 2017, 2016 and 2015 includes special dividends of 7.40 SEK per share, 7.50 SEK per share and 21.50 SEK per share respectively.

<sup>3)</sup> Excluding shares held by Swedish Match.

<sup>4)</sup> Restated in accordance with IFRS 15.

<sup>5)</sup> Earnings include larger one-time items and income from STG up until disposal in 2017.

# Five year summary

Condensed consolidated income statement, MSEK	2018	2017 <sup>1)</sup>	2016 <sup>1)</sup>	2015 <sup>1)</sup>	2014 <sup>1)</sup>
<b>Sales</b>	<b>12,966</b>	<b>11,751</b>	<b>11,222</b>	<b>10,556</b>	<b>9,460</b>
<b>Gross profit</b>	<b>8,133</b>	<b>7,396</b>	<b>7,226</b>	<b>6,789</b>	<b>6,197</b>
Larger one-time items	-	373	2,254	-42	-
<b>Operating profit</b>	<b>4,812</b>	<b>4,592</b>	<b>6,420</b>	<b>4,008</b>	<b>3,780</b>
Net finance cost	-281	-240	-431	-463	-510
<b>Profit before income tax</b>	<b>4,531</b>	<b>4,353</b>	<b>5,988</b>	<b>3,545</b>	<b>3,270</b>
<b>Profit for the year</b>	<b>3,578</b>	<b>3,400</b>	<b>5,123</b>	<b>2,803</b>	<b>2,626</b>
EBITDA <sup>2)</sup>	5,227	4,600	4,504	4,368	4,083

<sup>1)</sup> Financial statements for 2017 have been restated in accordance with IFRS 15. For the period 2014–2016, sales have for reasons of comparability been restated to reflect revenue recognition in accordance with agent accounting under IFRS 15. For further information about the impact from the adoption of IFRS 15, see Note 1.

<sup>2)</sup> Excluding larger one-time items.

Condensed consolidated balance sheets, MSEK	2018	2017 <sup>1)</sup>	2016	2015	2014
Intangible assets	2,708	2,088	1,250	1,048	1,030
Property, plant and equipment <sup>2)</sup>	2,941	2,558	2,543	2,240	2,074
Investments in associated companies	24	22	122	4,845	5,233
Other non-current assets and operating receivables <sup>3)</sup>	19	22	2,784	22	24
Other non-current financial assets and receivables	1,420	1,254	1,689	1,717	1,645
<b>Total non-current assets</b>	<b>7,113</b>	<b>5,944</b>	<b>8,387</b>	<b>9,871</b>	<b>10,006</b>
Other current financial receivables	226	263	251	59	73
Current operating assets and receivables	3,762	3,171	3,333	3,161	4,182
Cash and cash equivalents	2,886	3,998	3,364	1,732	2,312
<b>Total current assets</b>	<b>6,874</b>	<b>7,432</b>	<b>6,948</b>	<b>4,952</b>	<b>6,567</b>
<b>Total assets</b>	<b>13,987</b>	<b>13,376</b>	<b>15,335</b>	<b>14,824</b>	<b>16,573</b>
Equity attributable to equity holders of the Parent	-5,611	-4,202	-1,366	251	277
Non-controlling interests	16	1	1	1	1
<b>Total equity</b>	<b>-5,595</b>	<b>-4,201</b>	<b>-1,365</b>	<b>252</b>	<b>279</b>
Non-current financial provisions	1,186	1,200	1,168	931	871
Non-current loans	12,282	10,277	8,169	7,613	7,803
Other non-current financial liabilities <sup>4)</sup>	1,140	1,218	1,613	1,882	2,063
Other non-current operating liabilities	415	368	369	292	210
<b>Total non-current liabilities</b>	<b>15,024</b>	<b>13,063</b>	<b>11,318</b>	<b>10,718</b>	<b>10,946</b>
Current loans	1,229	1,253	2,047	653	1,141
Other current financial liabilities <sup>5)</sup>	245	534	321	208	188
Other current operating liabilities	3,085	2,727	3,013	2,993	4,019
<b>Total current liabilities</b>	<b>4,559</b>	<b>4,514</b>	<b>5,382</b>	<b>3,854</b>	<b>5,348</b>
<b>Total liabilities</b>	<b>19,582</b>	<b>17,577</b>	<b>16,700</b>	<b>14,572</b>	<b>16,294</b>
<b>Total equity and liabilities</b>	<b>13,987</b>	<b>13,376</b>	<b>15,335</b>	<b>14,824</b>	<b>16,573</b>

<sup>1)</sup> Restated in accordance with IFRS 15.

<sup>2)</sup> Includes forest plantations.

<sup>3)</sup> Includes shares in STG recognized as a financial asset in 2016, pension assets and derivatives financial instruments.

<sup>4)</sup> Includes pension obligations and derivative financial instruments.

<sup>5)</sup> Includes short term derivatives financial instruments.

Condensed consolidated cash flow, MSEK	2018	2017	2016	2015	2014
Net cash generated from operating activities	3,705	3,402	2,929	3,768	3,276
Net cash used in/ from investing activities	-1,204	1,594	3,408	-513	-274
Net cash transferred to shareholders	-5,423	-5,498	-6,771	-3,318	-2,290
Net cash from other financing activities	1,727	1,215	2,007	-605	-1,798
<b>Net decrease/increase in cash and cash equivalents</b>	<b>-1,195</b>	<b>713</b>	<b>1,573</b>	<b>-669</b>	<b>-1,085</b>
Cash and cash equivalents at beginning of the year	3,998	3,364	1,732	2,312	3,164
Effects of exchanges rate fluctuations on cash and cash equivalents	83	-79	59	90	232
<b>Cash and cash equivalents at end of year</b>	<b>2,886</b>	<b>3,998</b>	<b>3,364</b>	<b>1,732</b>	<b>2,312</b>

Key data <sup>1)</sup>	2018	2017 <sup>2)</sup>	2016	2015	2014
Net debt, MSEK	10,843	8,183	7,941	7,922	8,126
Investments in property, plant and equipment, MSEK	649	369	537	491	223
Operating margin, %	37.1	35.9	37.1 <sup>2)</sup>	38.4 <sup>2)</sup>	40.0 <sup>2)</sup>
EBITA interest cover	17.5	12.6	10.1	8.9	7.6
Net debt/EBITA	2.2	1.9	1.9	1.9	2.1
<i>Share data</i>					
Share capital, MSEK	390	390	390	390	390
Ordinary dividend per share, SEK	10.50 <sup>3)</sup>	9.20	8.50	8.00	7.50
Special dividend per share, SEK	–	7.40	7.50	21.50	–
Earnings per share, basic, SEK					
Including larger one-time items	20.63	18.88	27.38	14.48	13.23
Including larger one-time items and excluding income from STG	20.63	18.38	26.44	12.62	11.55
Excluding larger one-time items and income from STG	20.63	16.40	14.39	12.79	11.55
Earnings per share diluted, SEK					
Including larger one-time items	20.63	18.88	27.38	14.48	13.22
Including larger one-time items and excluding income from STG	20.63	18.38	26.44	12.62	11.54
Excluding larger one-time items and income from STG	20.63	16.40	14.39	12.79	11.54

<sup>1)</sup> All key ratios have been calculated excluding larger one-time items, unless otherwise stated.

<sup>2)</sup> 2017 has been restated in accordance with IFRS 15. For the period 2014–2016, the years have for reasons of comparability been restated to reflect revenue recognition in accordance with agent accounting under IFRS 15.

<sup>3)</sup> Board proposal.

Sales by product segment, MSEK	2018	2017 <sup>1)</sup>	2016 <sup>1)</sup>	2015 <sup>1)</sup>	2014 <sup>1)</sup>
Snus and moist snuff	6,127	5,484	5,277	5,090	5,001
Other tobacco products	5,240	4,634	4,283	3,829	2,832
Lights	1,246	1,291	1,314	1,295	1,295
<b>Sales from product segments</b>	<b>12,612</b>	<b>11,410</b>	<b>10,875</b>	<b>10,214</b>	<b>9,128</b>
Other operations	353	342	348	342	333
<b>Sales</b>	<b>12,966</b>	<b>11,751</b>	<b>11,222</b>	<b>10,556</b>	<b>9,460</b>

<sup>1)</sup> 2017 has been restated in accordance with IFRS 15. For the period 2014–2016, the years have for reasons of comparability been restated to reflect revenue recognition in accordance with agent accounting under IFRS 15.

Operating profit by product segment, MSEK	2018	2017 <sup>1)</sup>	2016 <sup>1)</sup>	2015 <sup>1)</sup>	2014 <sup>1)</sup>
Snus and moist snuff	2,791	2,358	2,197	2,071	2,207
Other tobacco products	1,956	1,776	1,705	1,554	1,109
Lights	189	211	219	190	218
<b>Operating profit from product segments</b>	<b>4,936</b>	<b>4,345</b>	<b>4,122</b>	<b>3,815</b>	<b>3,534</b>
Other operations	–124	–126	–132	–124	–88
Share of net profit in STG	–	–	176	360	334
Sale of STG shares	–	197	1,208	–	–
Gain on fair value of STG shares	–	–	902	–	–
Sale of distribution facilities	–	–	145	–	–
Income from defined benefit plan amendment	–	69	–	–	–
Costs for relocation of distribution facilities	–	–	–	–42	–
Capital gain from sale of land	–	107	–	–	–
<b>Operating profit</b>	<b>4,812</b>	<b>4,592</b>	<b>6,420</b>	<b>4,008</b>	<b>3,780</b>

<sup>1)</sup> 2017 has been restated in accordance with IFRS 15. For the period 2014–2016, the years have for reasons of comparability been restated to reflect revenue recognition in accordance with agent accounting under IFRS 15.

Operating margin by product segment, %	2018	2017 <sup>1)</sup>	2016	2015	2014
Snus and moist snuff	45.6	43.0	41.6	40.7	44.1
Other tobacco products	37.3	38.3	39.8	40.6	39.2
Lights	15.2	16.4	16.7	14.7	16.8
<b>Operating margin from product segments</b>	<b>39.1</b>	<b>38.1</b>	<b>37.9</b>	<b>37.4</b>	<b>38.7</b>

<sup>1)</sup> Restated in accordance with IFRS 15.

# Quarterly data 2017–2018

Condensed consolidated income statements, MSEK	2018				2017 <sup>1)</sup>			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	3,301	3,388	3,336	2,941	2,951	2,915	3,053	2,833
Gross profit	2,057	2,157	2,085	1,834	1,821	1,852	1,939	1,783
<b>Operating profit</b>	<b>1,196</b>	<b>1,305</b>	<b>1,263</b>	<b>1,047</b>	<b>1,178</b>	<b>1,088</b>	<b>1,091</b>	<b>1,235</b>
Net financial cost	-62	-73	-73	-73	-44	-91	-24	-80
<b>Profit before income tax</b>	<b>1,134</b>	<b>1,232</b>	<b>1,190</b>	<b>974</b>	<b>1,134</b>	<b>997</b>	<b>1,066</b>	<b>1,156</b>
<b>Profit for the period</b>	<b>925</b>	<b>959</b>	<b>928</b>	<b>766</b>	<b>904</b>	<b>753</b>	<b>812</b>	<b>932</b>
<b>EBITDA<sup>2)</sup></b>	<b>1,313</b>	<b>1,406</b>	<b>1,363</b>	<b>1,144</b>	<b>1,142</b>	<b>1,184</b>	<b>1,185</b>	<b>1,088</b>
Key data	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Operating margin, %	36.2	38.5	37.9	35.6	39.9	37.3	35.7	43.6
Investments in property, plant and equipment, MSEK	185	179	171	115	139	59	89	83
Earnings per share, basic SEK	5.41	5.55	5.31	4.36	5.10	4.22	4.48	5.07
Sales by product segment, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and moist snuff	1,632	1,601	1,509	1,386	1,407	1,377	1,405	1,296
Other tobacco products	1,233	1,384	1,433	1,190	1,120	1,142	1,252	1,120
Lights	349	310	302	285	341	308	302	340
<b>Sales from product segments</b>	<b>3,214</b>	<b>3,295</b>	<b>3,244</b>	<b>2,860</b>	<b>2,867</b>	<b>2,827</b>	<b>2,960</b>	<b>2,756</b>
Other operations	87	93	92	81	84	88	93	77
<b>Sales</b>	<b>3,301</b>	<b>3,388</b>	<b>3,336</b>	<b>2,941</b>	<b>2,951</b>	<b>2,915</b>	<b>3,053</b>	<b>2,833</b>
Operating profit by product segment, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and moist snuff	725	752	691	623	612	622	590	534
Other tobacco products	456	519	557	425	417	436	496	427
Lights	66	46	46	31	68	46	37	60
<b>Operating profit from product segments</b>	<b>1,246</b>	<b>1,317</b>	<b>1,293</b>	<b>1,079</b>	<b>1,096</b>	<b>1,104</b>	<b>1,123</b>	<b>1,021</b>
Other operations	-50	-12	-30	-31	-53	-16	-32	-24
Income from defined benefit plan amendment	-	-	-	-	69	-	-	-
Sale of STG shares	-	-	-	-	66	-	-	131
Capital gain from sale of land	-	-	-	-	-	-	-	107
<b>Operating profit</b>	<b>1,196</b>	<b>1,305</b>	<b>1,263</b>	<b>1,047</b>	<b>1,178</b>	<b>1,088</b>	<b>1,091</b>	<b>1,235</b>
Operating margin by product segment, %	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and moist snuff	44.4	47.0	45.8	45.0	43.5	45.2	42.0	41.2
Other tobacco products	37.0	37.5	38.8	35.7	37.2	38.2	39.6	38.1
Lights	18.9	14.9	15.1	10.9	19.9	15.1	12.2	17.7
<b>Operating margin from product segments</b>	<b>38.8</b>	<b>40.0</b>	<b>39.9</b>	<b>37.7</b>	<b>38.2</b>	<b>39.1</b>	<b>37.9</b>	<b>37.1</b>
EBITDA by product segment, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and moist snuff	795	810	744	675	663	674	642	584
Other tobacco products	480	539	581	446	438	457	516	446
Lights	76	57	56	41	78	57	47	71
<b>EBITDA from product segments</b>	<b>1,351</b>	<b>1,406</b>	<b>1,381</b>	<b>1,162</b>	<b>1,180</b>	<b>1,188</b>	<b>1,205</b>	<b>1,100</b>
EBITDA margin by product segment, %	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and moist snuff	48.7	50.6	49.3	48.7	47.2	49.0	45.6	45.1
Other tobacco products	38.9	39.0	40.5	37.5	39.1	40.0	41.2	39.8
Lights	21.8	18.2	18.5	14.4	23.0	18.4	15.6	20.9
<b>EBITDA margin from product segments</b>	<b>42.0</b>	<b>42.7</b>	<b>42.6</b>	<b>40.6</b>	<b>41.1</b>	<b>42.0</b>	<b>40.7</b>	<b>39.9</b>
Depreciation, amortization and impairments, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Property, plant and equipment	102	85	84	81	85	80	80	77
Intangible assets	16	16	16	16	13	16	15	15
<b>Total</b>	<b>117</b>	<b>101</b>	<b>100</b>	<b>97</b>	<b>98</b>	<b>96</b>	<b>95</b>	<b>91</b>
Net finance cost, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Interest income	15	16	17	14	10	9	12	18
Interest expense	-81	-87	-86	-86	-97	-99	-97	-96
<b>Net interest expense</b>	<b>-66</b>	<b>-71</b>	<b>-69</b>	<b>-72</b>	<b>-87</b>	<b>-90</b>	<b>-85</b>	<b>-78</b>
Dividend from STG	-	-	-	-	42	-	65	-
Other finance costs, net	4	-2	-4	-1	1	-1	-4	-2
<b>Total net finance cost</b>	<b>-62</b>	<b>-73</b>	<b>-73</b>	<b>-73</b>	<b>-44</b>	<b>-91</b>	<b>-24</b>	<b>-80</b>

<sup>1)</sup> Restated in accordance with IFRS 15.

<sup>2)</sup> Excluding larger one-time items.

# Definitions

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
DIVIDEND PAY-OUT RATIO (%)	$100 \times \text{Dividend (proposed after year-end)} \div \text{Earnings per share from continuing operations, basic}$	Used as a measure of the percentage of net profits distributed as a dividend to the shareholders.
DIVIDEND YIELD (%)	$100 \times \text{Dividend (proposed after year-end)} \div \text{Year-end share price}$	Used as a measure of cash return to shareholders.
TOTAL RETURN (%)	$100 \times [\text{Share price at year-end} - \text{share price at preceding year-end}] + [\text{dividend paid} + \text{return on reinvested dividend}] \div \text{Share price at preceding year-end}$	Used as a measure of the Group's total value creation for the shareholder, including cash returns and share price appreciation/depreciation.
P/E RATIO	$\text{Share price at year-end} \div \text{Earnings per share}$	Used as a measure of the estimated market value based on net profit generation.
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 (%)	$100 \times \text{Operating profit from product segments} \div \text{Sales from product segments}$	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.
EBIT MULTIPLE	$(\text{Market capitalization} + \text{net debt} + \text{non-controlling interest}) \text{ at year-end} \div \text{Operating profit}$	Used as a measure of Group enterprise value in relation to operating profit generation.
EBITDA	Operating profit excluding larger one-time items, income from STG, net finance cost, income tax, depreciation, amortization and impairments of tangible and intangible assets	Used as an alternative measure of operating performance that is not impacted by historical investments and the related accounting treatment of such investments as well as items which impact comparability between periods.
EBITDA FROM PRODUCT SEGMENTS	Operating profit from product segments, excluding Other operations, larger one-time items, income from STG, net finance cost, income tax, depreciation, amortization and impairments of tangible and intangible assets	Used as an alternative measure of operating performance for the core commercial businesses of Swedish Match, that is not impacted by historical investments and the related accounting treatment of such investments as well as items which impact comparability between periods.
EBITDA MARGIN (%)	$100 \times \text{EBITDA} \div \text{Sales}$	Used as an alternative measure of operating profitability.
EBITDA MARGIN FROM PRODUCT SEGMENTS (%)	$100 \times \text{EBITDA from product segments} \div \text{Sales from product segments}$	Used as an alternative measure of operating profitability for the core commercial businesses of Swedish Match.
PROFIT FOR THE PERIOD, EXCLUDING INCOME FROM STG AND LARGER ONE-TIME ITEMS	Profit for the period excluding income from STG and larger one-time items	Used as an alternative measure of profit for the period of the ongoing business which is not affected by items which impact comparability between periods.
EBITA	Operating profit excluding larger one-time items, income from STG, net finance cost, income tax, amortization and impairments of intangible assets	Used as a proxy for the free cash flow of the ongoing business available for payment of financial obligations.
EBITA INTEREST COVERAGE RATIO (EBITA INTEREST COVER)	$\text{EBITA} \div (\text{Interest expense} - \text{interest income})$	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	$\text{Net debt} \div \text{EBITA}$	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	$\text{Profit for the period, excluding income from STG and larger one-time items} \div \text{Average number of shares outstanding}$	Used as an alternative measure of earnings per share which is not affected by items which impact comparability between periods.
MARKET CAPITALIZATION	$\text{Share price at year-end} \times \text{Number of shares outstanding at year-end}$	Used as a measure of the market value of the Group.

Larger one-time items, MSEK	2018	2017
Income from defined benefit plan amendment	–	69
Sale of STG shares	–	197
Capital gain from sale of land	–	107
<b>Total larger one-time items in operating profit</b>	<b>–</b>	<b>373</b>
Dividend from STG	–	107
<b>Total larger one-time items</b>	<b>–</b>	<b>480</b>

Net debt, MSEK	2018	2017
Non-current loans	12,282	10,277
Current loans	1,229	1,253
Components of derivatives (liabilities) <sup>1)</sup>	20	40
Net provision for pensions and similar obligations	1,106	1,146
Cash and cash equivalents and other short term investments	–2,886	–3,998
Net asset for pensions and similar receivables <sup>2)</sup>	–83	–88
Components of derivatives (assets) <sup>3)</sup>	–826	–446
<b>Net debt</b>	<b>10,843</b>	<b>8,183</b>

<sup>1)</sup> Included in Other current liabilities in the consolidated balance sheet.

<sup>2)</sup> Included in Other non-current receivables in the consolidated balance sheet.

<sup>3)</sup> Included in Other current and non-current receivables and Other non-current liabilities in the consolidated balance sheet.

## FINANCIAL REPORTS

## CFO comment



Thomas Hayes  
CFO

Swedish Match delivered an impressive financial result in 2018, with sales and operating profit from product segments increasing by 10 percent and 14 percent, respectively. Our reported growth benefited somewhat from favorable currency effects as well as the contributions from businesses that we acquired in late 2017 and in 2018. However, it was more so the strong organic growth from our two largest product segments, Snus and moist snuff and Other tobacco products, that contributed to Swedish Match's strong top-line and bottom-line performance.

The contribution to sales growth in local currencies was relatively balanced between Snus and moist snuff and Other tobacco products, driven by volume growth and positive pricing for Scandinavian snus, extraordinary volume growth and operating expense reductions for snus and nicotine pouches outside Scandinavia, and volume growth and positive pricing for US cigars. All three of these businesses contributed nicely to operating profit growth during 2018. Our profit for the period amounted to 3,578 MSEK and this amount converted to 3,705 MSEK in net cash generated from operating activities.

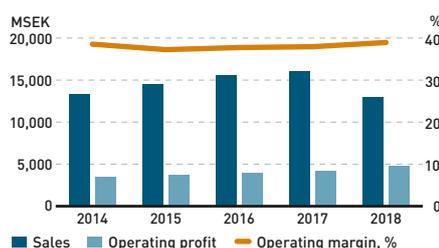
Earnings per share (EPS) for the year amounted to 20.63 SEK, up by 9 percent compared to the prior year, and up by 26 percent when adjusted for larger one-time items and income from STG recognized in 2017. Our adjusted EPS growth benefited from higher operating profit, lower finance costs and income taxes as well as a reduction in the number of shares outstanding.

The tax reform enacted in the US in late 2017 was generally positive for Swedish Match – the most meaningful impact being the reduction in the US federal corporate income tax rate. In addition, the ability to immediately deduct capital investments in the US should continue to benefit Swedish Match as we invest in expanded capacity for ZYN production in the US during coming years.

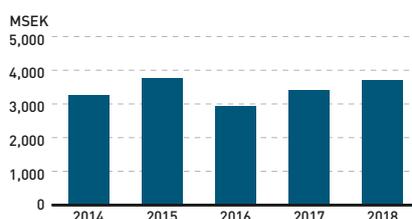
Much like 2017, 2018 was a year where we invested significantly in future growth. Cash flows used in investing activities for purchases of tangible and intangible assets as well as business acquisitions amounted to 1.2 billion SEK in 2018 compared to 1.3 billion SEK in 2017. We have been pleased with the integration efforts of and contributions from our 2018 acquisitions: House of Oliver Twist, a Danish maker of well-known, high-quality chewing tobacco bits, and Gotlandssnus, a uniquely positioned Swedish manufacturer of snus and nicotine-free products. These acquisitions are excellent complements to our product portfolio and provide new dimensions to our offerings. Also, as noted in our 2019 Outlook, we expect increased capital expenditures in 2019 relative to 2018 levels as we further scale up production capacity for ZYN.

We remain committed to our financial policy and to our investment grade bond credit ratings. Cash not required within our operations or for strategic investments is returned to shareholders, and in 2018, Swedish Match distributed excess cash to our shareholders of 5,423 MSEK. Total ordinary and special dividends amounted to 2,911 MSEK and we repurchased shares for 2,512 MSEK. We also look to maintain financial flexibility and manage financial risks by spreading our bond maturities out over many years. The weighted average interest rate of our bond portfolio at December 31, 2018 was 2.18 percent compared to 2.64 percent at the end of 2017. The capital duration of our bond portfolio was 4.1 years at December 31, 2018 and 96 percent of our portfolio is subject to fixed interest rates. We are well positioned to provide any necessary funds to support our businesses and for investments needed for further growth, while continuing to return strong cash returns to our shareholders.

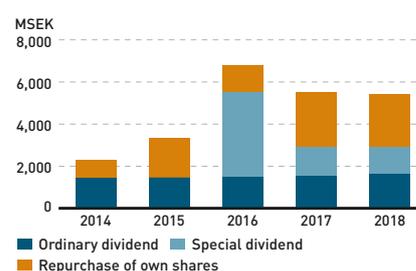
SALES AND OPERATING PROFIT  
2014–2018<sup>11</sup>



NET CASH FROM OPERATING ACTIVITIES  
2014–2018



CASH TRANSFERRED TO SHAREHOLDERS  
2014–2018



<sup>11</sup> 2017 has been restated in accordance with IFRS 15 and sales for 2014–2016 have been restated to reflect revenue recognition in accordance with agent accounting under IFRS 15.

## Content

Report of the Board of Directors .....	58
Proposed distribution of earnings .....	65
<b>Consolidated financial statements</b>	
Consolidated income statement .....	66
Consolidated statement of comprehensive income .....	66
Consolidated balance sheet .....	67
Consolidated statement of changes in equity .....	68
Consolidated cash flow statement .....	69
Notes for the Group .....	70
Note 1 Accounting principles .....	70
Note 2 Critical estimates and judgements .....	77
Note 3 Segment information .....	78
Note 4 Business combinations .....	80
Note 5 Other operating income and expenses .....	80
Note 6 Personnel .....	80
Note 7 Audit fees .....	83
Note 8 Operating expenses classified by nature .....	83
Note 9 Net finance cost .....	83
Note 10 Income tax .....	84
Note 11 Earnings per share .....	85
Note 12 Intangible assets .....	85
Note 13 Property, plant and equipment .....	86
Note 14 Forest plantations .....	86
Note 15 Investments in associated companies .....	86
Note 16 Other non-current receivables and other current receivables .....	87
Note 17 Inventories .....	87
Note 18 Trade receivables .....	87
Note 19 Cash and cash equivalents .....	88
Note 20 Equity .....	88
Note 21 Interest bearing liabilities .....	89
Note 22 Employee benefits .....	89
Note 23 Provisions .....	92
Note 24 Other non-current liabilities and other current liabilities ..	93
Note 25 Accrued expenses and deferred income .....	93
Note 26 Financial instruments and financial risks .....	93
Note 27 Operating lease agreements .....	96
Note 28 Pledged assets .....	96
Note 29 Commitments and contingent liabilities and assets .....	97
Note 30 Group companies .....	97
Note 31 Supplementary information to cash flow statement .....	98
Note 32 Related parties .....	98
Note 33 Information about the Parent Company .....	98
<b>Parent Company financial statements</b>	
Parent Company income statement .....	99
Parent Company statement of comprehensive income .....	99
Parent Company balance sheet .....	100
Statement of changes in Parent Company equity .....	101
Cash flow statement for the Parent Company .....	102
Notes for the Parent Company .....	103
Note 1 Sales .....	103
Note 2 Audit fees .....	103
Note 3 Other operating income and expense .....	103
Note 4 Financial items .....	103
Note 5 Appropriations .....	103
Note 6 Income tax .....	103
Note 7 Tangible assets .....	104
Note 8 Group companies .....	104
Note 9 Other non-current receivables .....	105
Note 10 Other receivables .....	105
Note 11 Prepaid expenses and accrued income .....	105
Note 12 Equity .....	105
Note 13 Untaxed reserves .....	105
Note 14 Other provisions .....	106
Note 15 Bond loans .....	106
Note 16 Other liabilities .....	106
Note 17 Accrued expenses and deferred income .....	106
Note 18 Carrying value and fair value of financial instruments ...	106
Note 19 Derivatives under netting agreements .....	107
Note 20 Operating lease agreements .....	108
Note 21 Pledged assets and contingent liabilities .....	108
Note 22 Distribution of earnings .....	108
Note 23 Related parties .....	108
Note 24 Supplementary information to cash flow statement .....	108
Note 25 Employee benefits .....	109
Note 26 Subsequent events .....	109
Auditor's report .....	110

Swedish Match AB (Publ) corporate registration number 556015-0756

# Report of the Board of Directors

Swedish Match develops, manufactures, and sells quality products with market-leading brands. The Company's product segments are *Snus and moist snuff*, *Other tobacco products*, and *Lights*. The Group sells products across the globe, with production units in seven countries. The Swedish Match share is listed on the Nasdaq Stockholm (SWMA).

2018 was a successful year for Swedish Match, with a strong financial performance from our two largest product segments.

Group sales increased by 10 percent to 12,966 MSEK (11,751) and sales from product segments increased by 11 percent to 12,612 MSEK (11,410).

Group operating profit amounted to 4,812 MSEK (4,592). Group operating profit for the prior year included larger one-time items of 373 MSEK. The Group's profit for the period amounted to 3,578 MSEK (3,400).

## Sales from product segments

For the year, sales for *Snus and moist snuff* increased to 6,127 MSEK (5,484). In local currencies sales increased by 10 percent.

In Scandinavia, shipment volumes grew by more than 6 percent. Swedish Match estimates that its underlying organic Scandinavian snus volumes (excluding Gotlandssnus and V2 Tobacco up to the end of August) increased by approximately 3 percent.

In the US, sales for moist snuff increased in local currency. For snus and nicotine pouches outside Scandinavia, the favorable sales development resulted primarily from higher volumes and improved pricing for both snus and ZYN in the US. The average sales volume per store for ZYN continued to increase and ZYN was by the end of 2018 available in more than 13,500 stores primarily in the western region of the US.

For *Other tobacco products*, total sales for the year amounted to 5,240 MSEK (4,634). In local currencies, sales for *Other tobacco products* were up by 11 percent compared to previous year. Cigar volumes increased by 5 percent and sales in US dollars increased at a faster rate due to higher average pricing for rolled leaf varieties, along with a portfolio shift toward natural leaf cigars. Swedish Match shipment volumes of rolled leaf cigars for the full year grew by 24 percent. For chewing tobacco, sales in local currencies grew, principally due to the addition of acquired V2 Tobacco and Oliver Twist chewing tobacco businesses. US chewing tobacco volumes declined by 4 percent, a more modest decline rate than the overall market.

For *Lights* sales for the year amounted to 1,246 MSEK (1,291). Sales declined by 4 percent, primarily as a result of a particularly weak performance for this reporting segment in the first quarter. Sales for lighters declined markedly on lower volumes, while sales for matches declined slightly due to negative currency effects partially offset by favorable price/mix effects. More than half of the full year volume decline in lighter shipments was attributable to the discontinuance of shipments of third-party manufactured lower priced lighters to the UK market.

## Operating profit from product segments

Operating profit from product segments increased by 14 percent to 4,936 MSEK (4,345). Operating profit increased for the two larger product segments *Snus and moist snuff* and *Other tobacco products*, while operating profit for *Lights* declined. In local currencies the operating profit from product segments increased by 12 percent.

Operating profit for *Snus and moist snuff* increased to 2,791 MSEK (2,358) and included net operating result for snus and nicotine pouches outside Scandinavia of 61 MSEK (negative 167). Operating

## Sales and operating profit/loss by product segment

MSEK	Sales		Operating profit/loss	
	2018	2017 <sup>1)</sup>	2018	2017 <sup>1)</sup>
Snus and moist snuff	6,127	5,484	2,791	2,358
Other tobacco products	5,240	4,634	1,956	1,776
Lights	1,246	1,291	189	211
<b>Sales and operating profit from product segments</b>	<b>12,612</b>	<b>11,410</b>	<b>4,936</b>	<b>4,345</b>
Other operations	353	342	-124	-126
Income from defined benefit plan amendment			-	69
Capital gain from sale of land			-	107
Sale of STG shares			-	197
<b>Total</b>	<b>12,966</b>	<b>11,751</b>	<b>4,812</b>	<b>4,592</b>

<sup>1)</sup> Restated in accordance with IFRS 15.

## Summary of consolidated income statement

MSEK	2018	2017 <sup>1)</sup>
Sales	12,966	11,751
Operating profit	4,812	4,592
Net finance cost	-281	-240
Income tax expense	-953	-952
<b>Profit for the year</b>	<b>3,578</b>	<b>3,400</b>
<i>Attributable to:</i>		
Equity holders of the Parent	3,578	3,400
Non-controlling interest	0	0
<b>Profit for the year</b>	<b>3,578</b>	<b>3,400</b>
Earnings per share, basic and diluted, (SEK)	20.63	18.88

<sup>1)</sup> Restated in accordance with IFRS 15.

profit for snus in Scandinavia grew on increased volumes and improved pricing offset somewhat by higher manufacturing costs. In the US, operating profit in local currency for moist snuff increased. For snus and nicotine pouches outside Scandinavia, the favorable financial development resulted primarily from higher volumes and improved pricing for both snus and ZYN in the US, but also benefited from lower marketing costs for snus in the US.

Operating profit for *Other tobacco products* amounted to 1,956 MSEK (1,776). In local currencies, operating profit was up by 8 percent, attributable to the strong performance for US cigars – from both rolled leaf and small natural leaf varieties and also despite increased FDA related fees and costs. For chewing tobacco, operating profit in local currencies grew, principally due to the addition of acquired V2 Tobacco and Oliver Twist chewing tobacco businesses.

Operating profit for *Lights* for the year amounted to 189 MSEK (211). Operating profit declined, principally attributable to the soft performance for lighters. Reported operating profit was affected by restructuring costs totaling 18 MSEK in the current year and 11 MSEK in the prior year.

Operating margin from product segments for the year, was 39.1 percent (38.1). Operating margin for the Group was 37.1 percent (39.1 including larger one-time items).

### Significant events during the year

On April 3, 2018, Swedish Match acquired 100 percent of the shares House of Oliver Twist A/S, a Danish smokeless tobacco company. The company develops, produces and sells chewing tobacco bits made of processed tobacco strands under the brand Oliver Twist. The total consideration amounted to 306 MSEK, and was paid in cash.

On August 22, 2018, Swedish Match acquired 95 percent of the shares in Gotlands Snus AB (Gotlandssnus). The company produces, develops and sells popular brands such as Jakobssons's (snus) and Qvitt (pouch products with neither nicotine nor tobacco), and its production facility is located on Gotland, Sweden. The consideration amounted to 283 MSEK and was partly paid in cash upon the acquisition date. The remaining part of the consideration is classified as a vendor loan expected to be paid during 2020.

The ZYN factory expansion project in the US is progressing according to plan and it is expected the capacity gradually to be increased throughout 2019. During 2019, continued investment in the ZYN production capacity in the US is planned, which will result in additional capital expenditures in 2019 for ZYN.

### Larger one-time items

No larger one-time items were recognized during 2018. The previous full year included larger one-time items of 373 MSEK relating to capital gains from the sale of Scandinavian Tobacco Group (STG) shares and from the sale of a parcel of land as well as income from a defined benefit plan amendment.

### Net finance cost

Net finance cost for the year amounted to 281 MSEK (240). The finance net for the full year 2017 included dividend income from STG of 107 MSEK.

### Taxes

Income tax expense amounted to 953 MSEK (952), corresponding to an effective corporate tax rate of 21.0 percent (21.9). The effective corporate tax rate, excluding associated companies and larger one-time items, for the period was 21.7 percent (23.8).

### Earnings per share

For the full year, basic and diluted earnings per share amounted to 20.63 SEK (18.88). Adjusted EPS, excluding income from STG and larger one-time items in 2017, increased by 26 percent to 20.63 SEK (16.40).

### Liquid funds

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

### Financing and cash flow

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

Investments in property, plant and equipment increased to 649 MSEK (369). Cash flow from investing activities in the current year has been impacted by the acquisitions of Oliver Twist and Gotlandssnus. Cash flow from investing activities in the prior year included the acquisition of V2 Tobacco, and was positively impacted by the net proceeds from the sale of STG shares, the sale of a parcel of land and dividend from STG.

## Summary of consolidated balance sheet

MSEK	2018	2017 <sup>1)</sup>
Non-current assets	7,113	5,944
Other current assets	3,989	3,434
Cash and cash equivalents	2,886	3,998
<b>Total assets</b>	<b>13,987</b>	<b>13,376</b>
Equity	-5,595	-4,201
Non-current financial liabilities and provisions	2,742	2,786
Non-current loans	12,282	10,277
Current liabilities and provisions	3,329	3,261
Current loans	1,229	1,253
<b>Total equity and liabilities</b>	<b>13,987</b>	<b>13,376</b>

<sup>1)</sup> Restated in accordance with IFRS 15.

## Summary of consolidated cash flow statement

MSEK	2018	2017
Net cash generated from operating activities	3,705	3,402
Net cash used in/from investing activities	-1,204	1,594
Net cash transferred to shareholders	-5,423	-5,498
Net cash from other financing activities	1,727	1,215
<b>Net decrease/increase in cash and cash equivalents</b>	<b>-1,195</b>	<b>713</b>
Cash and cash equivalents at beginning of the year	3,998	3,364
Effects of exchanges rate fluctuations on cash and cash equivalents	83	-79
<b>Cash and cash equivalents at end of year</b>	<b>2,886</b>	<b>3,998</b>

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

During 2018, new bond loans of 2,846 MSEK were issued and repayments of bond loans amounted to 1,250 MSEK. As of December 31, 2018, Swedish Match had 12,705 MSEK of interest-bearing debt, including related derivatives but excluding retirement benefit obligations compared to 11,123 MSEK at December 31, 2017. During 2019, 1,229 MSEK of this debt falls due for payment. For further detail on the maturity profile of the debt portfolio, see *Note 21 Interest bearing liabilities*.

Net retirement benefit obligations decreased to 1,024 MSEK as of December 31, 2018, from 1,058 MSEK at December 31, 2017. The decrease was mainly due to higher contributions and positive remeasurements effects from higher discount rates which was partly offset by negative currency effects.

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

### Financial policy and shareholder distribution

Swedish Match has the ambition to continuously grow dividend per share with a payout ratio normally within 40–60 percent of the earnings per share, subject to adjustments for larger one-time items.

The Board has further determined that the financial policy should be that the Group will strive to maintain a net debt that does not exceed 3 times EBITA.

The Board continually reviews the financial position of the Company, and the actual level of net debt will be assessed against anticipated future profitability and cash flow, investment and expansion plans, acquisition opportunities as well as the development of interest rates and credit markets. The Board is committed to maintain an investment grade credit rating similar to S&P's BBB or Moody's Baa2 long term ratings.

The Board of Directors proposes to the Annual General Meeting an increased ordinary dividend, amounting to 10.50 SEK per share (9.20). The proposed dividend represents an increase of 14 percent from the prior year's ordinary dividend, and equals a payout ratio of 51 percent (56) of the earnings per share for the year. The proposed dividend amounts to 1,787 MSEK based on the 170.2 million shares outstanding at the end of the year.

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

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

### The share

The Annual General Meeting on April 11, 2018 decided to authorize the Board of Directors to decide on the acquisition, on one or more occasions prior to the next Annual General Meeting, of a maximum of as many shares as may be acquired without the Company's holding at any time exceeding 10 percent of all shares in the Company. In addition, in accordance with the resolution at the Annual General Meeting, 5.9 million shares held in treasury have been cancelled. The total number of registered shares in the Company after the cancellation is 176.0 million shares with a quotient value of 2.2138 SEK representing a share capital of 389.5 MSEK. Each share carries one vote.

In line with the financial policy, Swedish Match repurchased 5.7 million shares for 2,512 MSEK during 2018 at an average price of 440.75 SEK, following authorization from the Annual General Meetings held in 2017 and 2018. The purpose of the repurchase was

primarily to enable the Company's capital structure to be adjusted. Total shares bought back by Swedish Match since the buyback program started have been repurchased at an average price of 130.61 SEK. As per December 31, 2018 Swedish Match held 5.7 million shares, corresponding to 3.26 percent of the total number of shares. The number of shares outstanding, net, as per December 31, 2018, amounted to 170.2 million.

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

### Other events

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

On November 22, 2018, the European Court of Justice (ECJ) published its judgment concerning the prohibition to sell Swedish snus to other EU member states. The court ruled that Swedish snus will continue to be excluded from the EU's internal market. The judgment of the ECJ cannot be appealed, which leaves a future removal of the ban essentially a political issue.

#### *Swedish regulation on tobacco and similar products*

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

#### *The European Court of Justice's ruling on chewing tobacco*

In 2017, the Bavarian Administrative Court in Germany asked the ECJ to clarify the definition of chewing tobacco under the EU Tobacco Directive (Directive 2014/40/EU). Under this directive oral tobacco products (snus) are banned in the EU outside Sweden but products defined as chewing tobacco are allowed unless subject to specific national legislation. The German court had asked the ECJ to clarify a number of points relating to the definition of chewing tobacco, including the meaning and definition of "intended to be chewed". The ECJ published its ruling on October 17, 2018.

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

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

With regard to the statements in the ECJ judgement it is at this point of time difficult to predict the outcome in the Bavarian court. As Swedish Match has communicated previously, negative rulings in national courts related to chew bags could restrict Swedish Match from distributing and selling chew bags in their present form in the EU markets thereby negatively impacting the carrying value of Swedish Match's reported intangibles from the September 2017 acquisition of V2 Tobacco. In 2018 chew bag sales amounted to 173 MSEK (1.3 percent of total Group sales) and chew bag operating

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

#### *Statement from Scott Gottlieb, FDA Commissioner*

On November 15, 2018, the FDA Commissioner, Scott Gottlieb, released a communication in which he stated that the FDA intends to propose a product standard that would ban flavors in all cigars. It was further stated in his comment that flavored cigars should no longer be subject to the extended compliance date (August 2021) for substantial equivalence authorization – regardless of the location in which the products are sold. No timeline has been set for any possible change to the current rules and regulations.

#### *Ruling by the Swedish Patent and Market Court of Appeal*

On June 29, 2018, the Swedish Patent and Market Court of Appeal ruled that the uniform labelling system implemented for Swedish Match's and other manufacturers' products in Swedish Match's own snus coolers during parts of 2012 and 2013 was not in breach of the competition legislation. The court thereby fully rejected the Competition Authority's complaint and changed the previous ruling of the Patent and Market Court and Swedish Match shall not pay the fine of 38 MSEK imposed by this court. Swedish Match will also be reimbursed for legal costs. The ruling cannot be appealed. No provision for a fine had previously been made.

#### **Events following the close of the reporting period**

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

#### **Alternative Performance Measures**

Swedish Match frequently presents measures of financial performance which complement measures that are defined or specified in the applicable financial reporting framework. The basis for presenting such measures, referred to as Alternative Performance Measures (APM's) are that they are used by management to evaluate the financial performance and in so believed to give analysts and other stakeholders valuable information. A listing of APM's is presented on page 55 and is also available on the Company's website [www.swedishmatch.com](http://www.swedishmatch.com).

#### **Corporate governance report**

Swedish Match has decided, in accordance with chapter 6 section 8 in the Swedish Annual Accounts Act, to produce a separate Corporate Governance Report instead of including the report in the Board of Director's report. The Corporate Governance Report is presented on page 115–125 and is also available on the Company's website [www.swedishmatch.com](http://www.swedishmatch.com).

The Corporate Governance Report includes information on risk management and internal control over financial reporting, see further on page 121.

#### **Sustainability report**

Swedish Match has decided, in accordance with chapter 6 section 11 in the Swedish Annual Accounts Act, to produce a separate sustainability report instead of including the report in the Board of Director's report. The sustainability report is presented on page 30–47 and is also available on the Company's website [www.swedishmatch.com](http://www.swedishmatch.com).

Swedish Match's sustainability report includes information on the Group's six focus areas, where the Group devotes most of its strategic sustainability efforts. The six focus areas are *Improve public health*, *Ensure ethical business practices*, *Support equal opportunity*, *Reduce greenhouse gases*, *Reduce waste* and *Eliminate child labor*.

#### **Permits and obligatory reporting**

All plants satisfied the requirements of their permits during 2018. The snus plants in Gothenburg and Kungälv in Sweden are subject to obligatory reporting in accordance with the Swedish Environmental Code. The plant in Vetlanda, Sweden produces splint and boxes with striking surface that are used in match production. These operations require a permit in accordance with the Environmental Protection Act. The permit is valid indefinitely. Noise levels, storage of timber and solvent emissions are regulated.

The plant in Tidaholm, Sweden produces matches and fire-starters. These operations require permit according to the Environmental Protection Act. The permit entitles the plant to increase production up to certain levels and specifies limits for wastewater, the dust content in ventilation outflows and noise levels.

For plants in other countries where Swedish Match has production operations, the Group has permits in accordance with the legislation in each country.

#### **Organization and personnel**

The Swedish Match head office, where the CEO and Group staff functions are based, is located in Stockholm, Sweden. The organizational structure is divided among the divisions Europe Division, US Division and Lights Division as well as Corporate functions. The largest number of employees is in the Dominican Republic, Sweden, and the US followed by Brazil and the Philippines.

The Group is dedicated to maintaining its employee focus and their development in a performance driven culture. The Company actively works for developing the skills of both leaders and employees in order to strengthen the result oriented culture while contributing to the improvement and growth of the Company.

The human resources organization supports the Group's activities in managing talent, providing clear and consistent documentation of activities, upholding employee practices consistent with the Group's Code of Conduct as well as local laws and regulations, among other tasks. Swedish Match continues to focus on Employer Branding from a multifaceted perspective to ensure that it retains and attracts a strong employee base, and helping to ensure that Swedish Match is an attractive employer.

The human resource organization regularly coordinates and conducts a global employee survey to identify common improvement areas. The latest survey measured levels of employee engagement, satisfaction, and employer attractiveness. It also evaluated communication effectiveness and other areas critical to the performance of the Group, such as leadership, gender equality and management capabilities. The results from the surveys are shared with all employees and following the presentation of the results, employees and managers develop action plans together based on the survey results.

#### **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.

The Group is involved in a number of legal and regulatory proceedings. There can be no assurance that the Company's defenses will be successful in trial and substantial costs may be incurred in defending lawsuits. Although management cannot in any meaningful way estimate the damages that might be awarded, if any, from ongoing or anticipated disputes, such lawsuits individually or in the aggregate, could have an adverse effect on the Groups results of operations.

Swedish Match applies a cautious and conservative policy towards exposures in financial risks, which is updated yearly by Swedish Match Board of Directors.

Refinancing risk is the risk of not being able to meet the need for future funding. To avoid this risk, all maturing loans shall be able to be repaid by operating cash flows. Furthermore, there shall be a liquidity reserve consisting of available cash and cash equivalents as well as unutilized committed credit facilities. The aim of the Group is to have an even maturity structure of the debt portfolio and the objective for interest rate fixing periods is to achieve an even and low cost of interest. Since the part of loans with fixed interest rates is approximately 96 percent of the total debt portfolio, the cash-flow interest rate risk is considered to be low. Interest rate swaps and currency swaps are used mainly to convert the Group's borrowing into SEK and fixed interest rates and hedge accounting is applied in accordance with the description in *Note 1 Accounting principles*. Swedish Match aims to limit credit risks through transactions only to be made for derivative instruments with counterparties having high credit ratings. Swedish Match exposure to credit risks in customer related receivables is low considering the diverse customer portfolio.

Currency transaction exposures are limited and therefore currency hedging is only done case-by-case. Swedish Match does not have any trading activities, i.e. take specific positions to gain on market fluctuations, in any financial instruments. For a more detailed description of the Group's financial risk management and holdings of financial instruments, see *Note 26 Financial instruments and financial risks*.

### Change of control clauses

Swedish Match AB and certain subsidiaries in the Group are party to agreements that include change of control clauses. Bonds issued under Swedish Match's 2,000 MEUR Global Medium Term Note Program and the 1,500 MSEK Revolving Credit Facility have clauses

that can force the Company to pay back loans in a change of control situation. Some agreements with third parties in the Scandinavian tobacco distribution function can be cancelled should there be a change of control of Swedish Match.

The President and three other members of the Group Management Team may initiate the termination of their employment if the Company is delisted or in the event of a major change of ownership of the Company, provided such change has a significant impact on the duties and responsibility compared with the duties and responsibility immediately prior to such change. In such an event, these persons have the right to a notice period of six months and severance pay for 18 months. Also, some executives in the US operations have change of control clauses which may be triggered by certain events.

### Proposal to the Annual General Meeting for principles of remuneration to management

The Board of Directors proposes that the following principles for remuneration and other terms of employment for the President and other members of the Group management be adopted by the Annual General Meeting 2019. The members of the Group management are referred to below as the "Group Management Team" or "GMT".

The objective of these principles is to ensure that the Company is able to recruit and retain employees with appropriate skills and qualifications for their respective duties.

The remuneration structures shall encourage employees to do their utmost to safeguard shareholders' interests. Swedish Match takes into account both global remuneration practice and the practice of the country of residence of each member of the GMT. The principles apply in relation to members of the GMT appointed after the adoption of the principles, and, in other cases, to the extent permitted under existing agreements. The 2018 annual report sets out details of the remuneration and benefits of the GMT during 2018.

The total remuneration paid to GMT consists of fixed salary, variable components in the form of annual short term variable remuneration and long term variable remuneration, pension, other benefits and terms related to termination of employment.

#### 1. Fixed salary

The fixed salary for the GMT shall correspond to market rates and shall be based on each member's competence, country of residence, responsibility and performance.

#### 2. Variable salary

The members of the GMT may be entitled to a variable salary in addition to the fixed salary. The variable salary may include both an annual short term program to be paid out in the beginning of the subsequent year depending on the outcome of the program, and a long term program with a performance period which shall not be shorter than three years. The variable salary shall primarily be based on specific, clear, predetermined and measurable financial or operational criteria set by the Board of Directors in relation to the President and by the Compensation Committee in relation to the GMT. The variable salary shall be capped in relation to the fixed salary and reflect the market practice in the country of residence.

The Company shall have the right to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.

### 3. Profit Sharing System

All employees in Sweden are participating in Swedish Match profit sharing system ("PSS"). For 2019 the maximum total accruals for GMT members is estimated to 0.3 MSEK.

### 4. Insurable benefits

Old age pension, disability and sickness benefits, medical benefits and life insurance benefits shall be designed to reflect the practices in the country where a member of the GMT is resident. New members of the GMT shall preferably be covered by defined contribution plans.

### 5. Severance pay, etc

A mutual period of notice of six months shall apply. Fixed salary during notice of termination and severance payment (if any) shall not exceed an amount corresponding to 24 months fixed salary. Members of the GMT residing outside Sweden may however be offered notice periods for termination and severance payment that are competitive in the country where the members are resident.

### 6. Other benefits

Other benefits shall be payable in accordance with local custom. The combined value of these benefits shall constitute a limited value in relation to the total remuneration package and shall correspond to market practice.

### 7. The Board's right to deviate from the principles

The Board of Directors shall be entitled to deviate from the principles approved by the Annual General Meeting if specific reasons for doing so exist in any individual case.

### 8. Committee work and decisions

Swedish Match Board of Directors shall have a Compensation Committee. The Committee has the authority to approve salary and other remuneration and employment terms for members of the GMT, except those regarding the President. The Committee shall prepare and present proposals for the Board's decisions on issues relating to salary and other remuneration and employment terms for the President. The Committee is authorized to decide and in relation to the President to propose to the Board of Directors the further details regarding the criteria and targets on which the variable salary is based for the GMT. In addition hereto the Committee is authorized to decide to what extent such criteria and targets have been met both for the GMT and the President.

### 9. Previous undertakings not yet due

The Company has no previous undertakings not yet due besides what is evident from the annual report 2018.

## Application of principles on variable salary for 2019

In order to ensure alignment with long term shareholder interests, to strengthen the retention element of the variable salary and to promote company shareholding among the Group Management Team ("GMT") the variable salary includes a short term cash incentive and a long term cash incentive program where the short term program includes an incentive for the GMT members to purchase and retain shares in the Company while the long term program includes an obligation to purchase and an undertaking to retain such shares. The performance period for the short term and the long term programs will be one year and three years, respectively.

### 1. Short term variable salary

The maximum short-term variable salary for the President and other members of the GMT residing in Sweden shall be 70 and 60 percent, respectively of their 2019 base salary. To comply with local market standards the maximum short-term incentive for members residing outside of Sweden shall be 70 percent of the 2019 base salary. Subject to justified exemptions, a 20 percentage point reduction in maximum variable salary shall apply to any GMT member who does not commit to purchase Company shares for at least 50 percent of the received cash award net of income tax and to retain such shares for a period of not less than three years. The minimum level of performance that must be reached to earn any allocation and the maximum level of performance at which payout is capped shall be defined in the beginning of each year by the Compensation Committee in relation to the GMT members other than the President and by the Board of Directors in relation to the President.

Accruals for short term variable salary objectives for GMT members 2019 are estimated<sup>1)</sup> to range between 0 MSEK and 20 MSEK.

### 2. Long term variable salary

The maximum long-term variable salary of the President and other members of the GMT (except as set forth below) shall be either 45 percent of the 2019 base salary or 750 000 SEK depending on the remit of the GMT member. Subject to justified exemptions, all members of the GMT will be obliged to purchase company shares for the full cash award net of income tax and shall retain such shares for a period of not less than two years. Members of GMT residing outside Sweden may participate in an additional long term variable salary program capped at 100 percent of the base salary every second year.

The outcome in the long-term variable salary program is dependent on two criteria determined at the beginning of 2019 but measured over the full performance period 2019–2021. The majority of the outcome is based on Group operating profit from product segments 2019–2021 and the remaining part is based on net sales excluding SMD Logistics AB for 2019–2021. For both measures an improvement compared to the 2018 outcome is required for the measure to yield an outcome in the program.

Accruals for the GMT long term incentive programs are estimated<sup>1)</sup> to range between 0 MSEK below minimum level and 18 MSEK at maximum level depending on performance outcome. For the principles of remuneration adopted by the Annual General Meeting in April 2018, see *Note 6 Personnel*.

## Outlook

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

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

<sup>1)</sup> Estimation made on the assumption that Group Management Team is unchanged and on an assumed exchange rate SEK vs. USD of 8,6947.

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

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

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

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

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

### Swedish Match AB (publ)

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

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

During the year, the Parent Company received dividends of 1,246 MSEK (23,827) of which 630 MSEK related to a dividend-in-kind of shares in subsidiaries. The higher dividends in the prior year were attributable to proceeds from the sale of shares in STG. In addition, an additional purchase price payment of 107 MSEK was received last year which related to the sale of a parcel of land adjacent to the old headquarters building sold in 2007. An impairment loss on shares in subsidiaries amounting to 1,247 MSEK was recognized during 2018 which was primarily attributable to reduced equity in the subsidiaries following the payment of dividends from such subsidiaries. During the year, capital contributions of 114 MSEK to subsidiaries have been made. Net Group contributions of 2,663 MSEK (2,415) were received during the year.

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

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

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

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

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

## Proposed distribution of earnings

As shown in the balance sheet of the parent company the following funds are available for appropriation by the Annual General Meeting:

Retained earnings including Hedge reserve	SEK	13,436,322,960
Profit for the year	SEK	1,327,998,443
	<b>SEK</b>	<b>14,764,321,403</b>

The Board of Directors propose that these earnings be appropriated as follows:

To the shareholders, a dividend of 10.50 SEK per share based on 170,210,705 shares outstanding at the end of 2018	SEK	1,787,212,403
Retained earnings to be carried forward	SEK	12,977,109,000
	<b>SEK</b>	<b>14,764,321,403</b>

The income statements and balance sheets will be presented to the Annual General Meeting on April 9, 2019 for adoption. The Board of Directors also proposes April 11, 2019 as the record date for shareholders listed in the Swedish Securities Register Center, Euroclear Sweden AB.

The Board of Directors and the President declare that the annual report was prepared in accordance with generally accepted accounting principles in Sweden and that the consolidated accounts have been prepared in accordance with accounting standards referred to in Regulation (EG) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. The annual report and the consolidated accounts give a true and fair view of the position and earnings of the Parent Company and the Group.

The Board of Directors report for the Parent Company and the Group gives a true and fair view of the operations, position and earnings and describes significant risks and uncertainties facing the Parent Company and companies included in the Group.

Stockholm, March 14, 2019

Conny Karlsson  
Chairman of the Board

Charles A. Blixt  
Board member

Andrew Cripps  
Deputy Chairman

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

Our auditor's report was submitted on March 14, 2019

Deloitte AB

Peter Ekberg  
Authorized Public Accountant

## Consolidated income statement

MSEK	Note	2018	Restated 2017
Sales, including tobacco tax		16,335	15,025
Less tobacco tax		-3,369	-3,273
<b>Sales</b>	3	<b>12,966</b>	<b>11,751</b>
Cost of goods sold		-4,832	-4,356
<b>Gross profit</b>		<b>8,133</b>	<b>7,396</b>
Selling expenses		-2,440	-2,315
Administrative expenses		-889	-871
Other operating income and expenses	5	5	-1
Share of profit in associated companies	15	3	10
Income from defined benefit plan amendment		-	69
Capital gain from sale of land		-	107
Sale of STG shares		-	197
<b>Operating profit</b>	3, 6, 7, 8, 22, 27	<b>4,812</b>	<b>4,592</b>
Dividend from STG		-	107
Finance income		65	49
Finance costs		-346	-396
<b>Net finance cost</b>	9	<b>-281</b>	<b>-240</b>
<b>Profit before income tax</b>		<b>4,531</b>	<b>4,353</b>
Income tax expense	10	-953	-952
<b>Profit for the year</b>		<b>3,578</b>	<b>3,400</b>
<i>Attributable to:</i>			
Equity holders of the Parent		3,578	3,400
Non-controlling interests		0	0
<b>Profit for the year</b>		<b>3,578</b>	<b>3,400</b>
Earnings per share, basic and diluted, SEK	11	20.63	18.88

## Consolidated statement of comprehensive income

MSEK	Note	2018	Restated 2017
<b>Profit for the year</b>		<b>3,578</b>	<b>3,400</b>
<i>Other comprehensive income that may be reclassified to the income statement</i>			
Translation differences related to foreign operations	20	331	-301
Translation differences included in profit and loss	20	-2	-6
Effective portion of changes in fair value of cash flow hedges	20	39	-126
Changes in cash flow hedges reclassified to profit and loss	20	-	22
Change in fair value of STG shares	20	-	-80
Change in fair value of STG shares included in profit and loss	20	-	-230
Income tax relating to reclassifiable components of other comprehensive income	10	-11	23
<b>Subtotal, net of tax for the period</b>		<b>356</b>	<b>-697</b>
<i>Other comprehensive income that will not be reclassified to the income statement</i>			
Actuarial gains and losses attributable to pensions, incl. payroll tax	22	118	116
Income tax relating to non-reclassifiable components of other comprehensive income	10	-38	-133
<b>Subtotal, net of tax for the period</b>		<b>80</b>	<b>-17</b>
<b>Other comprehensive income, net of tax for the period</b>		<b>436</b>	<b>-715</b>
<b>Total comprehensive income for the year</b>		<b>4,014</b>	<b>2,686</b>
<i>Attributable to:</i>			
Equity holders of the Parent		4,014	2,686
Non-controlling interests		0	0
<b>Total comprehensive income for the year</b>		<b>4,014</b>	<b>2,686</b>

## Consolidated balance sheet

MSEK	Note	December 31, 2018	Restated December 31, 2017
<b>Assets</b>			
Intangible assets	12	2,708	2,088
Property, plant and equipment	13	2,814	2,418
Forest plantations	14	126	139
Investments in associated companies	15	24	22
Other non-current receivables	16	910	711
Deferred income tax assets	10	530	566
<b>Total non-current assets</b>		<b>7,113</b>	<b>5,944</b>
Inventories	17	1,600	1,375
Trade receivables	18	1,636	1,536
Prepaid expenses and accrued income		119	81
Income tax receivables		71	248
Other current receivables	16	562	193
Cash and cash equivalents	19	2,886	3,998
<b>Total current assets</b>		<b>6,874</b>	<b>7,432</b>
<b>TOTAL ASSETS</b>		<b>13,987</b>	<b>13,376</b>
<b>Equity</b>			
Share capital	20	390	390
Reserves		640	284
Retained earnings including profit for the year		-6,641	-4,876
<b>Equity attributable to equity holders of the Parent</b>		<b>-5,611</b>	<b>-4,202</b>
Non-controlling interests		16	1
<b>TOTAL EQUITY</b>		<b>-5,595</b>	<b>-4,201</b>
<b>Liabilities</b>			
Non-current loans and borrowings	21, 26	12,282	10,277
Other non-current liabilities	24	93	147
Provision for pensions and similar obligations	22	1,106	1,146
Other provisions	23	456	559
Deferred income tax liabilities	10	1,086	935
<b>Total non-current liabilities</b>		<b>15,024</b>	<b>13,063</b>
Current loans and borrowings	21, 26	1,229	1,253
Trade payables		371	353
Income tax liabilities		96	369
Other current liabilities	24	1,826	1,549
Accrued expenses and deferred income	25	938	883
Provisions	23	98	107
<b>Total current liabilities</b>		<b>4,559</b>	<b>4,514</b>
<b>TOTAL LIABILITIES</b>		<b>19,582</b>	<b>17,577</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>13,987</b>	<b>13,376</b>

## Consolidated statement of changes in equity

2017	MSEK	Note	Equity attributable to equity holders of the Parent				Non-controlling interest	Total equity
			Share capital	Reserves	Retained earnings	Total		
<b>Equity at beginning of year</b>		20	<b>390</b>	<b>982</b>	<b>-2,737</b>	<b>-1,366</b>	<b>1</b>	<b>-1,365</b>
Change in accounting principle			-	-	-23	-23	-	-23
<b>Adjusted equity at beginning of year</b>			<b>390</b>	<b>982</b>	<b>-2,761</b>	<b>-1,389</b>	<b>1</b>	<b>-1,388</b>
Profit for the year			-	-	3,400	3,400	0	3,400
Other comprehensive income, net of tax			-	-697	-17	-715	0	-715
<b>Total comprehensive income</b>			<b>-</b>	<b>-697</b>	<b>3,383</b>	<b>2,686</b>	<b>0</b>	<b>2,686</b>
Dividend			-	-	-2,908	-2,908	0	-2,908
Repurchase of own shares			-	-	-2,590	-2,590	-	-2,590
Cancellation of shares			-14	-	14	-	-	-
Bonus issue			14	-	-14	-	-	-
<b>Equity at end of year</b>			<b>390</b>	<b>284</b>	<b>-4,876</b>	<b>-4,202</b>	<b>1</b>	<b>-4,201</b>

2018	MSEK	Note	Equity attributable to equity holders of the Parent				Non-controlling interest	Total equity
			Share capital	Reserves	Retained earnings	Total		
<b>Equity at beginning of year</b>		20	<b>390</b>	<b>284</b>	<b>-4,876</b>	<b>-4,202</b>	<b>1</b>	<b>-4,201</b>
Profit for the year			-	-	3,578	3,578	0	3,578
Other comprehensive income, net of tax			-	356	80	436	0	436
<b>Total comprehensive income</b>			<b>-</b>	<b>356</b>	<b>3,658</b>	<b>4,014</b>	<b>0</b>	<b>4,014</b>
Dividend			-	-	-2,911	-2,911	0	-2,911
Repurchase of own shares			-	-	-2,512	-2,512	-	-2,512
Cancellation of shares			-13	-	13	-	-	-
Bonus issue			13	-	-13	-	-	-
Acquisition of non-controlling interests			-	-	-	-	15	15
<b>Equity at end of year</b>			<b>390</b>	<b>640</b>	<b>-6,641</b>	<b>-5,611</b>	<b>16</b>	<b>-5,595</b>

## Consolidated cash flow statement

MSEK	Note	2018	2017
<b>Operating activities</b>			
Profit before income tax	31	4,531	4,353
Share of net profit/loss in associated companies		- 3	- 10
Dividend received from associated companies		3	0
Adjustments for other non-cash items and other		374	- 175
Income tax paid		-958	-611
<b>Cash flow from operating activities before changes in working capital</b>		<b>3,947</b>	<b>3,557</b>
<b>Changes in working capital</b>			
Increase (-)/ Decrease (+) in inventories		- 93	-83
Increase (-)/ Decrease (+) in operating receivables		- 317	-33
Increase (+)/ Decrease (-) in operating liabilities		168	-38
<b>Net cash generated from operating activities</b>		<b>3,705</b>	<b>3,402</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	13, 14	- 649	- 369
Proceeds from sale of property, plant and equipment		3	7
Purchase of intangible assets		- 17	- 8
Acquisition of subsidiaries		- 541	- 929
Proceeds from sale of land		-	107
Divestment of STG shares		-	2,660
Dividend from STG		-	107
Changes in financial receivables, etc.		0	20
<b>Net cash used in/from investing activities</b>		<b>-1,204</b>	<b>1,594</b>
<b>Financing activities</b>			
Proceeds from non-current borrowing		2,846	3,293
Repayment of borrowings		-1,252	-1,988
Dividend paid to equity holders of the Parent		-2,911	-2,908
Repurchase of own shares		-2,512	-2,590
Realized exchange gain/losses on financial instruments		136	-90
Other		-3	0
<b>Net cash used in financing activities</b>		<b>-3,697</b>	<b>-4,283</b>
<b>Net decrease/increase in cash and cash equivalents</b>		<b>-1,195</b>	<b>713</b>
Cash and cash equivalents at the beginning of the year		3,998	3,364
Effect of exchange rate fluctuations on cash and cash equivalents		83	-79
<b>Cash and cash equivalent at end of year</b>		<b>2,886</b>	<b>3,998</b>

## Notes for the Group

### 1 Accounting principles

All amounts referred to in the notes of the Group financial statements are in millions of Swedish kronor (MSEK) unless otherwise stated. The amounts within brackets refer to the preceding year, 2017.

#### Compliance with standards and legislation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee, approved by the European Commission for application within the EU. In addition, RFR 1 Supplementary Accounting Rules for Groups, issued by the Swedish Financial Reporting Board, has been applied. The Parent Company applies the same accounting principles as the Group, except in those instances described below in the section "Parent Company accounting principles". The annual report and the consolidated financial statements were authorized for issue by the Board of Directors and the Group's CEO on March 14, 2019.

#### Basis for the preparation of the financial reports for the Parent Company and the Group

The financial reports are presented in Swedish kronor (SEK), which is the functional currency of the Parent Company. Unless otherwise indicated, all amounts are rounded off to the nearest million. Figures in the reports are based on a consolidation system in SEK thousands. By rounding the numbers in tables, totals may not always equal the sum of the included rounded numbers. Assets and liabilities are reported at their historical acquisition value, except for certain financial assets and liabilities and biological assets that are reported at fair value. Financial assets and liabilities reported at fair value comprise derivative instruments classified as financial assets reported at fair value through profit and loss or other comprehensive income. Biological assets refer to forest plantations. Assets and groups of assets classified as held for sale are reported as held for sale as of the date certain events confirm the assets or group of assets are held for sale. Assets held for sale are reported at the lower of carrying value and fair value adjusted for selling costs.

#### Use of the assessments in the financial reports

Preparing financial reports in accordance with IFRS requires that management make assessments and assumptions that affect the accounting principles and reported amounts for assets, liabilities, revenues and costs. The assessments and assumptions are based on historical experience and a number of other factors that may be considered relevant under the prevailing conditions. The actual outcome may deviate from these assessments and assumptions. Assessments and assumptions are reviewed on a regular basis with changes in assessments recognized in the applicable period. Assessments made by management on the application of IFRS that have a significant impact on financial reports, and estimations made that could entail material adjustments in subsequent years' financial reports, are described in greater detail in *Note 2 Critical estimates and judgements*.

#### Significant accounting principles applied

The accounting principles described below have been applied consistently in all periods that are presented in the Group's financial statements. In case any exceptions would exist to the accounting principles outlined below such are clearly described in relevant disclosure to the financial statements that include such exception.

#### New standards, amendments and interpretations

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

Of these two new standards, it is only the application of IFRS 15 Revenue from Contracts with Customers that has had a material impact on the financial statements of Swedish Match. IFRS 15 materially affects the revenue recognition of the Swedish distribution function but does not affect profit recognized for this function.

Other new amendments and interpretations applicable as of January 1, 2018 have not had any material effect on the Group's financial result or position.

#### IFRS 15 – Revenue from Contracts with Customers

The main principle of IFRS 15 is that revenue shall be recognized when the control of the promised goods or service is transferred to the customer at the expected consideration for such delivery, including expected outcome of variable consideration. The principles are further described below in the section *Revenue*.

#### Transition to IFRS 15

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

As a consequence of the implementation of IFRS 15, Swedish Match segment reporting has changed as of 2018. This is further described below in the section *Reporting by segment*.

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

The new standard has been applied retrospectively with the cumulative transition effects recognized as an adjustment to the opening balance of retained earnings of the annual reporting period starting January 1, 2017. Comparable information for 2017 in this report has been restated in accordance with IAS 8 Change in accounting policies and the practical expedients in IFRS 15. No restatement has been made of prior reporting periods for completed customer contracts recognized in accordance with IAS 18 Revenue and related Interpretations. For reasons of comparability, the Group's sales presented in the five years summary tables for the years 2014–2016 have been restated to reflect revenue recognition in accordance with the reclassification of the Swedish distribution function is acting as an agent under IFRS 15.

The following tables present a reconciliation of the accounting effects from the adoption of IFRS 15 for the opening balance of 2017 and for the full year 2017.

## NOTE 1 Continued

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

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

**IFRS 9 – Financial Instruments**

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

*Transition to IFRS 9*

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

The new standard is applied from January 1, 2018. Comparative information of financial instruments for 2017 has not been restated and are in this report presented in accordance with previous standard, IAS 39. For description of the accounting principles applied under IAS 39 for the comparable information, refer to *Note 1 Accounting principles* in Swedish Match's annual report for 2017. For further guidance, also see *Note 26 Financial instruments and financial risks* in this year's annual report.

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

A number of new standards, changes in standards and interpretations of standards apply from 2019 or later and have not been applied in these financial reports.

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

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

The new standard will require that most of the Group's lease contracts be recognized as right-of-use assets and lease liabilities measured at the present value of future lease payments. In the income statement, depreciations of the leased

assets and the interest expenses on the lease liabilities will be recognized instead of the lease payments recognized as cost when incurred.

Other new amendments and interpretations applicable as of 2019 that could have an impact on the Group's financial statements and disclosures are IFRIC 23 Uncertainty over Income Tax Treatments and amendment to IAS 19 Employee benefits.

IFRIC 23 brings about clarifications and new disclosure requirements on the assessment of uncertain tax treatments.

The new IFRIC 23 brings about new disclosure requirements on the assessment of uncertain tax treatments.

The amendment to IAS 19 refers to revised project service costs for the current year at the time a plan amendment, curtailment or settlement occurs.

Other IFRS standards, amendments and interpretations of existing standards applicable as of January 1, 2019 are deemed as not having any effect on the Group's financial result or position.

*Recognition and measurement of lease contracts*

As of January 1, 2019 contracts or parts of contracts, where the terms provide Swedish Match with the right to control the use of an identified asset for a period of time in exchange for consideration, are lease contracts that will be accounted for as right-of-use assets and lease liabilities on the Group's balance sheet. The power to control the use of the asset will be essential when determining if the contract contains a lease or not as well as whether an identified asset is present. To qualify as a lease contract, the contract terms shall provide Swedish Match with the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset during the lease term in exchange of consideration. If a contract does not provide Swedish Match with the right to control the asset or if there is no identified asset, the contract is a service contract, and thereby not recognized as a lease contract on the balance sheet. Payments under such service contracts are recognized as expenses in the income statement when incurred.

Contracts which includes a lease of an asset as a component in a contract, i.e. an embedded lease contract, will be accounted for as a lease separately from the

NOTE 1 *Continued*

non-lease components of the contract. Currently, Swedish Match does not have any significant embedded asset lease contracts to be accounted for.

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

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

The lease liabilities will be measured at the present value of future lease payments. In most cases, the measurement of the right-of-use assets will equal the lease liabilities. The present value of the future lease payments will be discounted using the interest rate observed in the period when the lease contract commences or is modified.

The measurement of the lease liabilities will include non-cancellable lease payments (including inflation-linked payments), amounts expected to be payable for any residual value guarantees, the exercise price of a purchase option if it is reasonably certain that Swedish Match will exercise that option. To be included are also payments to be made in optional periods if it is reasonably certain that Swedish Match will exercise the option to extend the lease, or not to exercise the option to terminate the lease, as well as any payments of penalties for terminating the lease, if the lease term reflects an option to terminate the lease and it is reasonable certain that the option will be exercised.

In assessing whether an extension or a termination option is reasonably certain to be exercised or not, all relevant facts and circumstances that create an economic incentive will be considered. Important facts and circumstances assessed for Swedish Match lease contracts are for example the leased assets relevance to the operation, cost for substitute the leased asset, the availability of similar assets, investments or customizations to the leased assets, economic incentives regarding the contract terms, etc.

Payments of non-lease components (i.e., components not relating to the use of the underlying asset, e.g., payments for service for a car lease, or heating, maintenance and water included in the rent for a premise) and variable lease components, that do not depend on an index or a rate, will not be included in the measurement of the lease liabilities.

A lease contract will be initially recognized on the balance sheet at the date when the underlying asset is available for use, i.e., at the commencement date. The right of use asset will be measured based on the lease liability, plus any additional costs directly attributable to get the access/right to asset. In addition, any replacement costs to remove or restore the asset after the lease term as required by the contract will be included.

The depreciation of the right-of-use asset will usually be on a straight-line basis over the lease term.

In subsequent periods, if the lease payments or the lease term changes for an existing contract, the lease liability will be revalued to reflect the changes in the future lease payments. Such revaluation will occur if there are changes in the future lease payments because of indexations, with the exception from payments relating to changes in the interest rate, which will not impact the valuation of the lease liability as the discount rate will also be adjusted correspondingly. However, the interest cost in future periods will be adjusted if there is a change in the interest rate for the lease payments. Other events that will impact the valuation of the lease liability in subsequent periods, are changes in the lease period due to a new assessment of the likelihood of utilizing extensions or termination options, new assessment of utilizing or not utilization of any purchase options, etc. The right of use asset will be adjusted for any remeasurement effects of the lease liability in the same period. Assessment of key parameters of lease contracts that could have an impact to the reported amounts will be performed regularly.

*Exemptions*

In the accounting for right-of-use assets and lease liabilities, Swedish Match has chosen to apply the practical expedients in IFRS 16 for short-term leases (contracts with a lease term of 12 months or less) and leases for which the underlying asset is of low value. The Group's lease contracts of low value are mainly leases of office equipment, furniture, water dispenser, coffee machines and IT equipment for individual use. Such lease contracts will not be included in the Group's lease liabilities and related right-of-use assets and will continue to be reported as operating leases with the lease payments expensed in the

income statement when incurred. In addition, leases of intangible assets, such as software, licenses, etc., are also excluded from IFRS 16.

*Discount rate*

The key parameters for determining the discount rates are the type of the underlying asset of the lease contract, the lease term and the economic environment where the asset will operate.

The Group's policy for determining the discount rates will be based on the incremental borrowing rate for lease contracts. The incremental borrowing rate is the rate of interest that Swedish Match would have to pay to obtain an asset of similar value to the right-of-use asset, adjusted for a risk premium relating to the economic environment where the asset will operate at the given time in relation to the lease term of the contract.

*Cash flow statement*

In the statement of cash flows, lease payments will be presented as the total amount of cash paid relating to the amortization of the lease liabilities within cash flow from financing activities. Variable lease payments and non-lease components as well as lease payments relating to short term and low value leases will be reflected in the cash flow from operating activities.

*Transition to IFRS 16*

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

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

*Summary of financial impact*

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

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

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

*Reconciliation of operating lease obligations*

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

The difference between lease contracts reported as operating leases under IAS 17 and the IFRS 16 lease liability as per January 1, 2019 mainly pertains to the exemptions of lease payments relating to short-term and low value lease contracts. Furthermore, the Group's lease liabilities are also increased by future

NOTE 1 *Continued*

lease payments for periods included from the assessment of the likelihood of using extension options or not utilizing termination options. For further detail, please see the table below.

Reconciliation operating lease obligations vs. IFRS 16 opening balance lease liabilities, MSEK

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

### Consolidation principles

The consolidated accounts are prepared in accordance with the Group's accounting principles and include the accounts of the Parent Company and all subsidiaries and associated companies in accordance with the definitions below. Intra-Group receivables and liabilities, revenues and costs and unrealized gains and losses arising from intra-Group transactions are eliminated in their entirety when the consolidated financial statements are prepared.

Acquired companies are included in the consolidated accounts from the date of acquisition and divested companies are included in the consolidated accounts up through the time of divestment.

### Subsidiaries

Swedish Match Group has a number of subsidiaries in various countries for the production and sale of Swedish Match products. A subsidiary is defined as an entity that is controlled by the Swedish Match Group. A subsidiary is considered to be controlled when a Group company has power over the investee, exposures, or rights to variable returns from the involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's return. Swedish Match subsidiaries are owned to 100 percent by Swedish Match Group, with exception of the during the year acquired subsidiaries Gotlands Snus AB (95 percent) and Gotland Production AB (95 percent) as well as an insignificant non-controlling interest in a foreign subsidiary. There are no subsidiaries where Swedish Match Group has any significant restriction to access or use of assets from its subsidiaries. Furthermore, Swedish Match is not involved in any unconsolidated structured entities.

Consolidated financial statements in this report include all subsidiaries which Swedish Match Group controls.

All acquisitions of subsidiaries are reported in accordance with the purchase method. This method means that the acquisition of subsidiaries is considered a transaction through which the Group indirectly acquires the subsidiary's assets and assumes its liabilities and contingent liabilities. Companies acquired during the year are included in the consolidated financial statements from the date of acquisition at fair value. Transaction costs relating to acquisition of subsidiaries are not included in the value of the acquired assets. All acquisition-related costs are expensed in the period when incurred. Contingent considerations are recognized on the balance sheet at fair value at the date of the acquisition, with any contingent payment classified as debt subsequently remeasured through the income statement.

Results from disposal of subsidiaries when the control is lost are recognized in the income statement. Any remaining interests in divested entities are remeasured to fair value, with the gain or loss recognized in the income statement to the extent disposed externally.

Associates are companies in which the Group exercises a significant influence without the partly owned company being a subsidiary. This normally means that the Group holds 20–50 percent of total voting rights. Holdings in associated companies are reported in accordance with the equity method and they are initially measured at cost. Valuation of acquired assets and liabilities is performed in the same manner as for subsidiaries and the carrying amount for associates includes any goodwill, transaction costs and other Group adjustments.

The Group's share of its associates' post-acquisition after tax profits or after tax losses is recognized on one line in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income, net of tax in the associates is recognized on two lines in the Group's statement of other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying value of the investment.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropri-

ate. Results from disposal of an associate when the control is lost are recognized in the income statement. Any remaining interests in divested associates are remeasured to fair value, with the gain or loss recognized in the income statement to the extent disposed externally.

### Non-controlling interest

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from the equity of the owners of the Parent Company. The non-controlling interest includes profit or loss and components of other comprehensive income attributable to the non-controlling interests and are measured at fair value. Swedish Match Group has three non-controlling interests.

### Discontinued operations

Divested operations are reported as discontinued operations if they represent a separate major line of business or geographical area of operations that comprises operations and cash flow that can be clearly distinguished, operationally and for reporting purposes from the rest of the Group. The post-tax profit or loss from discontinued operations and the gain or loss from the sale is presented in a single amount in the income statement as of the transaction date or as of the date when management is committed to a plan to sell and hence operations to be discontinued are reclassified as held for sale. When a business operation is discontinued or classified as held for sale and reported as such prior period income statements are restated. Prior period balance sheets are not restated.

### Classification etc.

Non-current assets and non-current liabilities in the Parent Company and the Group essentially consist of amounts that are expected to be recovered or paid after more than 12 months, from the reporting date. Current assets and current liabilities essentially consist of amounts that are expected to be recovered or paid within 12 months, from the reporting date.

### Reporting by segment

The Group's reportable segments are based on the internal reporting structure. Swedish Match's chief operating decision maker is the Group's President and CEO, who monitors and makes decisions about operating matters based on product segments. The Group's reportable segments as of January 1, 2018, are three product segments: Snus and moist snuff, Other tobacco products and Lights. The reportable segments all represent operating divisions producing, marketing and selling Swedish Match products. Reportable segments have been aggregated when there are similarities in the segments' economic characteristics, such as gross profit margins, level of capital investments and impact from variations in the business cycle. Also, similarities in the type of product, manufacturing process, customers, distribution process and regulatory environment have been considered to determine the appropriate aggregation of reportable segments. There are no internal sales between reportable segments and the Group's financial costs as well as taxes are not allocated to reportable segments.

Operating assets are not monitored on a segment basis.

Following the implementation of IFRS 15, Other operations no longer qualifies as a reportable segment, as the recognized sales of the Swedish distribution function are substantially lower. Other operations consist of corporate functions and the Swedish distribution function. Corporate functions include, among others, regulatory affairs, legal and financial services. The distribution function provides services to Swedish Match in Sweden and Norway as well as to other manufacturers within the Swedish distribution network. The revenues of Other operations, pertain to the distribution service for the delivery of third party tobacco products on the Swedish market. The revenues from sales of Swedish Match's products on the Swedish and the Norwegian markets are reported as part of the product segment Snus and moist snuff. Revenue in Other operations are not seen as an important performance indicator and are not considered for resource allocation within the Group. The result from Other operations consists of the consolidated result for the corporate functions, of which the distribution function is making a profit from the immaterial distribution fee and the other functions are normally making losses.

For further information on the assessment of the classification of principal or agent refer to *Note 2 Critical estimates and judgements*.

### Foreign currencies

#### Transactions in foreign currencies

Transactions in foreign currencies are translated into the functional currency according to the exchange rates applicable on the transaction date. Monetary assets and liabilities in foreign currencies are translated to the functional currency at the exchange rate applicable on the reporting date. Non-monetary assets and liabilities reported at their historical acquisition values are translated at the exchange rate in effect at the transaction date. Non-monetary assets and liabilities reported at their fair value are converted to the functional currency at

NOTE 1 *Continued*

the applicable rate at the time of the valuation. Exchange rate differences are then reported in the same manner as other changes in value relating to the asset or liability. Exchange rate differences arising from translation are reported in the income statement, with exchange differences on non-monetary assets and liabilities reported as operating income and expenses and exchange differences on monetary assets and liabilities are reported in the net finance.

*Financial reports of foreign operations*

Assets and liabilities in foreign operations, including goodwill and other Group surplus and deficit values, are translated into SEK at the exchange rate on the reporting date. Revenues and expenses from foreign operations are translated to SEK at an average exchange rate for the year. Translation differences arising from currency translation of foreign operations are reported as a translation reserve in equity through other comprehensive income. The translation difference relating to a specific subsidiary is recycled through the income statement when the subsidiary is divested.

The Group's most significant currencies are shown in the table below:

Country	Currency	Average exchange rate January–December		Exchange rate on December 31	
		2018	2017	2018	2017
USA	USD	8.69	8.54	8.97	8.21
Euro zone	EUR	10.26	9.63	10.28	9.84
Denmark	DKK	1.38	1.30	1.38	1.32
Brazil	BRL	2.39	2.68	2.32	2.48
Norway	NOK	1.07	1.03	1.02	1.00

**Revenue**

Revenue for Swedish Match pertains to sale of goods manufactured, sale of third party products where Swedish Match is acting as a principal and income from distribution service for delivery of third party products where Swedish Match is acting as an agent.

The sales of goods or services are recognized based on the amount expected to be received relating to the sales transactions and when the transfer of control of the goods or services has passed to the customers.

The expected consideration recognized reflects estimates of potential outcome of variable considerations as well as expected reimbursements for product returns. Refund liabilities for returned goods and variable considerations are recognized on the balance sheet as operating provisions.

The main revenue streams for the Group's reportable segments arise from sale of goods manufactured by the Group. Within Lights, a minority part of the revenue also pertains to the distribution of third party products. Revenue within Other operations mainly pertains to income from logistics services for delivery of third party products to retail customers.

Revenue for the sale of goods and logistics services are recognized at the point when the control of the promised good or service is transferred to the customer at the expected consideration to be received for such delivery. The Group has no material unconditional rights to receive considerations and no material payments are received in advance. Based on this no contract assets have been recognized in the Group balance sheet.

The timing of transfer of control of the goods or services to the customer is determined for each revenue transaction. Indications of transfer of control are being considered when Swedish Match has a present right to payment or when the customer has legal title, a physical possession, the significant risks and rewards of ownership or has accepted the asset. If control is retained and the promised obligations are not satisfied, revenue is not recognized.

A majority part of Swedish Match customers are retailers and distributors. Within Snus and moist snuff and Other tobacco products, customer credit terms are on average 10 days. Within Lights, customer credit terms are usually 30 days, but for certain markets such as Asia and Africa, credit terms to customer could be in the range of pre-payment up to 120 days. Sales within Lights with longer credit terms represent less than 20 percent of the total sales for Lights.

Uncollected amounts billed to customers at period end are recognized as trade receivable in the Group's balance sheet. The risk for impairment losses on trade receivable are relatively low. Allowances for impairment losses on accounts receivable are assessed in accordance with IFRS 9, for more information refer to below section *Impairment of financial assets*.

Any incremental costs for obtaining a customer contract and/or costs to fulfill a customer contract are capitalized as assets if such costs meet the criteria for capitalization in IFRS 15. Currently, the Group does not have any significant incremental costs for obtaining or fulfilling a customer contracts to be recognized on the balance sheet.

For further information on the Group's sales for reportable segments and disaggregation of revenue streams, see *Note 3 Segment information*.

**Financial income and expenses**

Financial income and expenses consist of interest income on bank balances, receivables, interest-bearing securities and dividend income, interest expense on loans and benefit obligations, exchange rate differences, unrealized and realized gains on financial investments and derivative instruments used in financial activities. Exchange rate differences arising on operating assets and liabilities are reported in operating profit.

The effective interest method is used when calculating the amortized cost of the financial asset or the financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash flows. Interest income or expense include accrued amounts of transaction costs and, if applicable, discounts, premiums and other differences between the original value of the receivable or liability and the amount received or paid at maturity.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash and immediately available balances with banks and similar institutions, as well as short-term liquid investments with a maturity of less than three months, which are exposed to only an insignificant risk of value fluctuations.

**Financial instruments**

Financial instruments are valued and reported within the Group in accordance with the rules in IFRS 9.

Financial instruments reported in the balance sheet include, on the asset side, cash and cash equivalents, trade receivables, shares and other equity instruments, loans receivable, and derivatives. Such instruments on the liabilities and equity side are trade payables, issued liability and equity instruments, loans and derivatives. A financial asset or a financial liability is recognized on the balance sheet when the entity becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

A financial asset (or a portion of a financial asset) is derecognized from the balance sheet when risk and the right to receive cash flow from the instrument has ceased or been transferred to another party. A financial liability (or a part of a financial liability) is derecognized from the balance sheet when the obligation is settled or discharged. Financial assets and liabilities are recognized and derecognized applying settlement date accounting.

Financial instruments are initially reported at their acquisition value, corresponding to the instruments' fair value except for those that are included in hedge accounting. Subsequent reporting depends on how they are held and classified in accordance with the criteria below.

**Financial assets**

IFRS 9 classifies financial assets at initial recognition, and subsequently measured at either amortized cost or fair value. The Group's classification depends on the business model for managing the financial assets and whether the contractual terms of the cash flows are solely payments of principal and interest. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial asset, or both. There are three business models into which the group classifies its financial assets.

- Financial assets measured at amortized cost
- Financial assets measured at fair value through other comprehensive income (FVOCI)
- Financial assets measured at fair value through profit and loss (FVTPL)

*Financial assets measured at amortized cost*

Financial assets that are held for collection of contractual cash flows which represent solely payments of principal and interest are measured at amortized cost. Included in this category are cash and cash equivalents, along with loan receivables and trade receivables. Interest income from these assets are reported in the income statement using the effective interest rate method. Trade receivables have an anticipated short duration and are reported at the amount expected to be received after deductions for expected credit losses.

*Financial assets measured at fair value through other comprehensive income (FVOCI)*

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the cash flows of the assets represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Examples in this category are debt and equity securities. The Group's derivatives designated as cash flow hedges are treated as financial assets in this category.

## NOTE 1 Continued

**Financial assets measured at fair value through profit and loss (FVTPL)**

Financial assets in this category do not meet the criteria for amortized cost or fair value through other comprehensive income and are measured at fair value through profit and loss. The financial assets in this category are held for trading and reported as other current receivables, measured at fair value. They include the Group's currency derivatives that are not used for hedge accounting. Changes in financial assets fair value are recognized in the income statement as profit or loss.

**Impairment of financial assets**

Under IFRS 9, a new impairment model is applied to financial assets measured at amortized costs or financial assets measured at fair value through other comprehensive income, excluding investments in debt instruments such as shares and participations, which are measured at fair value through profit and loss. Currently, financial assets measured at amortized cost refer mainly to accounts receivables.

Swedish Match applies the simplified approach to measure lifetime expected credit losses. Compared with the former applied incurred loss model, the new requirements imply an earlier recognition of credit losses. Historical information is used regarding credit loss experience to forecast future credit losses. In addition, current and forward-looking information available is used to reflect current and future conditions.

**Financial liabilities**

The Group classifies financial liabilities, at initial recognition, into two categories:

- Other financial liabilities measured at amortized cost
- Financial liabilities measured at fair value through profit and loss (FVTPL)

**Other financial liabilities measured at amortized cost**

Financial liabilities measured at amortized include trade payables, loans and borrowings, and accrued interest, which are not held for trading. These liabilities are classified as other financial liabilities, which means that they are initially reported at the amount received after deductions for transaction costs. After the date of acquisition, loans are measured at amortized cost in accordance with the effective interest rate method. The financial liability is derecognized when the obligation under the liability is discharged or expires.

**Financial liabilities measured at fair value through profit and loss (FVTPL)**

Financial liabilities in this category are reported as current financial liabilities, measured at fair value. These financial liabilities are held for trading and include the Group's currency derivatives that are not used for hedge accounting. Changes in fair value of the financial liabilities are recognized in the income statement as profit or loss.

**Derivatives and hedge accounting**

The Group uses derivative financial instruments, such as interest rate swaps and forward currency contracts to cover the exposure of interest rate and foreign exchange risks. These derivatives are initially recognized at fair value on the date of inception of the contract and are subsequently remeasured to their fair value at each reporting date. Derivatives are carried as financial receivables when the fair value is positive and financial liabilities when the fair value is negative. The derivatives used are mainly cross currency interest rate swaps (a combination of interest and currency swap) to hedge funding in foreign currencies to SEK. These derivatives have a fully matched cash flow to the underlying issued bonds.

**Derivatives used for hedge accounting**

Swedish Match applies hedge accounting in which derivatives were entered into in order to manage interest rate risk as described in IFRS 9. Changes in fair value affecting derivative instruments are reported as fair value in the income statement depending on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

When hedge accounting is applied, hedges are classified into:

- Cash flow hedges when hedging the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability.
- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment.

At the inception of a hedge relationship, the Group determines the economic relationship to which it wishes to apply hedge accounting by identifying the critical terms, such as nominal amount, currency, settlement and maturity dates, and interest and repayment dates. The Group also documents its risk-management objectives and strategy for undertaking the hedge transactions. The documentation includes identification of the hedged item, the hedging

instrument, the nature of the risk being hedged and how the Group assesses the prospective effectiveness of changes in the hedged instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The hedges are matched in all critical terms, are expected to be highly effective, and are assessed on an ongoing basis based on requirements documented in IFRS 9. Retrospective assessment of hedge effectiveness is no longer required. Any ineffectiveness is measured by the hypothetical derivatives method if the critical terms would be different. Sources of ineffectiveness could be the impact of credit risk on the fair value of the derivatives or differences in valuation input. The Group assesses that existing hedging relationships all qualify as continuing hedging relationships and continue to be effective. The full fair value of a hedging derivative is classified as non-current receivable or liability when the remaining hedged item is more than 12 months and as current receivable or liability if the maturity is equal to or shorter than 12 months.

**Cash flow hedges**

The Group uses derivatives in order to convert its debt payments in foreign currency or floating rate debt in SEK into fixed interest payments in SEK, by which hedge accounting according to the cash flow hedge technique is applied. The hedging relationship consists of eligible hedging instruments and items, with the principle that the critical terms and the economic relationship of the hedged item and the hedging instrument are identical and match with a hedge ratio of 100 percent, meaning that they are effective and no rebalancing is expected to occur. Fair value changes arising from the revaluation of derivatives that are part of a cash flow hedge relationship and are considered to be effective according to the definition in IFRS 9, are measured at fair value in other comprehensive income (FVOCI) and are accumulated in the cash flow hedge reserve within equity, and any ineffective portion is recognized directly in the statement of profit and loss. Reclassification from the hedge reserve through other comprehensive income into the income statement is made either when the hedged item affects the income statement or when the hedged item has ceased to exist, for instance when issued debt is repurchased.

**Fair value hedges**

In cases where fixed interest rate obligations are converted into floating interest rate obligations, hedge accounting according to the fair value hedge technique is applied. The fair value changes arising from revaluation of derivatives are measured at fair value through profit and loss, and the related value change from the hedged item is similarly recognized in profit and loss thus offsetting the effective portion in the hedge relationship. Swedish Match had no fair value hedges at December 31, 2018.

**Derivatives in foreign currency not used for hedge accounting**

To reduce the risk of exposure of assets or liabilities against exchange rate risks, forwards are used to convert foreign currencies into SEK. Forwards are also used for certain binding contracts. For those derivatives to which hedge accounting cannot be applied, changes in fair value are measured at fair value through profit and loss and reported in net finance cost. Changes in value relating to operations-related receivables and liabilities are reported in operating profit.

**Leased assets**

Up until December 31, 2018, the Group's lease contracts are reported as operating leases under IAS 17. The majority part of the Group's lease obligations pertain to rental of real estates. The Group has entered into certain financial leasing agreements related to company cars, photocopiers, etc. and based on materiality criteria, are reported as operating leases. Lease charges are expensed straight-line over the lease period.

**Intangible assets****Goodwill**

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill that has arisen from the acquisition of associated companies is included in the carrying amount for participations in associated companies. Goodwill is valued at acquisition value less any accumulated impairments. Goodwill is allocated to cash-generating units and is tested annually, or upon indication, for impairment. For more information on the Group's goodwill and impairment testing *Note 12 Intangible assets*.

**Trademarks and other intangible assets**

Trademarks and other intangible assets acquired by the Group are reported at acquisition value less accumulated amortization and impairments. Acquired

NOTE 1 *Continued*

trademarks with no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group, is regarded as having an indefinite useful life. Indefinite-lived intangible assets are not amortized but instead tested for impairment annually or when there is indication of impairment. In case there are borrowing costs that are directly attributable to the acquisition, construction or production of intangible assets that take substantial time to complete, such costs are included in the acquisition value.

Research costs for obtaining new technical expertise are expensed continuously as they arise. Development costs in the case of which the research or other knowledge are applied in order to achieve new or improved products or processes are reported as other intangible asset in the balance sheet, provided the product or process is technically and commercially usable. Other costs are reported in the income statement as they arise. Other intangible assets primarily include software, licenses, etc.

**Amortization**

Amortization is recognized in the income statement straight-line over the estimated economic useful life of the intangible assets, unless the useful life is indefinite. Goodwill and trademarks with indefinite useful life are tested for impairment annually or as soon as indications arise of a decline in the value of the asset. Amortizable intangible assets are amortized from the date that they are available for use. The estimated useful life periods are individually assessed but normally in the range as indicated below:

- trademarks 10–20 years
- other intangible assets and capitalized development expenditures 5–7 years

Assessment of an intangible asset's residual value and useful life is performed annually.

**Tangible assets**

Tangible assets are reported in the Group at their acquisition value, less accumulated depreciation and impairments, if applicable. The acquisition value includes the purchase price and costs directly attributable to the asset in order to transport it to its place of use in the appropriate condition for being used in accordance with the purpose of the acquisition. Borrowing costs directly pertaining to acquisition, construction or production of an asset that takes a substantial time to complete are included in the acquisition value.

**Depreciation**

Depreciation is applied straight-line over the asset's estimated economic useful life. Land and construction in progress are not depreciated. The estimated useful life periods are normally:

- buildings, owner-occupied properties 12–40 years
- machinery and other technical equipment 5–12 years
- equipment, tools and fixtures 5–10 years
- major components 3–5 years

Assessment of a tangible asset's residual value and useful life is performed annually.

**Forest plantations**

The Group has forest plantations to secure its raw material needs for match manufacturing. Trees under cultivation owned by the Group are regularly measured at market value after deductions for estimated selling expenses. Changes in fair value are included in the Group's earnings for the period during which they arise.

**Inventory**

Inventories are recognized at the lower of cost and net realizable value on the balance sheet date. Cost is calculated using the first-in, first-out (FIFO), or weighted average cost formula. The cost of finished goods and work in progress includes raw material, direct labor, other direct expenses and production-related overheads, based on a normal production level. Expenses arising from the transport of items to their present location and condition are included in the acquisition value of inventories. Interest expenses are not included in measurement of inventories. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and sale of the item.

The acquisition value for cut timber amounts to the fair value with deductions for estimated selling expenses at the time of felling, determined in accordance with the accounting principles for forest plantations.

**Impairment**

The carrying amounts for the Group's assets, with the exception of financial assets, forest plantations, assets held for sale and disposal groups reported in accordance with IFRS 5, inventories, plan assets used for the financing of

employee benefits and deferred tax assets, are tested in accordance with IAS 36 on each reporting date to evaluate whether there is an indication of an impairment. Should such an indication exist, the asset's recoverable amount is calculated.

For goodwill and other intangible assets with an indefinite useful life and intangible assets that are not yet ready for use, their recoverable amount is calculated annually, or when an impairment is indicated. The recoverable amounts, defined as the higher of value in use and fair value less cost of disposal, are normally determined on the basis of value in use, applying discounted cash flow calculations. An impairment charge against the income statement is made when the carrying amount exceeds the recoverable amount. For the purpose of impairment testing, goodwill and trademarks with indefinite life is allocated to the lowest level of groups of cash generating units based on product groups and geographical markets, at which it is monitored by management. For more information on the Group's goodwill and impairment testing see *Note 12 Intangible assets*.

Reversal of an impairment loss recognized in prior periods for assets other than goodwill are recognized when there is an indication that an impairment loss recognized in prior periods no longer exist or may have decreased. An impairment loss recognized for goodwill is not reversed in subsequent periods.

**Provisions**

A provision is reported in the balance sheet when the Group has an existing legal or informal obligation as a result of an event that has occurred, it is probable that expenditure will be required to settle the obligation and that a reliable estimate of the amount can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

**Share capital**

Buybacks of own shares are reported directly in equity.

**Employee benefits***Short term employee benefits*

Short term employee benefits, such as wages, base salaries, vacation leave, profit-sharing, variable salaries, other benefits, that are expected to be settled within twelve months are recognized as expenses in the income statement when the services are received.

Costs for the profit-sharing program and incentive plans (variable salary) are recognized on a pro-rata basis during the financial year when the compensation is earned based on an estimated outcome. This means that the cost is accrued during the year. In connection with the annual accounts, a final calculation of the year's cost is performed based on the actual outcome for the year. Any adjustments of previously reported costs for incentive programs are also recognized in the period when there is a change in the estimated outcome for each program.

*Long term employee benefits*

A long term incentive program is introduced by the Board of Directors to certain executives, where the executives may, after a three-year performance period, receive a cash bonus based on the established performance targets for the performance period. Costs for the long term incentive plan are expensed during the service year including social security fees applicable for each country where the executives work. Costs for the incentive plan are reported as personnel costs with corresponding amount reported as a long term deferred compensation liability on the balance sheet. The accrual will be subject to review based on actual performance during the performance period with any changes in the estimate taken through the income statement.

Eligible participants in the program have agreed to purchase Swedish Match shares for the full cash award, net of income tax, and shall retain such shares for a period of not less than two years.

*Termination benefits*

The Group recognizes termination benefits when there is an event that gives rise to an obligation to an employee when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

NOTE 1 *Continued**Post-employment benefits*

Within the Group there are a number of defined contribution and defined benefit pension plans, some of them with plan assets in special foundations or similar institutions. The pension plans are financed by payments from the Group Company concerned and its employees. Independent actuaries compute the size of the commitments attached to each plan and reevaluate the pension-plan assumptions each year.

Pension fees for defined contribution plans are reported as an expense in the income statement as incurred.

Pension costs for defined benefit plans are calculated according to the Projected Unit Credit Method in a manner that distributes the cost over the employee's remaining active working life. These costs are valued at the present value of the expected future disbursements using a discount rate that corresponds to the interest rate on first-class corporate bonds or government bonds with a remaining maturity that approximates the particular commitments. Service cost, past service cost and any administration costs relating to post-employment defined benefit plans are classified as operating cost. A finance component calculated based on the discount rate on the net liability or net asset is recognized in the net finance cost. The finance component is recognized as interest expense or interest income net by plan.

For the US defined benefit plans Swedish Match determined the obligation effective discount rate based on the single equivalent rate such that the present value of the plan's obligation cash flows using the single rate equals the present value of those cash flows using the corresponding spot rate along the yield curve.

The effective rates for interest on the defined benefit obligation and service cost are the single equivalent rates that result in the same value when applied to the defined benefit obligation and service cost respectively.

For the larger US post-employment defined benefit plans the same process is applied to the plan's service cost cash flows to determine the effective discount rate associated with the service cost.

For the other plans Swedish Match applies the single weighted average discount rate based on the yield curve used to measure the obligation and pension expense.

In the Swedish Match consolidated balance sheet, the pension commitments for funded plans are reported net after deductions for the fair value of plan assets. Funded plans with net assets, that is, assets in excess of obligations, are reported as non-current receivables. When the calculation leads to a net asset and there is no minimum funding requirement, the carrying value of the net asset is limited to the lower of the surplus in the plan and the present value of future service cost to be borne by the Company. Calculating the discounted value of defined benefit obligations and the fair value of plan assets can give rise to remeasurement gains and losses. These arise when actual outcome deviates from projected outcome or when assumptions earlier made are changed. Measurement differences that arise from the revaluation of the post-employment benefit plans are recognized in other comprehensive income as actuarial gains and losses in the period as they occur.

When there is a difference between how pension costs are determined for a legal entity and the Group, a provision or claim pertaining to a special employer's salary tax based on this difference is recorded. The provision or claim for special employer's salary tax is included in the net present value of the net obligation or net asset. Special employer's salary tax pertains to pension plans in Sweden.

In Sweden, the Group has post-employment defined benefit obligations for salaried personnel which are insured by Alecta. Alecta is the largest Swedish life insurance company and safeguards the majority of the private sector's defined benefit pension plans, i.e., the ITP-plan. Alecta is not able to provide specific information for each customer's obligations and fair value of related assets which is necessary information for Swedish Match in order to account for the obligations in accordance with the rules for defined benefit plans. Therefore, all obligations relating to the Swedish ITP-plan are accounted for as defined contribution plans in accordance with the rules for multi-employer plans.

**Taxes**

Income taxes consist of current tax and deferred tax. Income tax is reported in the income statement except when the underlying transactions are reported in other comprehensive income, in which case the related tax effect is also reported in other comprehensive income.

Current tax is tax that shall be paid or is received for the current year, with application of tax rates that are enacted on the reporting date. Adjustments of current tax attributable to earlier periods are also reported as current tax.

Deferred tax is computed using the balance sheet method, using temporary differences between reported and taxable values of assets and liabilities as the starting point. The following temporary differences are not taken into account: temporary differences arising during the first reporting of goodwill, the first reporting of assets and liabilities that are not the result of business combinations and which, at the time of the transaction, do not affect either the reported

or the taxable earnings, or temporary differences attributable to shares in subsidiaries and associated companies that are not expected to be reversed in the foreseeable future. Valuation of deferred tax is based on how the carrying amounts for assets or liabilities are expected to be realized or regulated. Deferred tax is calculated by applying tax rates or tax regulations that are enacted or substantively enacted on the reporting date.

Deferred tax assets related to deductible temporary differences and tax loss carry-forwards are only reported to the extent that it is likely that they will be utilized. The value of deferred tax assets is reduced when it is no longer deemed likely that they can be utilized.

**Contingent liabilities**

A contingent liability is reported when there is a potential commitment that stems from previous events and whose occurrence is confirmed only by one or more uncertain future events or when there is a commitment that is not reported, as a liability or provision, because it is unlikely that an outflow of resources will be required.

**Earnings per share**

The computation of earnings per share is based on net profit for the year attributable to the shareholders of the Parent Company and on the weighted number of shares outstanding during the year. There are no potential dilution effects of shares as the Company has not issued any options to management and key employees.

**Parent Company accounting principles**

The annual report of the Parent Company has been prepared in accordance with the Annual Accounts Act (1995:1554) and the rules of RFR 2 Accounting for Legal Entities issued by the Swedish Financial Reporting Board. RFR 2 states that in the annual report for the legal entity, the Parent Company shall apply all IFRS standards and statements approved by the EU as far as this is possible within the framework of the Annual Accounts Act and with respect to the connection between accounting and taxation. The recommendation states which exceptions and additions may be made in relation to IFRS.

There are no new or changed accounting principles to be adopted for the Parent Company as of January 1, 2019. The exemption for IFRS 16 in RFR 2 will be applied.

Differences in the accounting principles between the Parent Company and the Group are described below.

*Subsidiaries and associated companies*

Shares in subsidiaries and associated companies are valued at cost. This means that transaction costs relating to acquisitions are included in the acquisition value. In the Group's accounts acquisition-related costs of subsidiaries are expensed when incurred. Currently, the Parent Company does not have any investments in associated companies.

*Employee benefits*

The Parent Company applies different principles for computing defined benefit plans than those specified in IAS 19. The Parent Company follows the provisions of the Pension Security Act and the regulations of the Swedish Financial Supervisory Authority, since that is a prerequisite for tax deductibility. The key differences compared with the regulations in IAS 19 are how the discount rate is determined, that computation of the defined benefit obligations occurs according to current salary levels without assumptions regarding future wage increases, and that all actuarial gains and losses are reported in the income statement as they are incurred. Another difference, compared with the regulations in IAS 19, is that no asset is recognized if the plan assets, valued at market value, exceed the defined benefit obligations. However, if the value of the plan assets are less than the defined benefit obligations, a provision is recognized.

*Taxes*

In the Parent Company, untaxed reserves are reported including deferred tax liabilities. However, untaxed reserves are divided into deferred tax liabilities and equity in the consolidated accounts.

*Group and shareholder contributions*

Shareholder contributions are transferred directly to the recipient's equity and are capitalized in shares and participations by the donor, to the extent that an impairment loss is not required. Group contributions, received and granted, are reported in the income statement as appropriations in accordance with RFR 2.

*Leased assets*

In the Parent Company all lease of fixed assets and rental of premises are reported as operating leases. Lease charges are expensed straight-line over the lease period.

## 2 Critical estimates and judgements

The application of accounting principles according to IFRS involves estimates, judgments and the use of assumptions that affect the reported amounts and accordingly actual results could differ from these estimates.

### Intangible assets

According to IFRS, intangible assets are to be defined as having either definite or indefinite lives. Intangible assets with indefinite useful lives are not amortized but instead tested annually for impairment. Goodwill, according to IFRS, has by definition an indefinite useful life and is therefore not amortized. Acquired trademarks with no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group, are regarded as having an indefinite useful life and therefore not amortized. Acquired trademarks deemed with definite useful lives are in general amortized over a period of 10–20 years. Trademarks and intangible assets that are being amortized are tested for impairment when circumstances indicate that the value of an intangible asset is impaired. The impairment tests include significant judgments made by management, such as assumption of projected future cash flows used in the valuation of the assets. Future events could cause management to conclude that impairment indicators exist and that an intangible asset is impaired. Any resulting impairment loss could have a material impact on the financial condition and result of operations. The Group's intangible assets as of December 31, 2018 amounted to 2,708 MSEK and amortization amounted to 63 MSEK. The amount for goodwill, which is included in intangible assets, amounts to 1,643 MSEK. For further information on impairment test of intangible assets see *Note 12 Intangible assets*.

### Legal disputes

The Group is involved in a number of legal proceedings. Although the Group is convinced that it has a strong position in these disputes, an unfavorable outcome cannot be ruled out, and this could have an adverse effect on the Group's earnings. Further details of the Group's legal disputes are explained in *Note 29 Commitments and contingent liabilities and assets*.

### Post employment defined benefits

Costs and liabilities attributable to post-employment defined benefit plans are recognized in the Group's financial statements based on actuarial calculations. Actuarial calculations are based on assumptions on the discount rate, future mortality, rate of compensation increase etc., often for a long time period. The actual outcome could differ from the assumptions made which can lead to an adjustment to the amount recognized in the balance sheet. The benefit obligations of the Group's defined benefit pension plans and post-employment medical benefit plans as of December 31, 2018 were estimated to exceed the fair value of plan assets by 1,024 MSEK. Further details of the Group's defined benefit plans are presented in *Note 22 Employee benefits*.

### Classification of principal or agent

Recognition of revenue requires management judgment in a number of cases. The most significant impact on the Group's revenue recognition is the assessment of control indicators for the sale transactions to determine whether Swedish Match is acting as a principal or as an agent. Such judgments impact the amount of reported revenue and operating expenses, but do not impact net income or cash flows.

Revenue relating to sales transactions where Swedish Match is acting as a principal are recognized as gross income with the related cost of the goods sold as operating costs. If the Group sells goods or services as an agent, sales and payments to suppliers are recorded in revenue on a net basis, representing the margin/commission earned.

An entity is a principal if it controls the specified goods or services before it is transferred to a customer. Control does not necessarily mean that the entity obtains the legal right to the goods before transferred to a customer. The essential indicators that should be assessed to determine if the entity is acting as a principal or as an agent are; (1) the entity is a principal if it has the primary responsibility for the specification and the acceptability of the goods or services transferred to the customer, (2) takes substantially all inventory risk and rewards relating to the sale of the goods or the service and, (3) has the responsibility for establishing the price that the customer pays for the specified goods or services. An entity is an agent if it does not substantially control the specified goods or services provided by another party before that it is transferred to a customer. For such sales transaction, the entity's performance obligation is to arrange for the distribution of the specified goods or services for another party.

Given the control indicators, Swedish Match has assessed that for the sale of goods from the Group's reportable segments, Swedish Match is acting as a principal with the revenue and the operating costs recognized as gross amounts

(net after allowances for estimates of potential outcome of variable considerations as well as expected reimbursements for product returns). Furthermore, it has been assessed that sale of goods in the Swedish distribution function relating to the delivery of third party tobacco products should be reported as if it acts as an agent. For most of Swedish Match transactions for the delivery of third party tobacco products in Sweden, Swedish Match does not have exposure to significant risks and rewards associated with the third party products from delivery to the Swedish distribution function's warehouse until delivery to retail. Swedish Match's distribution function does not provide any marketing nor any sales activities related to such products. Consequently, the distribution function recognizes revenues equaling the net commission earned, i.e., the distribution fee for the delivery service of third party tobacco products. Accordingly, inventory relating to the third party tobacco products for which the Swedish distribution function is acting as an agent and has limited control over such inventory is not recognized in Swedish Match's balance sheet.

Further details of the Group's sales are presented in *Note 3 Segment information*.

## 3 Segment information

Swedish Match's product segments are based on the internal reporting structure. Swedish Match's chief operating decision maker is the Group's President and CEO, who monitors and makes decisions about operating matters based on product segments. The Group's product segments are *Snus and moist snuff*, *Other tobacco products* and *Lights*. The product segments represent operating divisions producing, marketing and selling Swedish Match's products.

*Snus and moist snuff* are smokeless tobacco products that are primarily sold in Sweden, Norway and the US and production takes place in Sweden, Denmark and the US. Sweden is the world's largest snus market measured by per capita consumption. The Norwegian market is smaller than the Swedish market but has experienced strong volume growth in recent years. The US is the world's largest moist snuff market measured in number of cans and is about four times larger than the Scandinavian snus market. In Sweden and Norway, Swedish Match has a leading position. In the US, the Group is the third largest player in moist snuff, and has a growing position in Swedish snus. In the US and Sweden, Swedish Match also sells nicotine pouches without tobacco. Some of the best known brands include *General*, *Göteborgs Rapé*, *Kaliber*, *Kronan*, *Ettan*, *Grov* and *Catch* as well as *ZYN* in Sweden, *General*, *G.3*, *G.4*, *The Lab* and *Nick & Johnny* in Norway, and *Longhorn*, *Timber Wolf* and *General* as well as *ZYN* in the US.

*Other tobacco products* represent cigars and chewing tobacco manufactured and sold on the US market as well as chew bags and tobacco bits which are manufactured in Denmark and sold in certain European markets. Swedish Match is a major player in the US mass market cigar market, with such well known brands as *Garcia y Vega*, *Game by Garcia y Vega*, *1882*, *White Owl*, and *Jackpot*, which are manufactured in the Dominican Republic and the US. Swedish Match is the leading producer of chewing tobacco in the US where the product is mainly sold in the southern states of the country. Swedish Match's best known brand is *Red Man*. The market for US chewing tobacco shows a declining trend. The Group's brands for chewing tobacco in Europe include *Thunder*, *General Cut* and *Oliver Twist*.

*Lights* include manufacturing and distribution of matches and lighters as well as distribution of complementary products. Swedish Match is the market leader in a number of markets for matches. The match brands are mostly local, with leading positions in their home countries. Larger brands include *Solstickan*, *Nitedals*, *Fiat Lux* and *Redheads*. The Group's main brand for disposable lighters is *Cricket*. Swedish Match's largest markets for lighters are in Asia and Europe as well as in Brazil. Complementary products include externally sourced razors, batteries and high efficiency light bulbs offered within the Brazilian market under the *Fiat Lux* brand.

There are no internal sales between product segments and the Group's financial costs as well as taxes are not allocated to product segments. Operating assets are not monitored on a segment basis. Segment reporting for internal purposes is prepared in accordance with IFRS.

Other operations consist of corporate functions and the Swedish distribution function. Corporate functions include, among others, regulatory affairs, legal and financial services. The distribution function provides services to Swedish Match in Sweden and Norway as well as to other manufacturers within the Swedish distribution network. The revenues from sales of Swedish Match's products on the Swedish and the Norwegian markets are reported as part of the product segment *Snus and moist snuff*. The result from Other operations consists of the consolidated result for the corporate functions, of which the distribution function is making a profit from the distribution fee from the distribution of third party tobacco products and the other functions are normally making losses.

## NOTE 3 Continued

	Snus and moist snuff		Other tobacco products		Lights		Total segments		Other operations		Swedish Match Group	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017 <sup>2)</sup>	2018	2017
External sales	6,127	5,484	5,240	4,634	1,246	1,291	12,612	11,410	353	342	12,966	11,751
Depreciation, amortization and write-down <sup>1)</sup>	-234	-205	-89	-81	-41	-42	-365	-328	-50	-53	-415	-381
Income from associated companies	-	-	-	7	2	1	2	8	1	2	3	10
<b>Operating profit, excluding larger one-time items</b>	<b>2,791</b>	<b>2,358</b>	<b>1,956</b>	<b>1,776</b>	<b>189</b>	<b>211</b>	<b>4,936</b>	<b>4,345</b>	<b>-124</b>	<b>-126</b>	<b>4,812</b>	<b>4,219</b>
<i>Larger one-time items</i>												
Income from defined benefit plan amendment	-	17	-	53	-	-	-	69	-	-	-	69
Capital gain from sale of land	-	-	-	-	-	-	-	-	-	107	-	107
Sale of STG shares	-	-	-	-	-	-	-	-	-	197	-	197
<b>Operating profit, including larger one-time items</b>	<b>2,791</b>	<b>2,374</b>	<b>1,956</b>	<b>1,828</b>	<b>189</b>	<b>211</b>	<b>4,936</b>	<b>4,414</b>	<b>-124</b>	<b>178</b>	<b>4,812</b>	<b>4,592</b>
Finance income											65	156
Finance costs											-346	-396
<b>Profit before income tax</b>											<b>4,531</b>	<b>4,353</b>

<sup>1)</sup> Write-downs of tangible assets amounted to 9 MSEK (1) for Snus and moist snuff and 1 MSEK (1) for Other tobacco products. There were no write-downs of intangible assets.

<sup>2)</sup> In 2017, Other operations included capital gains from sale of shares in STG and capital gain from sale of parcel of land.

	Snus and moist snuff		Other tobacco products		Lights		Total segments		Other operations		Swedish Match Group	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<b>Restructuring costs and results from sale of fixed assets</b>												
Restructuring costs	-	-	-	-	-18	-11	-18	-11	-	-	-18	-11
Gains/losses from sale of fixed assets	-1	-1	-	1	4	1	2	1	-1	-1	2	0
<b>Investments</b>												
Property, plant and equipment <sup>1)</sup>	518	211	74	88	40	47	632	345	16	24	649	369
Intangible assets	0	0	3	-	0	1	3	1	14	7	17	8

<sup>1)</sup> Investments in property, plant and equipment for lights operations include investments in forest plantations.

### Geographic information

The table below refers to sales to external customers and fixed assets based on the geographical area where the Company operates.

External sales and fixed assets are distributed per significant geographical areas as follows:

	Sales to external customers				Fixed assets <sup>1)</sup>			
	2018		2017		2018		2017	
	MSEK	Percent	MSEK	Percent	MSEK	Percent	MSEK	Percent
Scandinavia	4,822	37	4,428	38	3,513	60	3,303	67
The US	6,803	52	6,056	52	1,628	28	1,238	25
Other markets	1,340	10	1,267	11	670	12	406	8
<b>Total</b>	<b>12,966</b>	<b>100</b>	<b>11,751</b>	<b>100</b>	<b>5,810</b>	<b>100</b>	<b>4,947</b>	<b>100</b>

<sup>1)</sup> Non-current assets other than financial instruments, deferred tax assets and pension assets.

### Information about major customers

Swedish Match generates its sales from a diverse customer portfolio and the reliance on individual customers is therefore limited.

Sales from the Group's largest single external customer constituted 8 percent of the Group's total sales.

### Revenue from contracts with customers

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

### Disaggregation of revenue

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

## 4 Business combinations

### Acquisitions during the year

On August 22, 2018, Swedish Match acquired 95 percent of the shares in Gotlands Snus AB, including its subsidiary Gotland Production AB ("Gotlands-snus"). Gotlandssnus was founded in 2000 and develops, produces, and sells both snus and nicotine-free products, with sales in Sweden, the US, Asia, and parts of Europe. The company sells popular brands such as *Jakobsson's* (snus) and *Qvitt* (pouch products with neither nicotine nor tobacco). The consideration amounted to 283 MSEK and was partly paid in cash upon the acquisition date. The remaining part of the consideration is classified as a vendor loan expected to be paid during 2020.

On April 3, 2018, Swedish Match acquired 100 percent of the shares in House of Oliver Twist A/S ("Oliver Twist"). The company has over 200 years of history and is Denmark's oldest independent tobacco manufacturer. The company develops, produces and sells chewing tobacco bits made of processed tobacco strands under the brand *Oliver Twist*. The company's main markets are in Scandinavia and certain other European countries. The consideration amounted to 306 MSEK (221 MDKK) and was paid in cash.

Sales attributable to the two acquisitions for the year ended December 31, 2018 from the day of each acquisition amounted to 86 MSEK and are included in the Group's sales. The acquisitions also contributed profit after tax of 16 MSEK over the same period. If the two acquisitions had been consolidated as of January 1, 2018 their impact on the Group's net sales is estimated to have been 139 MSEK and 26 MSEK on profit after tax for the financial year.

### Acquisition during 2017

On August 31, 2017, Swedish Match acquired 100 percent of the shares in V2 Holding ApS ("V2 Tobacco"), including its subsidiaries. The consideration amounted to 929 MSEK (732 MDKK) and was paid in cash.

### Effects of acquisition

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

	2018	2017
Property, plant and equipment	27	88
Intangible assets	246	343
Long-term receivables and other non-current assets	0	0
Inventory	39	44
Trade receivables and other current assets	25	32
Total liquid funds	17	8
Long-term liabilities	7	22
Trade liabilities and other current liabilities	23	42
Deferred tax liability	53	79
<b>Net identifiable assets and liabilities</b>	<b>272</b>	<b>372</b>
Group goodwill	332	565
Non-controlling interests <sup>1)</sup>	-15	-
<b>Total consideration</b>	<b>589</b>	<b>937</b>
Less acquired liquid funds	-17	-8
Less considerations not yet paid	-31	-
<b>Effect on the Group's cash and cash equivalents</b>	<b>541</b>	<b>929</b>

<sup>1)</sup> Non-controlling interest has been recognized at fair value.

Based on the final assessment of the fair value of acquired assets and liabilities in the two acquisitions, new assessments of the acquired trademarks have been made in both, which resulted in increased values of the trademarks. No other changes has been made between the preliminary and the final assessment, as presented in prior periods, of the acquired values.

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

Total acquisition costs for the two acquisitions amounted to 3 MSEK and mainly pertain to consultancy fees relating to the due diligence processes. Acquisition costs are recognized in profit and loss as administration costs.

No contingent liabilities arising from either the 2018 or 2017 acquisitions have been identified.

## 5 Other operating income and expenses

Other operating income and expenses are specified below:

	2018	2017
Foreign exchanges gains	47	29
Foreign exchanges losses	-43	-30
Result from sale of fixed assets	2	0
<b>Total</b>	<b>5</b>	<b>-1</b>

## 6 Personnel

The average number of employees, including temporary employees, in the Parent Company during 2018 was 55, and in the Group 5,662. The corresponding numbers in 2017 were 46 and 5,413, respectively. The increase in the average number of employees primarily relates to the expansion of cigar production in the Dominican Republic.

Group employees by country are summarized in the table below:

	2018		2017	
	Average number of employees	(of whom men, %)	Average number of employees	(of whom men, %)
<b>Parent Company</b>				
Sweden	55	55	46	48
<b>Subsidiaries</b>				
Belgium	2	50	2	50
Brazil	503	68	617	71
Denmark	95	61	50	67
Dominican Republic	2,481	51	2,253	54
Netherlands	97	93	98	95
Norway	45	64	45	60
Philippines	191	72	208	69
Sweden	1,187	60	1,084	61
Switzerland	2	50	2	50
Turkey	14	71	15	73
United States	990	70	993	70
<b>Total</b>	<b>5,662</b>	<b>60</b>	<b>5,413</b>	<b>62</b>

Board and Management by gender<sup>1)</sup>:

	2018		2017	
	At end of period	(of whom men, %)	At end of period	(of whom men, %)
<b>Parent Company</b>				
Board members elected by the AGM	7	57	7	57
Board members, employee representatives	3	100	3	67
<b>Board members</b>	<b>10</b>	<b>70</b>	<b>10</b>	<b>60</b>
<b>President and other management<sup>2)</sup></b>	<b>8</b>	<b>88</b>	<b>9</b>	<b>78</b>
<b>Group</b>				
Board members	101	77	113	61
President and other management <sup>2)</sup>	39	74	43	79

<sup>1)</sup> Deputy Board members are not included in the table. Presidents who are part of the Board are included in both categories; Board members and President and other management.

<sup>2)</sup> During 2018, one member of the Group Management Team was partly employed by the Parent Company and partly by a US subsidiary.

## NOTE 6 Continued

Wages, salaries, other remunerations and social costs are summarized below:

	2018			2017		
	Wages, salaries and other remunerations <sup>3)</sup>	Social costs	of which, pension costs <sup>2)</sup>	Wages, salaries and other remunerations	Social costs	of which, pension costs <sup>1)2)</sup>
Parent Company	96	47	17	95	48	16
Subsidiaries	1,627	685	209	1,551	664	208
<b>Total</b>	<b>1,723</b>	<b>732</b>	<b>226</b>	<b>1,646</b>	<b>712</b>	<b>224</b>

<sup>1)</sup> Social costs as well as the pension costs for 2017 is excluding the gain of 69 MSEK from defined benefit plan amendment.

<sup>2)</sup> Defined as service cost for defined benefit pension plans and contributions for defined contribution pension plans (excluding special employer contributions).

<sup>3)</sup> During 2018, costs for remuneration related to the GMT member that was partly employed by the Parent Company and partly by a US subsidiary, has been reported by the US subsidiary and invoiced to the Parent company as consultancy services.

The pension costs for the Parent Company include 7 MSEK (7) attributable to the President and other management consisting on average of five persons during 2018 and seven persons in 2017.

The pension costs for the subsidiaries include 12 MSEK (10) attributable to Presidents and other management consisting on average of 23 persons in 2018 (20 persons in 2017). The defined benefit obligations related to Presidents and other management as of December 31, 2018 amounted to 114 MSEK (93).

Wages, salaries and other remunerations split by Board members, President and other management and other employees, are summarized below:

	2018			2017		
	Board, President and other management <sup>1)</sup>	of which, variable salaries	Other employees	Board, President and other management <sup>1)</sup>	of which, variable salaries	Other employees
<b>Parent Company</b>						
Sweden	44	18	52	49	20	46
<b>Subsidiaries</b>						
Total in subsidiaries	86	42	1,540	67	30	1,484
<b>Total</b>	<b>130</b>	<b>61</b>	<b>1,592</b>	<b>116</b>	<b>50</b>	<b>1,530</b>

<sup>1)</sup> The Board, President and other management employed by the Parent Company consisted on average of 14 persons (13). Presidents and other management employed by the subsidiaries consisted on average of 23 persons (20), whereof four persons were members of the Group Management Team. For further information about remunerations to Group Management Team members see table below "Remuneration and other benefits to Group Management Team".

During 2018, 64 MSEK (46) was charged to the income statement, relating to a profit-sharing foundation on behalf of Group personnel in Sweden.

#### Remuneration to Swedish Match AB's Board of Directors

The Annual General Meeting on April 11, 2018 decided, for the period up to and including April 9, 2019 when the next Annual General Meeting is held that the Chairman of the Board shall receive a fee of 1,910,000 SEK, the deputy Chairman shall receive 900,000 SEK, that other members of the Board elected by the General Meeting shall each receive a fee of 764,000 SEK and as compensation for committee work the Chairmen of the Compensation Committee shall receive 270,000 SEK and the Audit Committee shall receive 310,000 SEK respectively and the other members of these committees shall each receive 135,000 SEK. Members of the Board employed by the Group shall not receive any Directors' fees.

There are no variable salaries or other benefits paid to the Board members for Board work during 2018. In 2018, a study fee in the amount of 58,577 SEK was paid to each of the three employee representatives on the Board, and in the amount of 43,844 SEK to each of the three deputy members. The study fees were paid by each employee representative's respective company. The fees to Board members elected by the Annual General Meeting for Board work during 2018 and 2017 are shown in the tables below:

#### Fees to Board members

TSEK	2018			
	Board fee	Compensation Committee	Audit Committee	Total remuneration for Board work
Conny Karlsson Board chairman	1,910	270	-	2,180
Andrew Cripps Board member	900	-	135	1,035
Charles Blixt Board member	764	135	-	899
Jacqueline Hoogerbrugge Board member	764	135	-	899
Pauline Lindwall Board member	764	-	-	764
Wenche Rolfsen Board member	764	-	135	899
Joakim Westh Board member	764	-	310	1,074
<b>Total</b>	<b>6,630</b>	<b>540</b>	<b>580</b>	<b>7,750</b>

TSEK	2017			Total remuneration for Board work
	Board fee	Compensation Committee	Audit Committee	
Conny Karlsson Board chairman	1,840	260	-	2,100
Andrew Cripps Board member	870	-	130	1,000
Charles Blixt Board member	735	130	-	865
Jacqueline Hoogerbrugge Board member	735	130	-	865
Pauline Lindwall Board member	735	-	-	735
Wenche Rolfsen Board member	735	-	130	865
Joakim Westh Board member	735	-	260	995
<b>Total</b>	<b>6,385</b>	<b>520</b>	<b>520</b>	<b>7,425</b>

#### Remuneration and other benefits to Group Management Team

The Annual General Meeting on April 11, 2018 adopted the following principles for remuneration and other terms of employment for the President and other members of the Group management. The members of the Group management are referred to below as the "Group Management Team" or "GMT".

The objective of these principles is to ensure that the Company is able to recruit and retain employees with appropriate skills and qualifications for their respective duties. The remuneration structures shall encourage employees to do their utmost to safeguard shareholders' interests. Swedish Match takes into account both global remuneration practice and the practice of the country of residence of each member of the GMT. The principles apply in relation to members of the GMT appointed after the adoption of the principles, and, in other cases, to the extent permitted under existing agreements.

The total remuneration paid to GMT consists of fixed salary, variable components in the form of annual short term variable remuneration and long term variable remuneration, pension, other benefits and terms related to termination of employment.

1. *Fixed salary:* The fixed salary for the GMT shall correspond to market rates and shall be based on each member's competence, country of residence, responsibility and performance.

## NOTE 6 Continued

2. *Variable salary:* The members of the GMT may be entitled to a variable salary in addition to the fixed salary. The variable salary may include both an annual short term program to be paid out in the beginning of the subsequent year depending on the outcome of the program, and a long term program with a performance period which shall not be shorter than three years. The variable salary shall primarily be based on specific, clear, predetermined and measurable financial or operational criteria set by the Board of Directors in relation to the President and by the Compensation Committee in relation to the GMT. The variable salary shall be capped in relation to the fixed salary and reflect the market practice in the country of residence.

The Company shall have the right to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.

3. *Profit Sharing System:* All employees in Sweden are participating in Swedish Match profit sharing system ("PSS").
4. *Insurable benefits:* Old age pension, disability and sickness benefits, medical benefits and life insurance benefits shall be designed to reflect the practices in the country where a member of the GMT is resident. New members of the GMT shall preferably be covered by defined contribution plans.
5. *Severance pay, etc:* A mutual period of notice of six months shall apply. Fixed salary during notice of termination and severance payment (if any) shall not exceed an amount corresponding to 24 months fixed salary. Members of the GMT residing outside Sweden may however be offered notice periods for termination and severance payment that are competitive in the country where the members are resident.
6. *Other benefits:* Other benefits shall be payable in accordance with local custom. The combined value of these benefits shall constitute a limited value in relation to the total remuneration package and shall correspond to market practice.
7. *The Board's right to deviate from the principles:* The Board of Directors shall be entitled to deviate from the principles approved by the Annual General Meeting if specific reasons for doing so exist in any individual case.
8. *Committee work and decisions:* Swedish Match Board of Directors shall have a Compensation Committee. The Committee has the authority to approve salary and other remuneration and employment terms for members of the GMT, except those regarding the President. The Committee shall prepare and present proposals for the Board's decisions on issues relating to salary and other remuneration and employment terms for the President. The Committee is authorized to decide and in relation to the President to propose to the Board of Directors the further details regarding the criteria and targets on which the variable salary is based for the GMT. In addition hereto the Committee is authorized to decide to what extent such criteria and targets have been met both for the GMT and the President.

**Application of principles on variable salary for 2018**

In order to ensure alignment with long term shareholder interests, to strengthen the retention element of the variable salary and to promote company shareholding among the Group Management Team ("GMT") the variable salary includes a short term cash incentive and a long term cash incentive program where the short term program includes an incentive for the GMT members to purchase and retain shares in the Company while the long term program includes an obligation to purchase and an undertaking to retain such shares. The performance period for the short term and the long term programs will be one year and three years respectively.

*Short term variable salary:* The maximum short term variable salary for the President and other members of the GMT residing in Sweden shall be 70 and 60 percent respectively of their 2018 base salary. To comply with local market standards the maximum short term incentive for members residing outside of Sweden shall be 70 percent of the 2018 base salary. Subject to justified exemptions, a 20 percentage point reduction in maximum variable salary shall apply to any GMT member who does not commit to purchase Company shares for at least 50 percent of the received cash award net of income tax and to retain such shares for a period of not less than three years. The minimum level of performance that must be reached to earn any allocation and the maximum level of performance at which payout is capped shall be defined in the beginning of each year by the Compensation Committee in relation to the GMT members other than the President and by the Board of Directors in relation to the President.

*Long term variable salary:* The maximum long term variable salary of the President and other members of the GMT (except as set forth below) shall be either 45 percent of the 2018 base salary or 750,000 SEK depending on the remit of the GMT member. Subject to justified exemptions, all members of the GMT will be obliged to purchase company shares for the full cash award net of income tax and shall retain such shares for a period of not less than two years. Members of GMT residing outside Sweden may participate in an additional long term variable salary program capped at 100 percent of the base salary every second year.

The outcome in the long term variable salary program is dependent on two criteria determined at the beginning of 2018, but measured over the full performance period 2018–2020. The majority of the outcome is based on Group operating profit from product segments 2018–2020 and the remaining part is based on net sales excluding SMD Logistics for 2018–2020. For both measures an improvement compared to the 2017 outcome is required for the measure to yield an outcome in the program.

**Remuneration and other benefits to Group Management Team**

TSEK		Fixed salary	Variable salary	Other benefits	Pension costs	Total	Defined benefit obligations
<b>President</b>	<b>2018</b>	<b>7,041</b>	<b>8,494</b>	<b>172</b>	<b>2,649</b>	<b>18,356</b>	-
	2017	6,835	6,704	129	2,554	16,222	-
<b>Other members of Group Management Team</b>	<b>2018</b>	<b>22,606</b>	<b>30,871</b>	<b>1,976</b>	<b>7,606</b>	<b>63,059</b>	<b>38,772</b>
	2017	19,726	20,305	2,336	6,574	48,941	32,849
<b>Total</b>	<b>2018</b>	<b>29,647</b>	<b>39,365</b>	<b>2,148</b>	<b>10,255</b>	<b>81,414</b>	<b>38,772</b>
	2017	26,561	27,009	2,465	9,128	65,163	32,849

*Comments to the table*

- At the end of 2018, the Group Management Team consisted of eight persons including the President. The President and three other members of the Group Management Team were employed by the Parent Company, three members were employed by a subsidiary and one member was partly employed by the Parent Company and partly by a US subsidiary.
- At the end of 2017, the Group Management Team consisted of nine persons including the President. The President and five other members of the Group Management Team were employed by the Parent Company and three member were employed by a subsidiary.

- Variable salary pertains to accruals charged to the consolidated income statement during the year for short term and long term incentive programs.
- Other benefits pertain to company cars, medical insurance, dental plan, life insurance, club membership and other benefits.
- Reported pension costs correspond to service costs for defined benefit pension plans and fees relating to defined contribution pension plans (excluding payroll taxes).
- During 2018 and 2017 no earnings-related compensation (tantiem) has been paid to the Group Management Team.
- During 2018 and 2017 no severance has been paid to the Group Management Team.

## NOTE 6 Continued

*Variable salary*

In 2018, the Group Management Team ("GMT") participated in short and long term incentive programs (variable salary) described under the presentation of the principles for remuneration and other terms of employment above.

The performance criterion for the CEO, the heads of corporate functions and the majority of the operating unit Presidents, in the short term incentive program for 2018 was Group operating profit from product segments. One member of the Group Management had partly the same criterion as the CEO and partly incentive criteria linked to the operating unit.

The performance criteria for the CEO and other members of the GMT for the long term program that started in 2016, for which the performance period ended in 2018, was based on the accumulated Group operating profit from product segments. The threshold and target for maximum payout were 11,071 MSEK and 12,454 MSEK respectively for the total performance period. The Compensation Committee established the total performance outcome for the long term program to 100.0 percent.

In the long term program that started in 2018, the performance criteria for the CEO and other members of the Group Management team is the accumulated Group operating profit from product segments (weight 75%) and the accumulated Group Net Sales excluding SMD Logistics (weight 25%) for the years 2018 to 2020. There will be no pay-out in relation to this criteria unless there is an improvement in relation to the comparable performance of the Group in 2017. The costs for the long term program are expensed during the fiscal year when the compensation is earned based on an estimated outcome. At year end, a final estimate of the year's cost is calculated based on the actual outcome. Adjustments of previously reported costs for the long term programs are also reported when the estimated outcome is updated for each program during the performance period. As the long term program extends over three years the final result will be established at the end of the three year performance period.

In addition to the programs noted above, GMT members residing in the US also participated in a three-year local program. This local program extends over three years, with a new program starting every second year. Accordingly, this program can generate an outcome every second year. The maximum outcome of this plan corresponds to a fixed annual salary every second year.

**Pensions***President*

The President's retirement age is 62 and he is covered by the Swedish standard retirement plan for white-collar employees (ITP plan) on salary up to 30 times the income base amount. The President's ITP plan shall be fully funded at age 62. In addition, the Company pays a pension premium amounting to 40 percent of fixed salary above 30 times the income base amount to a defined contribution pension plan.

*Other members of Group Management Team*

For members of Group Management Team who are residents in Sweden, the retirement age is 62 or 65. All Swedish members are covered by the Swedish standard retirement plan for white-collar employees (ITP plan) on salary up to 30 times the income base amount. In addition, for some of the members, the Company also pays a pension premium amounting to a maximum of 35 percent of fixed salary above 30 times the income base amount. Two members of Group Management Team, who are resident abroad, are covered by a defined benefit pension plan with a normal retirement age of 65. Annual variable salary is capped at 50 percent of the fixed salary in the calculation of retirement benefits.

**Other employment conditions***Severance pay etc.*

For the Group Management Team including the President, a mutual period of notice of six months applies and a maximum severance payment of 18 months' fixed salary is payable if the Company terminates the employment contract.

The President and three other members of the Group Management Team are entitled to terminate their employment with the right to receive severance pay in accordance with the above terms if a major organizational change should occur that significantly restricts their position.

**7 Audit fees**

Expenses for auditor's fees are included in the administrative expenses as set out in the table below:

Audit fees	2018	2017
<b>Deloitte</b>		
Audit services	7	7
Tax services	1	1
Other services	1	1
<b>Total</b>	<b>9</b>	<b>9</b>

Other services mainly pertain to advisory services for income tax relating to employee benefits.

**8 Operating expenses classified by nature**

Operating expenses <sup>1)</sup>	2018	2017
Personnel expenses	2,454	2,288
Depreciation, amortization and write-downs	415	381
Direct material	2,298	2,141
Other operating expenses	2,990	2,733
<b>Total</b>	<b>8,156</b>	<b>7,543</b>

<sup>1)</sup> Excluding larger one-time items.

Expenses for research and development are recognized in the income statement as other operating expenses. During 2018 expenses for research and development amounted to 215 MSEK (149).

**9 Net finance cost**

Financial income	2018	2017
Dividends received	-	107
Interest income relating to pension receivables	2	2
Interest income relating to financial assets measured at amortized cost	11	12
Interest income relating to financial instruments measured at fair value through profit and loss	49	36
Net foreign exchange gains	3	-
<b>Total</b>	<b>65</b>	<b>156</b>

Financial expenses	2018	2017
Interest expense relating to pension liabilities	-42	-53
Interest expense relating to other financial liabilities measured at amortized cost	-234	-263
Interest expense relating to financial instruments measured at fair value in hedging relationships	-64	-73
Interest expense relating to financial instruments measured at fair value through profit and loss	0	0
Net foreign exchange losses	-	-3
Other financial expenses	-6	-4
<b>Total</b>	<b>-346</b>	<b>-396</b>
<b>Net finance cost</b>	<b>-281</b>	<b>-240</b>

## 10 Income tax

The major components of income tax expense/income for the years ended December 31, 2018 and 2017 are:

Income tax expense reported in the income statement	2018	2017
<i>Current tax:</i>		
Current tax on earnings for the year	-915	-781 <sup>1)</sup>
Adjustments in respect of prior years	59	-10
<b>Total current tax</b>	<b>-856</b>	<b>-791</b>
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	-71	-166 <sup>1)</sup>
Adjustments in respect of prior years	-30	-1
Impact of change in tax rate	4	6
<b>Total deferred tax</b>	<b>-97</b>	<b>-161</b>
<b>Income tax expense</b>	<b>-953</b>	<b>-952</b>

<sup>1)</sup> The low current tax and the high deferred tax in 2017 is partly effected by deductible pension payments in the US.

The deductible and taxable temporary differences in the balance sheet for the years ended December 31, 2018 and 2017 are summarized below:

	2018			2017		
	Deferred tax assets	Deferred tax liabilities	Net balance	Deferred tax assets	Deferred tax liabilities	Net balance
Deferred tax assets and deferred tax liabilities						
Tax loss carry forwards	100	-	100	107	-	107
Trade receivables	1	-	1	1	-	1
Pensions and other post-employment benefits	254	-11	265	278	-7	285
Employment benefits	100	-	100	98	-	98
Intangible assets	0	355	-355	3	303	-300
Tangible assets	6	199	-193	9	189	-180
Tax allocation reserve	-	431	-431	-	333	-333
Inventory	3	30	-27	0	32	-32
Unremitted earnings in foreign subsidiaries	-	83	-83	-	87	-87
Financial assets	47	-	47	55	-	55
Other	18	-2	20	15	-2	17
<b>Net deferred tax balances</b>	<b>530</b>	<b>1,086</b>	<b>-556</b>	<b>566</b>	<b>935</b>	<b>-369</b>

The net of deferred tax liabilities and assets for the years ended December 31, 2018 and 2017 are summarized below:

Movement in deferred tax liabilities, net	2018	2017
Opening balance, net	369	-21
Deferred tax expense/income in the income statement	97	161
Deferred tax in other comprehensive income	49	110
Companies acquired externally	53	79
Translation differences	-11	40
<b>Closing balance, net</b>	<b>556</b>	<b>369</b>

As of December 31, 2018 the Group's non-recognized deductible temporary differences, excluding tax losses, are in total 8 MSEK (8). The table below shows amounts and expiration of the Group's tax losses carried forward:

Year	Amount
2018	-
2019	-
Subsequent years or no time limitation	486 <sup>1)</sup>
<b>Total tax losses carried forward recognized</b>	<b>486</b>
<b>Total tax losses carried forward not recognized</b>	<b>-</b>

<sup>1)</sup> The Swedish Tax Agency has reviewed and subsequently denied the claimed tax loss. Swedish Match does not agree with the assessment and has appealed the decision to the County Administrative Court.

Income tax reported outside of the income statement	2018	2017
Deferred tax	-49	-110
<b>Total</b>	<b>-49</b>	<b>-110</b>
<i>This comprises:</i>		
<b>Tax reported in other comprehensive income</b>		
Actuarial net gains/losses attributable to pensions	-38	-133
Impact of change in tax rate	-3	-
Revaluation of cash flow hedges net gain/loss	-8	23
<b>Total tax reported in other comprehensive income</b>	<b>-49</b>	<b>-110</b>
<b>Total tax reported outside of the income statement</b>	<b>-49</b>	<b>-110</b>

A reconciliation between tax expense and the product of accounting profit multiplied by Sweden's statutory tax rate for the years ended December 31, 2018 and 2017 is as follows:

	2018		2017	
	%	MSEK	%	MSEK
Reconciliation of effective tax rate				
<b>Profit before income tax</b>		<b>4,531</b>		<b>4,353</b>
<b>Swedish statutory tax rate</b>	<b>22.0</b>	<b>997</b>	<b>22.0</b>	<b>957</b>
Effect of tax rates in foreign jurisdictions	-0.2	-11 <sup>1)</sup>	2.6	111
Results from associated companies reported net of tax	0.0	0	0.0	-2
Income tax in respect of prior years	-0.7	-30 <sup>2)</sup>	0.2	10
Income not subject to tax	-0.1	-6	-2.9	-128 <sup>4)</sup>
Expenses not deductible for tax purposes	0.2	8	0.2	10
No benefit available for loss	0.0	1	0.0	1
Effect of enacted change of tax rate	-0.2	-8 <sup>3)</sup>	-0.1	-6
Other items	0.1	3	0.0	-1
<b>Reported effective tax</b>	<b>21.0</b>	<b>953</b>	<b>21.9</b>	<b>952</b>

<sup>1)</sup> The decreased effect in tax rates in foreign jurisdictions in 2018 is the result of the US federal tax cut from 35 percent to 21 percent in January 2018.

<sup>2)</sup> The positive effect of income tax in respect of prior years is primarily caused by beneficial US tax deductions for pension payments.

<sup>3)</sup> The positive effect of change of tax rate is mainly due to the enacted Swedish corporate tax cuts to 21.4 percent in 2019 and to 20.6 percent in 2021.

<sup>4)</sup> Larger one-time items in 2017 include capital gains from the sale of shares in STG and a tax exempt capital gain from sale of land.

## 11 Earnings per share

Basic and diluted	2018	2017
Profit for the year attributable to equity holders of the Parent <sup>1)</sup>	3,578	3,400
Profit for the year attributable to equity holders of the Parent, excluding income from STG	3,578	3,309
Profit for the year attributable to equity holders of the Parent, excluding income from STG and larger one-time items <sup>2)</sup>	3,578	2,953
<b>Weighted average number of shares outstanding, basic and diluted</b>	<b>173,445,540</b>	<b>180,096,690</b>

Earnings per share, basic and diluted, SEK	2018	2017
Earnings per share <sup>1)</sup>	20.63	18.88
Earnings per share, excluding income from STG	20.63	18.38
Earnings per share, excluding income from STG, and larger one-time items <sup>2)</sup>	20.63	16.40

<sup>1)</sup> Full year 2017 includes dividends received from the investment in STG.

<sup>2)</sup> There are no larger one-time items in 2018. Larger one-time items in 2017 include capital gains from the sales of shares in STG, in two tranches, totaling 197 MSEK (206 MSEK after tax), a capital gain from sale of land of 107 MSEK and an income from defined benefit plan amendment of 69 MSEK (43 MSEK after tax).

The Company has no outstanding options and no dilution.

## 12 Intangible assets

Intangible assets at December 31 comprised the following:

	Goodwill		Trademarks		Other intangible assets <sup>1)</sup>		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
<b>Cost at beginning of year</b>	<b>1,281</b>	<b>749</b>	<b>1,361</b>	<b>1,044</b>	<b>447</b>	<b>430</b>	<b>3,089</b>	<b>2,223</b>
Purchases/investments <sup>2)</sup>	-	-	0	-	17	15	17	15
Acquisitions	332	565	246	343	0	-	578	908
Sales/Disposals	-	-	-	-	-1	-2	-1	-2
Reclassifications <sup>3)</sup>	-	-	-	-	0	5	0	5
Translation differences, etc.	68	-32	48	-26	-1	0	115	-58
<b>Cost at end of year</b>	<b>1,682</b>	<b>1,281</b>	<b>1,655</b>	<b>1,361</b>	<b>462</b>	<b>447</b>	<b>3,798</b>	<b>3,089</b>
<b>Accumulated amortization and write-down at beginning of year</b>	<b>-39</b>	<b>-39</b>	<b>-769</b>	<b>-781</b>	<b>-193</b>	<b>-153</b>	<b>-1,001</b>	<b>-973</b>
Amortization for the year	-	-	-23	-18	-40	-42	-63	-59
Sales/Disposals	-	-	-	-	1	2	1	2
Translation differences, etc.	-	-	-27	29	1	0	-26	29
<b>Accumulated amortization and write-down at end of year</b>	<b>-39</b>	<b>-39</b>	<b>-820</b>	<b>-769</b>	<b>-231</b>	<b>-193</b>	<b>-1,090</b>	<b>-1,001</b>
<b>Net carrying value at end of year</b>	<b>1,643</b>	<b>1,242</b>	<b>835</b>	<b>592</b>	<b>231</b>	<b>254</b>	<b>2,708</b>	<b>2,088</b>

<sup>1)</sup> Other intangible assets mainly consist of software, licenses and patent rights.

<sup>2)</sup> Purchases/investments in 2017 include non-cash investments of 6 MSEK related to the acquisition of patent rights for a nicotine pouch product without tobacco.

<sup>3)</sup> During 2018, 0 MSEK [5] was reclassified from property, plant and equipment (construction in progress) to other intangible assets (software).

No borrowing costs have been capitalized during 2018 for intangible assets.

The Group's intangible assets are deemed to have definite useful lives, except for goodwill and the trademarks *Thunder* and *Jakobsson's*, which according to the IFRS definition have an indefinite useful life.

Amortizations have been charged to the income statement as stated below:

	Amortization	
	2018	2017
Cost of goods sold	-2	-1
Selling expenses	-19	-19
Administrative expenses	-42	-39
<b>Total</b>	<b>-63</b>	<b>-59</b>

### Impairment test

The Group's goodwill and trademarks with indefinite useful life are tested for impairment on an annual basis or whenever there is an indication of impairment. Goodwill and trademarks with indefinite useful life are, for the purpose of impairment testing, allocated to the lowest level of groups of cash generating units (CGUs) based on product groups and geographical markets, at which they are monitored within the Group. A group of CGU is not larger than an operating segment. The Group's goodwill and trademarks with indefinite useful life relate to the following CGUs: other tobacco products operations in US, moist snuff operations in US and lights operations. During 2018, the Group has two new CGUs. Acquired goodwill and trademarks with indefinite useful life relating to the acquisition of V2 Tobacco and Oliver Twist have been allocated to other tobacco products operations in Europe and acquired goodwill and trademarks with indefinite useful life relating to the acquisition of Gotlandssnus has been allocated to snus operations in Europe (not included in the impairment test in 2018 due recent acquisition). The carrying values of the assets relating to respective CGU are compared to the recoverable amount for the CGU. If the carrying value is higher, the difference will be charged to the income statement as an impairment loss.

The recoverable amount for all CGUs except for Snus operations in Europe has been determined based on value in use calculations. The value in use of a CGU is calculated using a valuation model based on discounted expected future cash flows (DCF). The cash flows are explicitly forecasted for a period of five-years. The cash flows beyond the five-year period are extrapolated using a terminal growth rate. The cash flows used in the valuation model are projected considering historical performance and forecasts, and are based on what management believes are reasonable assumptions according to the best information available. The forecasts are based on previous results, industry experience and expectations for market trends and has been approved by management. Forecasts are drawn up separately for each CGU and include assumptions on sales growth, EBITDA margin, working capital and investment needs, and the terminal growth rate of free cash flow. The forecasted cash flows are discounted by a discount rate specifically determined for each CGU.

The discount rates are calculated by weighting cost of capital (WACC) for each CGU. The calculation of cost of debt is based on local risk-free interest rates, local tax rates and a Swedish Match specific interest margin. Cost of equity is calculated using the Capital Asset Pricing Model, applying average beta for the industry adjusted for capital structure, local risk-free interest rates, specific risk premium (if applicable) and an equity risk premium. As local interest rates are included in the calculation of discount rates, the value in use calculations are sensitive to changes in market conditions.

When goodwill and trademarks with indefinite useful life was tested for impairment in 2018, the value in use exceeded the carrying values for all CGUs. To calculate the cash flows after the explicit forecasting period, a terminal growth rate is applied to each CGU as stated in the table below. When performing sensitivity analysis by increasing the discount rate by 2 percentage points or decreasing the terminal growth rate by 2 percentage points, the values in use were larger than the carrying values for all cash generating units. Applied changes in key assumptions show no indications of impairment.

## NOTE 12 Continued

## Goodwill and trademarks with indefinite life in cash generating units

Cash generating units	Terminal	Pre-tax WACC	Carrying	Terminal	Pre-tax WACC	Carrying
	growth rate		value	growth rate		value
	2018, %	2018, %	2018	2017, %	2017, %	2017
Other tobacco products operations in US	0.5	8.3	457	1.5	8.3	411
Moist snuff operations in US	1.0	8.1	78	1.0	10.0	78
Lights operations	1.3	11.1	170	1.6	13.2	170
Other tobacco products operations in Europe <sup>1)</sup>	0.1	8.3	1,126	–	–	906
Snus operations in Europe <sup>2)</sup>	–	–	300	–	–	–
<b>Total</b>			<b>2,130</b>			<b>1,565</b>

<sup>1)</sup> Includes trademarks with indefinite useful life of 336 MSEK (323).

<sup>2)</sup> Includes trademarks with indefinite useful life of 151 MSEK (–).

## 13 Property, plant and equipment

Property, plant and equipment at December 31 comprised the following:

	Buildings and land <sup>1)</sup>		Plant and machinery		Equipment, tools and fixtures		Construction in progress		Total <sup>2)</sup>	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<b>Cost at beginning of year</b>	<b>1,328</b>	<b>1,309</b>	<b>4,017</b>	<b>3,896</b>	<b>857</b>	<b>816</b>	<b>175</b>	<b>263</b>	<b>6,377</b>	<b>6,283</b>
Purchases/investments	1	5	147	103	63	74	431	174	643	355
Acquisitions	11	38	5	49	3	1	8	–	27	88
Sales/disposals	–1	–4	–87	–59	–40	–24	–	0	–128	–87
Reclassifications <sup>3)</sup>	42	25	181	219	2	1	–225	–250	0	–5
Translation differences, etc.	39	–45	173	–190	4	–10	11	–11	227	–257
<b>Cost at end of year</b>	<b>1,420</b>	<b>1,328</b>	<b>4,436</b>	<b>4,017</b>	<b>889</b>	<b>857</b>	<b>401</b>	<b>175</b>	<b>7,146</b>	<b>6,377</b>
<b>Accumulated depreciation and write-down at beginning of year</b>	<b>–549</b>	<b>–538</b>	<b>–2,867</b>	<b>–2,860</b>	<b>–543</b>	<b>–491</b>	<b>0</b>	<b>0</b>	<b>–3,959</b>	<b>–3,891</b>
Depreciation for the year	–42	–38	–215	–201	–85	–81	–	–	–342	–320
Write-down for the year	–	0	–10	–1	0	–1	–	–	–10	–2
Sales/disposals	1	–	87	59	38	22	–	–	126	81
Translation differences, etc.	–24	27	–118	137	–3	8	0	0	–146	172
<b>Accumulated depreciation and write-down at end of year</b>	<b>–615</b>	<b>–549</b>	<b>–3,123</b>	<b>–2,867</b>	<b>–592</b>	<b>–543</b>	<b>–1</b>	<b>0</b>	<b>–4,331</b>	<b>–3,959</b>
<b>Net carrying value at end of year</b>	<b>805</b>	<b>779</b>	<b>1,312</b>	<b>1,150</b>	<b>297</b>	<b>315</b>	<b>401</b>	<b>175</b>	<b>2,814</b>	<b>2,418</b>

<sup>1)</sup> Buildings and land include land and land improvements at a book value of 104 MSEK (99).

<sup>2)</sup> Total property, plant and equipment exclude forest plantation.

<sup>3)</sup> During 2018, 0 MSEK (5) was reclassified from construction in progress to software.

Construction in progress primarily relates to investments in production facilities.

No borrowing costs have been capitalized during 2018 or 2017 for property, plant or equipment.

Depreciation and write-downs for the year totaling 352 MSEK (322) was charged to cost of goods sold in the income statement in an amount of 266 MSEK (239), to administrative expenses of 20 MSEK (24), and to selling expenses of 65 MSEK (58).

## 14 Forest plantations

Forest plantations at December 31 comprised the following:

Forest plantations	2018	2017
<b>Carrying value at beginning of year</b>	<b>139</b>	<b>150</b>
Purchases/investments/new planting	6	14
Timber felled and transfer to inventory	–7	–8
Sales/disposals	–4	–
Translation differences, etc.	–9	–17
<b>Carrying value at end of year</b>	<b>126</b>	<b>139</b>

The Group's forest plantations comprise poplar and pine forests in Brazil with a total area of 5,764 hectares at December 31, 2018. The age of the trees varies from newly planted seedlings up to 30 years. The forests are held to ensure the supply of wood used in the product segment Lights.

Timber felled during 2018 had an estimated value of 7 MSEK at the time of felling, and made up 86,351 cubic meters of wood.

The forest plantations are regularly measured at its fair value of the forest and is based on estimated volumes and prevailing market prices for timber, less estimated point-of-sale costs. Volume estimates for each age category and type of wood are based on measurements of the height and diameter of trees and the number of trees per unit of area. The change in fair value for 2018 constituted an immaterial amount.

Replanting is required following harvesting of the Group's pine forest. Based on normal annual harvesting, this involves replanting approximately 150 hectares annually. During 2018, 83 hectares (129) pine forest were replanted. At present, there is no corresponding requirement for poplar.

Forest plantations may be damaged by noxious insects, diseases and fire. To reduce these risks, a program for damage and fire prevention is in place.

## 15 Investments in associated companies

The Group's investments in associated companies are accounted for in accordance with the equity method.

### Investments in associated companies

Swedish Match investments in associated companies are a 32 percent ownership interest in Malaysian Match Co. SDN. BHD. and a 25 percent interest in EB Road Cargo AB. Malaysian Match Co. SDN. BHD. is a Malaysian sales distributor for primarily matches and lighters in the Asia region. EB Road Cargo AB is a Swedish company which through its subsidiaries provides road transportation services with SMD Logistics AB as a major client.

During the fourth quarter of 2017, Swedish Match divested its shareholding of 40 percent in Arnold André GmbH & Co. KG, a cigar company in Germany.

## NOTE 15 Continued

The numbers in the tables below represent the change in carrying value:

	2018	2017
Associates		
<b>Carrying value at beginning of year</b>	<b>22</b>	<b>122</b>
Share of net profit/loss in associated companies	3	10
Dividends from associated companies	-3	0
Divestment of 40 percent ownership in Arnold André	-	-111
Translation differences, etc	1	2
<b>Carrying value at end of year</b>	<b>24</b>	<b>22</b>

The tables below specify the summary financial position of the associated companies and the corresponding carrying values. Operating results of investments in associated companies are recognized with a time lag of one month, based on the investee's internal financial reporting. Adjustments resulting from annual audits of investee results are thereby reflected in the subsequent reporting periods in Swedish Match consolidated financial statements. The 40 percent shareholding in Arnold André was sold in October 2017 and thereby, only profit and loss up until the third quarter of 2017 is included in the table below.

	Associated companies	
	2018	2017
Sales	431	1,141
Operating profit	3	34
Net profit/loss (excluding other comprehensive income)	1	25
<b>Total comprehensive income</b>	<b>1</b>	<b>25</b>
Total current assets	133	123
Total fixed assets	72	73
Total current liabilities	94	74
Total non-current liabilities	57	68
<b>Equity</b>	<b>55</b>	<b>53</b>
<b>Equity interest</b>	<b>18</b>	<b>17</b>
Goodwill	6	5
<b>Carrying value at end of year</b>	<b>24</b>	<b>22</b>

### Transactions with associated companies

In the normal course of business, Swedish Match conducts various transactions with associated companies. Transactions are conducted at an arms-length basis. Receivables from these companies totaled 25 MSEK (13). Total sales to associated companies amounted to 76 MSEK (66). Payables to these companies totaled - MSEK (2). Total purchases from associated companies amounted to - MSEK (3).

## 16 Other non-current receivables and other current receivables

Non-current receivables at December 31 comprised the following items:

	2018	2017
Other non-current receivables		
Non-current financial receivables	820	613
Net assets in pension plans	83	88
Other non-current receivables	7	10
<b>Total</b>	<b>910</b>	<b>711</b>

Non-current financial receivables include foreign exchange derivatives used to hedge the bond loans denominated in foreign currencies amounted to 690 MSEK (342). Most of the remaining value of the non-current financial receivables pertains to life insurance policies in a non-Swedish subsidiary.

Other current receivables at December 31 comprised the following items:

	2018	2017
Other current receivables		
Current financial receivables <sup>1)</sup>	154	13
VAT receivables	23	19
Other current receivables	385	161
<b>Total</b>	<b>562</b>	<b>193</b>

<sup>1)</sup> Current financial receivables include foreign exchange derivatives used to hedge the bond loans denominated in foreign currencies amounted to 134 MSEK.

The credit risk of the Group's non-current and current receivables is deemed to be low.

## 17 Inventories

Inventories at December 31, net of allowances for obsolescence, with separate disclosure of amounts expected to be recovered within twelve months and after more than twelve months, comprised the following items:

Inventories	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
Finished goods	504	-	504	436	-	436
Work in progress	60	-	60	40	-	40
Leaf tobacco	425	284	708	491	126	617
Other input materials and consumables	326	1	327	283	-	283
<b>Total</b>	<b>1,315</b>	<b>285</b>	<b>1,600</b>	<b>1,250</b>	<b>126</b>	<b>1,375</b>

During 2018, 32 MSEK (23) of inventory write-downs have been expensed.

Other input materials and consumables include harvested trees which are reported at fair value less estimated point-of-sale cost. Harvested trees constitute an immaterial part of other input materials and consumables.

## 18 Trade receivables

Trade receivables at December 31 comprised the following:

	2018	2017
Trade receivables		
Trade receivables	1,661	1,559
Less provision for impairment of trade receivables	-24	-24
<b>Net total</b>	<b>1,636</b>	<b>1,536</b>

Movements on the group provision for impairment of trade receivables are as follows:

	2018	2017
Trade receivable provision		
<b>Carrying value at beginning of year</b>	<b>-24</b>	<b>-24</b>
Provision	-7	-6
Recovery	3	4
Write-down	3	1
Translation differences, other deductions or additions, etc.	0	2
<b>Carrying value at end of year</b>	<b>-24</b>	<b>-24</b>

As of December 2018, trade receivables of 50 MSEK (53) were past due but not impaired. The aging of trade receivables is as follows:

	2018	2017
Aging of trade receivables		
Current	1,587	1,483
Overdue < 31 days	37	31
Overdue 31-60 days	5	10
Overdue > 60 days	7	11
<b>Total</b>	<b>1,636</b>	<b>1,536</b>

Swedish Match does not generally hold collateral against trade receivable. The ten largest customers represent 36 percent (33) of total net sales. Trade receivables are generally held in domestic currencies, which have an insignificant impact on the foreign currency risk. The provision for account receivables mainly pertain to doubtful customer account receivables that have the potential risk for not being collected. The credit risk of the Group's trade receivables are deemed to be low. For more information see Note 26 Financial instruments and financial risks.

## 19 Cash and cash equivalents

Cash and cash equivalents	2018	2017
Cash and bank	778	1,069
Other current investments	2,108	2,930
<b>Total</b>	<b>2,886</b>	<b>3,998</b>

Other current investments consist of short term deposits with banks and other institutions.

## 20 Equity

### Objectives, policies and processes for managing capital

The Board of Directors of Swedish Match has concluded that in view of the good and stable prospects for the business the financial policy is that the Group will strive to maintain a net debt that does not exceed three times EBITA. Excess funds shall be returned to shareholders through dividends and share repurchases. Swedish Match has the ambition to continuously grow dividend per share with a payout ratio normally within 40–60 percent, subject to adjustment for larger one-time items. The Board of Directors proposes a total dividend of 10.50 SEK per share. The proposed dividend of 10.50 SEK per share is equivalent to 51 percent of the earnings per share for the year. The proposed dividend amounts to 1,787 MSEK based on the 170.2 million shares outstanding at the end of the year. Dividend for 2017, paid in 2018, amounted to 2,911 MSEK, consisting of an ordinary dividend of 1,613 MSEK corresponding to 9.20 SEK per share, which is equivalent to 56 percent of the earnings per share for the year, excluding income from STG and larger one-time items. In conjunction with the ordinary dividend a special dividend of 7.40 SEK per share was paid out in 2018 of 1,298 MSEK following the sale of the remaining shareholding in STG in November 2017.

Number of shares held in treasury and cumulative repurchases of own shares included in retained earnings are detailed below:

	Number of shares (thousands)		Cumulative effect on equity (MSEK)	
	2018	2017	2018	2017
<b>Balance at beginning of year</b>	<b>5,889</b>	<b>4,077</b>	<b>-28,928</b>	<b>-26,338</b>
Repurchase of own shares during the year	5,700	8,762	-2,512	-2,590
Allocated to retained earnings by cancellation of treasury shares	-5,850	-6,950	13	14
Bonus issue	-	-	-13	-14
<b>Balance at end of year</b>	<b>5,739</b>	<b>5,889</b>	<b>-31,440</b>	<b>-28,928</b>

Since the buyback programs started in June 2000 the total number of share repurchased amounts to 248.4 million shares and the total number of cancellation of shares amounts to 228 million shares. Total number of shares sold as a result of option holders exercising options amounted to 14.6 million shares.

The Annual General Meeting on April 11, 2018 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 5.9 million shares held in treasury. The total number of outstanding shares of the Company, including treasury shares, after the cancellations, is 176.0 million shares.

During the year 5.7 million shares were repurchased for 2,512 MSEK at an average price of 440.75 SEK. As at December 31, 2018 Swedish Match held 5.7 million shares in its treasury, corresponding to 3.26 percent of the total number of shares. The number of shares outstanding, net after repurchase as per year end amounted to 170.2 million.

### Changes in reserves of cumulative other comprehensive income and non-controlling interest

	Hedge reserve	Translation reserve	Fair value reserve	Non-controlling interest
<b>2017</b>				
<b>Balance at beginning of year</b>	<b>-110</b>	<b>782</b>	<b>310</b>	<b>1</b>
Profit for the year pertaining to non-controlling interest	-	-	-	0
Translation differences related to foreign operations for the year	-	-301	-	0
Translation differences included in profit and loss	-	-6	-	-
Effective portion of changes in fair value cash flow hedges	-126	-	-	-
Changes in fair value cash flow hedges included in profit and loss	22	-	-	-
Available-for-sale financial assets, net change in fair value	-	-	-80	-
Share of reserves in associated companies, net of taxes, included in profit and loss <sup>1)</sup>	-	-	-230	-
Income tax relating to components of other comprehensive income <sup>2)</sup>	23	-	-	-
<b>Balance at end of year</b>	<b>-191</b>	<b>475</b>	<b>0</b>	<b>1</b>

<sup>1)</sup> Share of reserves in associates includes Swedish Match share of other comprehensive income reported in the consolidated financial reports of associated companies, such as fair value adjustments on financial instruments and related income taxes and translation effects that arise from the transaction of the financial reports of foreign subsidiaries that have prepared their financial statements in a different currency from the Parent company in the associates of Swedish Match.

<sup>2)</sup> For further details on tax components relating to the various other comprehensive income items, see Note 10 Income tax.

	Hedge reserve	Translation reserve	Non-controlling interest
<b>2018</b>			
<b>Balance at beginning of year</b>	<b>-191</b>	<b>475</b>	<b>1</b>
Profit for the year pertaining to non-controlling interest	-	-	0
Translation differences related to foreign operations for the year	-	331	0
Translation differences included in profit and loss	-	-2	-
Effective portion of changes in fair value cash flow hedges	39	-	-
Income tax relating to components of other comprehensive income <sup>1)</sup>	-11	-	-
<b>Balance at end of year</b>	<b>-163</b>	<b>804</b>	<b>1</b>

<sup>1)</sup> For further details on tax components relating to the various other comprehensive income items, see Note 10 Income tax.

### Hedge reserve

The hedge reserve includes the accumulated effective portion of changes in fair value of cashflow hedges attributable to interest rate hedges.

### Translation reserve

The translation reserve includes all exchange rate differences that arise in translation of the financial reports of foreign operations that have prepared their financial statements in a different currency from that which is used to present the consolidated financial reports. The Parent Company and the Group present their reports in Swedish krona (SEK).

### Fair value reserve

The fair value reserve included the cumulative net change in the fair value of available-for-sale financial assets until the assets are derecognized or impaired.

## 21 Interest bearing liabilities

The Group's interest bearing liabilities consist of bond loans and bank loans. The maturity structure of the Group's non-current interest-bearing liabilities is as follows:

Year	2018	2017
2019	-	1,183
2020	1,301	799
2021	1,848	498
2022	1,409	1,394
2023	2,155	1,087
2024 and later	5,570	5,316
<b>Total</b>	<b>12,282</b>	<b>10,277</b>

The Group's current interest-bearing liabilities at December 31 comprised the following items:

Current interest-bearing liabilities	2018	2017
Current portion of non-current loans	1,228	1,248
Bank overdraft facilities utilized	1	4
<b>Total</b>	<b>1,229</b>	<b>1,253</b>

See further information on interest-bearing liabilities in *Note 26 Financial instruments and financial risks*.

## 22 Employee benefits

### Post-employment employee benefits

The Group has defined benefit pension plans in a number of subsidiaries, through which the employees are entitled to post-employment benefits based on their pensionable income and the number of service years.

Obligations related to post-employment employee benefits as of December 31 are reported in the balance sheet under the following balance sheet items:

Post-employment defined benefits	2018	2017
Defined benefit plans, net liabilities	271	267
Post-employment medical benefits, net liabilities	827	870
Other long term employee benefits, net liabilities	8	9
<b>Provision for pensions and similar obligations</b>	<b>1,106</b>	<b>1,146</b>
Defined benefit plans, net assets	-83	-88
<b>Included in other non-current receivables</b>	<b>-83</b>	<b>-88</b>
<b>Net post-employment liability</b>	<b>1,024</b>	<b>1,058</b>

The net defined pension and benefit liability decreased during the year, as a result of higher pension contributions and net positive actuarial remeasurements, mainly due to higher discount rates partly offset by lower return on plan assets. In addition, the net pension benefit obligation was affected by negative currency effects.

During 2018, additional contributions of 91 MSEK and 5 MSEK were made to the US pension plans and the UK plan, respectively.

UK High Court ruled on October 26, 2018, that pension benefits must be equalized between men and women in respect of Guaranteed Minimum Pensions (GMPs) accrued between 17 May 1990 and 5 April 1997 (referred to as 'GMP equalization'). Due to the ruling an assessment for the Swedish Match UK plan has been made and a past service cost of 2 MSEK has been recognized in 2018.

### Overview of the Group's post-employment defined benefit plans

Post-employment defined benefit plans in US, together with the pension plan in UK, represents more than 90 percent of the Group's total defined benefit obligation.

In the US, Swedish Match provides two qualified pension plans, a postretirement medical plan, a supplemental pension plan covering certain executives, and a long term disability plan. The qualified pension plans are funded, where

benefit payments are made from a trustee-administered fund. The other plans are generally unfunded, where Swedish Match pays benefits as they come due, although the Group did establish two Voluntary Employee Beneficiary Association (VEBA) trusts for certain of its obligations under the US post retirement medical plan in 2017.

The largest qualified pension plan covers non-collectively bargained US employees and was closed for new entrants beginning in 2008. The plan is a final average pay pension plan, which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement.

The second qualified pension plan covers collectively bargained US employees and is open for new entrants. The plan is a dollars times service pension plan, which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and dollar multipliers specified by the plan. Normal retirement age for the US qualified pensions is 65 years and beneficiaries do not receive inflationary increases. Plan assets are held in trusts and there are pension plan fiduciaries as required under US pension law. The fiduciaries, jointly with Swedish Match, are responsible for the governance of the plans.

Plan assets are invested in accordance with the plans' Statement of Investment Guidelines. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The asset allocation strategy is to gradually move toward a higher fixed income allocation, following an interest rate matching strategy specifically referred to as a Liability Responsive Asset Allocation. As the funded status improves, the allocation to liability-oriented long duration bonds, or hedging assets, will increase, with a corresponding decrease to return-seeking assets, including equities, real estate, and hedge funds.

Actuarial valuations are completed annually for the US plans, and historically contributions have been made to satisfy minimum funding requirements and any additional discretionary amounts to avoid benefit restrictions, and to maintain a funded ratio of at least 80 percent under US pension law.

The US post-retirement medical plan offers heavily subsidized health care coverage for employees and their beneficiaries after retirement. For non-collectively bargained employees, the plan was closed for new entrants beginning in 2008. The plan is still open for collectively bargained new entrants. In addition to retiree medical benefits, retiree life insurance benefits are also provided under the plan.

In the UK, Swedish Match provides a funded pension plan for former employees of Swedish Match UK Limited, providing benefits based on final pay. Over two-thirds of the liabilities relate to retired members already in receipt of pensions, and their dependents, with the balance relating to members with deferred pensions. There are no active members accruing further benefits, and no new members are able to join.

The plan is set up as a separate legal entity, and a separate trustee company, Swedish Match UK Pension Trustee Limited, is responsible for its governance. One-third of the directors of the trustee company are nominated by the membership and two-thirds are nominated by the employer. The strategic asset allocation is determined from time to time by the directors of the trustee company, after consulting with Swedish Match, based on professional advice and having regard to the level of risk.

At the end of 2011, the trustee undertook a significant exercise to reduce risk by purchasing a bulk annuity contract covering all of the liabilities for pensions in payment at that time. The trustee is currently following a largely growth-based strategy for the remaining assets but is actively looking for opportunities to de-risk further as and when the funding position allows.

The other pension plans within the Group are final salary pension plans that provide benefits to members in the form of a guaranteed level of pension payable for life, or in a lump-sum at the date of the retirement. The majority of benefit payments are from trustee-administered funds. Also, there are a number of unfunded plans where the Group meets the benefit payment obligation as it falls due. Plan assets held in trusts are governed by local regulations and practices in each country, as is the nature of relationship between Swedish Match and the trustees (or equivalent) and their composition. Responsibility for governance of the plans, including investment decisions and contribution schedules, lies jointly with Swedish Match and the board of trustees. The board of trustees is composed of representatives of Swedish Match and plan participants in accordance with the plans' regulations.

## NOTE 22 Continued

The table below specifies the net liability for defined benefit post-employment obligations:

	Defined benefit pension plans		Post-employment medical benefits	
	2018	2017	2018	2017
Post-employment defined benefits				
Present value of funded obligations	3,129	3,070	951	1,006
Fair value of plan assets	-3,110	-3,035	-124	-135
<b>Deficit(+), net</b>	<b>18</b>	<b>35</b>	<b>827</b>	<b>870</b>
Present value of unfunded obligations	170	145	-	-
<b>Net liability(+)</b> in the balance sheet	<b>188</b>	<b>179</b>	<b>-</b>	<b>-</b>
<b>Amounts in the balance sheet</b>				
Liabilities	271	267	827	870
Assets	-83	-88	-	-
<b>Net liability(+)</b> in the balance sheet	<b>188</b>	<b>179</b>	<b>827</b>	<b>870</b>

### Actuarial assumptions

Provisions for the Group's post-employment defined benefit plans are reported based on actuarial valuations. Actuarial valuations are calculated based on actuarial assumptions for determining the discounted net present value of the obligations. Significant actuarial assumptions used are discount rate, future salary growth rate, future pension growth rate, inflation, future mortality expectancy and medical cost trend rate, as applicable.

The discount rate is set per country with reference to market yield on high quality corporate bonds of appropriate duration or government bonds for countries where a deep market of high quality corporate bonds is not available.

For the US defined benefit plans Swedish Match determined the obligation effective discount rate based on the single equivalent rate such that the present value of the plan's obligation cash flows using the single rate equals the present value of those cash flows using the corresponding spot rate along the yield curve.

The effective rates for interest on the defined benefit obligation and service cost are the single equivalent rates that result in the same value when applied to the defined benefit obligation and service cost respectively.

For the larger US post-employment defined benefit plans the same process is applied to the plan's service cost cash flows to determine the effective discount rate associated with the service cost.

For the other plans Swedish Match applies a single weighted average discount rate based on the full eligible population to measure the obligations and pension expense.

Assumptions regarding future mortality expectancy are based on advice in accordance with published statistics and experience in each country. The interest income on plan assets is based on the discount rate and is a component of the return on plan assets. Changes in assumptions can give rise to remeasurement differences, i.e., actuarial gains and losses, in the valuation of the Group's defined benefit obligations and the outcome from the performance of plan assets. Actuarial gains and losses are recognized to the full amount as they occur in accordance with the actuarial valuation and reported in other comprehensive income. The full recognition of actuarial gains and losses implies that the Group's net pension liability in the balance sheet includes all cumulative actuarial gains and losses.

### Significant risks associated with the Group's post-employment defined benefit plans

Changes in market yields on corporate and government bonds would impact the plan liabilities. A decrease in market yields will decrease the discount rate assumption which increases plan liabilities for accounting purposes. However, for funded plans, this will be partially offset by an increase in the value of the trusts' bond holdings. As Swedish Match moves along the liability-driven investment glide path, this offset will increase and risk will be further mitigated.

Some pension plan trusts hold equities, whose growth is expected to outpace liabilities over the long term while providing volatility and risk in the short term. Poor equity performance will decrease funded status and will increase both accounting expense and required funding. As discussed above, over time, Swedish Match intends to reduce the level of equity investment risk by investing more in fixed income assets that better match the liabilities per the liability-driven investment glide path set forth in the Statement of Investment Guidelines. The plans provide benefits for the life of participants (and often their spouses as well). As such, increases in life expectancy will result in an increase in the plans' liabilities.

Other risks to which the plans are exposed include the risk that price inflation will increase, which will result in higher pension payments being due.

The postretirement medical liabilities in the US reflect assumptions of increases in future US health care costs (health care trend). If actual cost increases outpace these assumptions, plan liabilities will increase.

Significant actuarial assumptions at the balance sheet date (expressed as weighted average):

	Group			
	Defined benefit pension plans		Post-employment medical benefits	
Actuarial assumptions	2018	2017	2018	2017
Discount rate, %	3.9	3.5	4.2	3.8
Price inflation rate, %	2.5	2.5	2.5	2.5
Future salary increases, %	3.3	3.1	3.2	3.0
Future pension increases, %	3.0	3.1	-	-
Medical cost trend rate, %	-	-	6.7	6.9

### Sensitivity analysis of significant assumptions

Changes in the discount rate may have a significant effect on the Group defined benefit obligation. An increase in the discount rate of 0.5 percent would decrease the defined benefit obligation with 265 MSEK and a decrease of 0.5 percent in the discount rate would increase the defined benefit obligation with 294 MSEK. The effect from the sensitivity analysis is based on a change in the discount rate assumption while holding all other assumptions constant.

Changes in other actuarial assumptions are calculated not to have a material effect on the Group defined benefit obligation. An increase/decrease in the future salary increases and the inflation rate of 0.5 percent are estimated to have an effect on the defined benefit obligation of less than 1 percent respectively, holding other assumptions constant.

### Change in the defined benefit obligations and plan assets

The movements in the defined benefit obligation over the year were as follows:

	Defined benefit pension plans		Post-employment medical benefits	
	2018	2017	2018	2017
Defined benefit obligations				
<b>Balance at beginning of year</b>	<b>3,214</b>	<b>3,333</b>	<b>1,006</b>	<b>1,121</b>
Service cost	62	62	24	27
Interest expense	102	101	35	37
Administrative expense	-	-	-	-1
Income from amendment	-	-	-	-69
Settlement payments from plan asset	-5	-4	-	-
Contributions by plan participants	-	-	4	4
Benefits paid	-160	-148	-32	-28
Taxes paid	-1	-1	-	-
Changes in financial assumptions	-172	160	-174	72
Changes in demographic assumptions	-14	-30	-5	-62
Experience assumptions	42	-18	5	12
Translation differences	229	-241	89	-105
<b>Balance at end of year</b>	<b>3,298</b>	<b>3,214</b>	<b>951</b>	<b>1,006</b>

	Defined benefit pension plans		Post-employment medical benefits	
	2018	2017	2018	2017
Profile of plan members of the defined benefit obligation				
Active employees	1,135	1,020	518	556
Deferred members	400	440	-	-
Members in retirement	1,764	1,755	433	450
<b>Balance at end of year</b>	<b>3,298</b>	<b>3,214</b>	<b>951</b>	<b>1,006</b>
<b>Weighted average duration of defined benefit obligation</b>	<b>13 years</b>	<b>14 years</b>	<b>14 years</b>	<b>15 years</b>

## NOTE 22 Continued

The movements in the fair value of plan assets of the year were as follows:

Plan assets	Defined benefit pension plans		Post-employment medical benefits	
	2018	2017	2018	2017
<b>Fair value at beginning of year</b>	<b>3,035</b>	<b>3,012</b>	<b>135</b>	<b>0</b>
Interest income on plan assets	92	87	5	-
Administrative expense	-6	-5	-	-1
Settlement payments from plan asset	-5	-4	-	-
Employer contributions	139	60	3	166
Employee contributions	-	-	4	4
Benefits paid	-160	-148	-32	-28
Taxes paid	-1	-1	-	-
Return on plan assets	-196	245	-3	-
Translation differences	211	-210	12	-5
<b>Fair value at end of year</b>	<b>3,110</b>	<b>3,035</b>	<b>124</b>	<b>135</b>

The actual return on plan assets was negative in 2018 and amounted to -102 MSEK compared to a return in 2017 of positive 332 MSEK.

Plan assets at December 31 are comprised as follows:

Plan assets	2018	2017
Equity securities <sup>1)</sup>	1,267	1,364
Debt instruments	1,071	752
Real estate	4	-
Other <sup>2)</sup>	892	1,055
<b>Total</b>	<b>3,234</b>	<b>3,171</b>

<sup>1)</sup> Equity securities consist of quoted securities in all material respect. The Group's plan assets does not hold any own shares.

<sup>2)</sup> A large part pertains to the UK annuity insurance policies.

#### Income and expenses relating to post-employment benefit plans recognized in the income statement

The amounts reported in the income statement consist of the following:

Post-employment defined benefits income and expenses	Defined benefit pension plans		Post-employment medical benefits	
	2018	2017	2018	2017
Current service costs	62	62	24	27
Interest expense on obligation	102	101	35	37
Interest income on plan assets	-92	-87	-5	-
Administrative expenses	5	9	-	-
Income from amendment	-	-	-	-69
<b>Net expense(+)/income(-) reported in the income statement</b>	<b>78</b>	<b>85</b>	<b>54</b>	<b>-6</b>

The net income/expenses for defined benefit plans are reported under the following headings in the income statement:

Post-employment defined benefits income and expenses	Defined benefit pension plans		Post-employment medical benefits	
	2018	2017	2018	2017
Cost of goods sold	24	29	12	15
Administrative expenses	18	10	0	-3
Larger one-time items	-	-	-	-69
Selling expenses	26	32	12	15
Interest income	-92	-87	-5	-
Interest expenses	102	101	35	37
<b>Net expense(+)/income(-) reported in the income statement</b>	<b>78</b>	<b>85</b>	<b>54</b>	<b>-6</b>

#### Income and expenses relating to post-employment benefit plans recognized in other comprehensive income

The amounts reported in other comprehensive income consist of the following:

Post-employment defined benefits income and expenses	Defined benefit pension plans		Post-employment medical benefits	
	2018	2017	2018	2017
Actuarial gains and losses on obligations, incl. payroll taxes	-143	112	-173	21
Return on plan assets, excluding interest income	196	-248	3	-
<b>Net income(-)/expense(+) reported in other comprehensive income statement</b>	<b>53</b>	<b>-137</b>	<b>-171</b>	<b>21</b>

#### Post-employment employee benefits per country

Defined benefit pension plans and post-employment medical benefits as at December 31, 2018 per significant country are comprised as follows:

2018	Present value of obligation	Fair value of plan assets	Net liability/asset in balance sheet
USA	3,342	2,339	1,003
UK	690	665	25
Rest of the world	226	230	-4
<b>Total</b>	<b>4,258</b>	<b>3,234</b>	<b>1,024</b>

Defined benefit pension plans and post-employment medical benefits as at December 31, 2017 per significant country are comprised as follows:

2017	Present value of obligation	Fair value of plan assets	Net liability/asset in balance sheet
USA	3,269	2,223	1,046
UK	746	707	39
Rest of the world	213	240	-26
<b>Total</b>	<b>4,229</b>	<b>3,171</b>	<b>1,058</b>

## NOTE 22 Continued

Significant actuarial assumptions as at December 31 per significant country (expressed as weighted average):

Actuarial assumptions	USA				UK		Rest of the world	
	Defined benefit pension plans		Post-employment medical benefits		Defined benefit pension plans		Defined benefit pension plans	
	2018	2017	2018	2017	2018	2017	2018	2017
Discount rate, %	4.2	3.7	4.2	3.8	2.8	2.4	4.7	4.6
Price inflation rate, %	2.2	2.2	2.5	2.5	3.4	3.5	2.3	2.2
Future salary increases, %	3.2	3.0	3.2	3.0	-	-	5.7	5.5
Future pension increases, %	-	-	-	-	3.3	3.4	1.5	1.4
Medical cost trend rate, %	-	-	6.7	6.9	-	-	-	-

### Expected contribution next year

Expected contributions for post-employment benefit plans for the full year 2019 amounts to 36 MSEK.

### Defined contribution plans

The Group has certain obligations under defined contribution plans. Contributions to these plans are determined by provisions in the respective plan. Costs for defined contribution plans charged to income statement for the year amounts to 142 MSEK (133).

### Multi-employer insurance plan

In Sweden there is a multi-employer insurance plan for salaried personnel in Alecta. Although this plan is classified as a multi-employer defined benefit plan, it is not possible to get sufficient information to apply defined benefit accounting, to provide specific information for each customer's obligation and

fair value of related assets and therefore it has been accounted for as a defined contribution plan. The contribution to the multi-employer plan Alecta for the year ended December 2018 was 57 MSEK (56). Swedish Match contribution represents 0.20 percent (0.22) of the total contributions paid to Alecta. Swedish Match active members in the multi-employer plan are 0.08 percent (0.07) of all active members in the plan. Alecta has a collective funding ratio as per December 2018 of 142 percent (154). The collective funding ratio is a buffer for Alecta's insurance commitments to protect against fluctuations in investment return and insurance risks. It is a difference between Alecta's assets and the company's insurance commitments to policyholders and insured individuals. The collective solvency is normally allowed to vary between 125 and 175 percent. If the level of collective solvency is less than 125 percent or exceeds 175 percent, measures are to be taken in order to create conditions for restoring the level of collective solvency to the normal interval.

## 23 Provisions

Non-current and current provisions at December 31 comprised the following:

Non-current provisions	2018	2017
Income tax	100	125
Restructurings	3	6
Other operating provisions	6	4
Deferred compensation	347	283
Other provisions	-	140
<b>Total non-current provisions</b>	<b>456</b>	<b>559</b>

Current provisions	2018	2017
Restructurings	3	7
Other operating provisions	95	100
<b>Total current provisions</b>	<b>98</b>	<b>107</b>
<b>Total non-current and current provisions</b>	<b>554</b>	<b>666</b>

Movements in provisions during the year were as follows:

Provisions	Income tax provisions	Restructuring provisions	Other operating provisions	Deferred compensation	Other Provisions	Total
<b>Carrying value at beginning of year</b>	<b>125</b>	<b>14</b>	<b>104</b>	<b>283</b>	<b>140</b>	<b>666</b>
Provisions made during the year	18	2	22	74	-	116
Provisions used during the year	-26	-7	-37	-30	-137	-238
Provisions reversed during the year and changes in estimates	-18	-	1	-1	-3	-21
Reclassifications	-	-2	3	0	-	0
Translation differences, etc.	1	-	8	21	-	30
<b>Carrying value at end of year</b>	<b>100</b>	<b>6</b>	<b>100</b>	<b>347</b>	<b>-</b>	<b>554</b>

### Income tax provisions

Income tax provisions pertain to tax disputes and other tax contingencies. None of the income tax provisions are at this stage expected to be realized within one year.

### Restructuring provisions

Provisions recognized for restructuring charges are reported as restructuring provisions. The provisions are generally expected to be settled within one year, but a certain portion is expected to be settled within a period up to five years.

### Other operating provisions

Provisions of operating character, and not related to restructuring or deferred compensation, are reported as operating provisions. A large part of the operating provisions are related to provisions for outstanding redemptions of current coupons and future product returns. While provisions related to coupons and returns are expected to be realized within the year, they are replaced within the year, and as such the provisions are classified as current.

## NOTE 23 Continued

**Deferred compensation**

The deferred compensation provision represents obligations for earned remuneration to certain employees and accruals for the long term incentive plan. Certain employees may elect to defer a portion of their normal salary and/or bonus awards until a later date, and may elect to defer compensation up until the date of retirement. From retirement, payments may be spread over a period not to exceed 15 years. The deferrals are invested and secured by corporate owned life insurance policies. The deferred amount develops each year by the investment return. Accordingly, the present value of the deferred amount is estimated to equal the initially deferred amount plus accumulated return. The long term incentive plan is the long term portion of the variable salary for certain managers which will be settled within three years.

**Other provisions**

Other provisions related to a long term legal dispute. During the year, funding of the dispute has been made to avoid further interest expenses on the legal obligation. The final outcome from the proceeding for the legal dispute is predicted to be within 5 years.

For further information about provisions for pensions, see Note 22 Employee benefits.

**24 Other non-current liabilities and other current liabilities**

Other non-current liabilities at December 31 comprised the following:

Other non-current liabilities	2018	2017
Non-interest bearing non-current liabilities <sup>1)</sup>	59	74
Non-current financial liabilities, derivatives <sup>2)</sup>	2	72
Vendor loan, acquisition Gotlandssnus	31	-
<b>Total</b>	<b>93</b>	<b>147</b>

<sup>1)</sup> Non-interest bearing non-current liabilities mainly pertains to additional obligations related to acquisition of patent rights.  
<sup>2)</sup> Derivatives measured at fair value included foreign exchange derivatives used to hedge the bond loans denominated in foreign currencies was included previous year with -104 MSEK.

Other current liabilities at December 31 comprised the following:

Other current liabilities	2018	2017
Tobacco taxes	1,372	1,033
VAT liabilities	407	371
Current financial liabilities, derivatives	20	40
Other	27	105
<b>Total</b>	<b>1,826</b>	<b>1,549</b>

**25 Accrued expenses and deferred income**

Accrued expenses and deferred income at December 31 comprised the following:

Accrued expenses and deferred income	2018	2017
Accrued wage/salary-related expenses	259	256
Accrued vacation pay	72	68
Accrued social security charges	75	68
Accrued interest	129	125
Other	403	366
<b>Total</b>	<b>938</b>	<b>883</b>

**26 Financial instruments and financial risks****Operations**

As a result of its international operations, Swedish Match is exposed to financial risks. The term "financial risks" refers to fluctuations in Swedish Match's cash flow caused by changes in foreign exchange rates and interest rates, and to risks associated with refinancing and credit. To manage its financial risks, Swedish Match has a finance policy in place established by the Board of Directors. The Group's finance policy comprises a framework of guidelines and principles governing the management of financial risks and finance operations in general. The central functions consist of Financial Services and Treasury, which are responsible for the Group's borrowing including securing financing needs, cash management including cash pools and handling the liquidity surplus, as well as currency and interest rate management. Treasury serves as an internal bank for the Group's financial transactions. The Group's financial risk management is centralized to capitalize on economies of scale and synergy effects, and to minimize operational risks.

**Financial instruments**

Swedish Match uses various types of financial instruments to hedge the Group's financial exposure arising in business operations and as a result of the Group's financing and asset and debt management activities. Currency exchange and derivative instruments are used to reduce Swedish Match's financial exposure. The most frequently used derivative instruments are currency forwards, currency swaps and cross currency interest rate swaps. A table showing all the derivatives that affected the Group's balance sheet and income statement is provided below.

**Outstanding derivatives**

	2018			2017		
	Nominal	Assets	Liabilities	Nominal	Assets	Liabilities
Currency derivatives	2,374	1	20	1,653	0	40
Interest-rate and currency derivatives*	7,196	621	27	6,996	274	97
<b>Total:</b>	<b>9,570</b>	<b>622</b>	<b>47</b>	<b>8,649</b>	<b>274</b>	<b>137</b>

**\*Of which hedge accounting**

	2018	2017
Cash flow hedges <sup>1)</sup>	7,196	621

<sup>1)</sup> The instruments are currency forwards and cross currency interest rate swaps. There are no conditions in these transactions that can cause any significant differences in the hedging relation between these derivatives and their underlying liabilities.

**Currency risks**

Exchange rate fluctuations affect Group earnings and shareholders' equity in various ways:

- Earnings – when sales revenues and production costs are denominated in different currencies (transaction exposure).
- Earnings – when the earnings of foreign subsidiaries are translated to SEK (translation exposure).
- Earnings – if loans and deposits are made in other currencies than the unit's functional currency (translation exposure).
- Shareholders' equity – when the net assets of foreign subsidiaries are translated to SEK (translation exposure).

The consolidated income statement includes exchange rate gain of 6 MSEK (-3) in operating profit and gain of 3 MSEK (-3) in net finance cost.

**Transaction exposure**

A large part of the Group's inflow and outflow in foreign currencies are matched, which effectively limits the Group's transaction exposure. Transaction exposure arises when certain of the Group's production units in Europe make purchases of raw tobacco in USD, and through the European operations' exports of lighters and matches in USD. The largest exposure is in NOK due to the sales of snus in Norway which is produced in Sweden.

The anticipated commercial net currency flow in the same currencies (transaction exposure) amounts to 1,404 MSEK on an annual basis. It is divided as following: 988 MSEK in NOK (70 percent), 122 MSEK in USD (9 percent), 137 MSEK in EUR (10 percent), 58 MSEK in GBP (4 percent), 64 MSEK in PHP (5 percent) and in other currencies 35 MSEK (2 percent). As Swedish Match's transaction exposures are limited, few hedging transactions are executed. The hedging transactions are, if any, based on risk exposures, current market conditions and other strategic considerations. At December 31, 2018, no transaction exposure for 2019 has been hedged. A general rise of 10 percent in the value of the SEK against all of the Group's transaction currencies is

## NOTE 26 Continued

estimated to reduce consolidated earnings before tax by 127 MSEK (99), of which 99 MSEK in NOK, 12 MSEK in USD, 14 MSEK in EUR and other currencies will net increase earnings by 2 MSEK.

**Translation exposure**

The most significant effect of currency movements on consolidated earnings arises from the translation of subsidiaries' earnings. Earnings in Group companies are translated at average exchange rates. Effects mainly pertain to USD, EUR, BRL and DKK. The single most important currency is the USD.

When the net assets of foreign subsidiaries are translated to SEK, translation differences arise that are recognized directly in equity. The exposures of net investment are 5,151 MSEK in USD (88 percent), 172 MSEK in EUR (3 percent), 216 MSEK in BRL (4 percent), 198 MSEK in DKK (3 percent) and in other currencies 134 MSEK (2 percent). The Group does not, as a general rule, hedge the net investments in foreign subsidiaries. If the SEK strengthens by 10 percent against all the currencies in which Swedish Match has foreign net assets, the effect on shareholders' equity would be a total positive amount of approximately 483 MSEK, of which 515 MSEK in USD, 17 MSEK in EUR, 2 MSEK in GBP would give a positive effect and of which 22 MSEK in BRL, 20 MSEK in DKK, 9 MSEK in NOK and 2 MSEK in TRY would give a negative effect, based on the exposure at December 31, 2018.

**Interest-rate risk**

The Swedish Match Group's sources of financing mainly comprise shareholders' equity, cash-flow from current operations, and borrowing. Interest-bearing loans and pension liabilities expose the Group to interest-rate risk. Changes in interest rates have a direct impact on Swedish Match's net interest expense. Swedish Match policy is that the average interest maturity should be less than 5 years. The speed with which a permanent change of interest rate impacts net interest expense depends on the interest maturity periods of the loans. The Group's objective for interest rate fixing is to achieve an even and low cost of interest. Cross currency interest rate swaps are used mainly to convert our borrowing in foreign currencies into SEK and fixed interest rates. At December 31, 2018, the average interest maturity period for Group loans was 4.1 years (4.7 years), taking into account cross currency interest rate swaps. The interest maturity structure on December 31, 2018 was as follows:

Year	Loans		Loans and effects from derivatives	
	Fixed	Variable	Fixed	Variable
2019	1,027	202	1,027	202
2020	1,299	1	1,299	1
2021	1,846	1	1,846	1
2022	1,408	1	1,408	1
2023	1,705	450	1,905	250
2024-	5,570	-	5,570	-
<b>Total</b>	<b>12,855</b>	<b>656</b>	<b>13,055</b>	<b>456</b>

At December 31, 2018, a general rise of 1 percent (100bp) in short term interest rates of debt with variable interest rates and cash surplus was estimated to increase consolidated earnings before tax by approximately 5 MSEK (4) on an annual basis. The net interest-bearing debt (including net pension obligations) at the same date amounted to 10,843 MSEK (8,183).

If interest rates were to rise with 1 percent (100bp), the total effect on equity due to cash flow hedges would have a positive impact on the amount by 9 MSEK (0).

**Refinancing risk and liquidity**

Refinancing risk is defined as the risk that funds become scarce and thus more expensive than expected, and liquidity risk is defined as not being able to make regular payments as a consequence of inadequate liquidity or difficulty in raising external loans. Swedish Match applies a centralized approach to the Group's financing, whereby as much external borrowing as possible is conducted centrally. Subsidiary borrowing can, however, take place in countries where regulations and taxes make central financing impossible or uneconomical. Swedish Match tries to limit its refinancing risk by having a good distribution and length on its gross borrowing, and not being dependent on individual sources of financing.

Swedish Match has a syndicated bank credit facility of guaranteed 1,500 MSEK, which matures in December 2021. This was unutilized at year-end and contained no financial covenants. It is defined as a reserve facility. At year-end 2018, available cash funds and committed credit facilities amounted to 4,386 MSEK. Of this amount, confirmed credit lines amounted to 1,500 MSEK and cash and cash equivalents made up the remaining 2,886 MSEK. All cash and cash equivalents are available for use, none of this is pledged or similar.

Most of Swedish Match's financing consists of a global medium-term note program (MTN) with a limit amount of 2,000 MEUR. The program is an uncommitted borrowing program and the availability could be limited by the Group's creditworthiness and prevailing market conditions. In case of market stress, if this program cannot be efficiently used, the syndicated bank credit facility of 1,500 MSEK will be utilized if necessary. At December 31, 2018, a total of 13,532 MSEK of the global medium-term note program was outstanding. The average maturity of the Group's bond borrowing at December 31, 2018 was 4.1 years.

Swedish Match's undiscounted cash flows regarding sources of loans, including interest payments, negative derivatives (derivatives with positive market values are excluded), accrued interest, trade payables and their maturity profiles are distributed as follows:

Year	Other financial liabilities incl. interest	Negative derivatives	Trade payables	Total value	Total booked value
2019	1,534	4	371	1,909	1,627
2020	1,472	1	-	1,473	1,301
2021	2,008	0	-	2,008	1,848
2022	1,547	0	-	1,547	1,409
2023	2,272	2	-	2,274	2,155
2024	5,743	-	-	5,743	5,570
<b>Total</b>	<b>14,576</b>	<b>7</b>	<b>371</b>	<b>14,954</b>	<b>13,911</b>

Under the global MTN program, Swedish Match has issued bonds in SEK, EUR, USD and CHF. Borrowing in EUR, USD and CHF is hedged into SEK by cross currency interest rate swaps. The average interest cost for outstanding bonds (including derivative instruments) on December 31, 2018 was 2.2 percent (2.6).

Liquidity within Swedish Match is handled centrally through local cash pools. Group companies are required to deposit liquid funds in cash pool accounts or, if these are not available, with the Group's treasury unit. Exceptions are only allowed when regulations prohibit cash pools or internal deposits.

**Cash flow and fair value hedges***Cash flow hedges*

The table below shows the yearly change of market value, from opening balance, recognized in other comprehensive income and the amounts that are reclassified in profit and loss during the year, previously recognized in other comprehensive income. There was no ineffectiveness in cash flow hedge accounting during 2018.

	2018			
	Jan 1	Change of market value	Allocated to earnings	Dec 31
Hedging instruments, derivatives	-245	39	-	-206
<b>Total</b>	<b>-245</b>	<b>39</b>	<b>-</b>	<b>-206</b>

	2017			
	Jan 1	Change of market value	Allocated to earnings	Dec 31
Hedging instruments, derivatives	-141	-104	-	-245
<b>Total</b>	<b>-141</b>	<b>-104</b>	<b>-</b>	<b>-245</b>

Maturity profile over interest payments taking part in a cash-flow hedge.

	2019	2020	2021	2022	2023	2024 -
Fixed rate interest on payments	-202	-163	-163	-163	-150	-220

*Fair value hedges*

At year end there were no fair value hedges outstanding.

## NOTE 26 Continued

**Liquidity risks and credit risks**

To limit liquidity and credit risks, investments and transactions in derivative instruments may be made only in instruments with high liquidity and with counterparties having high credit ratings. In addition to bank accounts, Swedish Match invests surplus funds in banks and institutions. At December 31, 2018, the average interest maturity for the Group's current investments was less than 1 month.

The Group's finance policy regulates the maximum credit exposure to various counterparties. The aim is that counterparties to Swedish Match in financial transactions should have a credit rating of at least category A from Standard & Poor's or equivalent from Moody's.

To reduce the credit risk in receivables from banks arising via derivative instruments, Swedish Match has entered into netting agreements, known as ISDA Master Agreements, with all of its counterparties. These agreements grant rights to net market valuations on assets and liabilities if the counterpart is in an event of default, as with suspended payments. The following table shows the netted exposures per December 31, 2018. No collateral has been received or pledged. The majority of the derivatives are related to the Group's central funding.

**Financial instruments under master netting agreements**

2018	Gross amount for financial instruments	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	Net
Derivatives – Assets	622	-33	589
Derivatives – Liabilities	47	-33	14

2017	Gross amount for financial instruments	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	Net
Derivatives – Assets	274	-95	179
Derivatives – Liabilities	137	-95	43

At December 31, 2018, credit exposure in derivative instruments amounted to 589 MSEK, and credit exposure in cash and deposits at banks amounted to 886 MSEK. Swedish Match reduces the risk of its customers failing to fulfill their undertakings with the result that payment is not received for accounts receivable as they are divided among many different customers. At the reporting date, there was no significant concentration of credit risk in the Group's accounts receivable. The total amount of the Group's trade receivables was 1,636 MSEK (1,536). For more information see *Note 18 Trade receivables*.

**Credit ratings**

At December 31, 2018, Swedish Match had the following credit ratings from Standard & Poor's and Moody's Investor Service:

	Standard & Poor's	Moody's
Long term rating:	BBB	Baa2
Outlook:	Stable	Stable

**Carrying value and fair value**

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

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

The following table shows the transition of the classification and measurement of financial assets between IAS 39 at closing balance December 31, 2017 and IFRS 9 at opening balance January 1, 2018 according to the balance sheet. The classification of the financial assets is based on measurement category for IAS 39 and the business model for IFRS 9.

**Carrying value and fair value transition effects**

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

Swedish Match applies IFRS 13 for financial instruments measured at fair value on the balance sheet which implies using a fair value hierarchy that reflects the significance of input used according to the following levels:

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

The following table shows carrying value (including accrued interest) and fair value for each category of financial instruments, including their levels in the fair value hierarchy, at December 31, 2018. Items measured at fair value through profit and loss (FVTPL) consist of derivatives, for which hedge accounting is not applied. Derivatives attributable to cash flow hedges are mea-

sured at fair value via other comprehensive income (FVOCI) in level 2 of the fair value hierarchy. In assessing the fair values of these derivatives, the Group uses a variety of methods and makes assumptions based on market conditions at each reporting date. Quoted market prices or dealer quotes for identical or similar instruments are used. All items, except loans and borrowings, have a short duration and are considered non-interest bearing, and therefore, the total carrying value of the financial instruments corresponds to the estimated fair value. The carrying amount for loans and borrowings differ from their fair value as a consequence of changes in the market interest rates, determined by using current official market quotations for our outstanding bonds or similar instruments and discounting future cash flows. The values presented are indicative and may not necessarily be realized.

## NOTE 26 Continued

## Carrying value and fair value

Carrying value and fair value for financial instruments applying IFRS 9 per December 31, 2018.

2018	Financial instruments measured at FVTPL	Financial assets measured at amortized cost	Other financial liabilities	Cash flow hedges measured at FVOCI	Other receivables and liabilities	Total carrying value	Estimated fair value
Trade receivables	-	1,636	-	-	-	1,636	1,636
Other non-current financial receivables	-	-	-	485	424	910	910
Other current assets and financial receivables	1	13	-	134	414	562	562
Prepaid expenses and accrued income <sup>1)</sup>	-	-	-	2	118	119	119
Cash and cash equivalents	-	2,886	-	-	-	2,886	2,886
<b>Total assets</b>	<b>1</b>	<b>4,535</b>	<b>-</b>	<b>621</b>	<b>956</b>	<b>6,113</b>	<b>6,113</b>
Loans and borrowings	-	-	13,511	-	-	13,511	13,439
Other non-current financial liabilities	-	-	31	2	59	93	93
Other current liabilities	20	-	-	-	1,806	1,826	1,826
Accrued expenses and deferred income <sup>1)</sup>	-	-	104	25	809	938	938
Trade payables	-	-	371	-	-	371	371
<b>Total liabilities</b>	<b>20</b>	<b>-</b>	<b>14,017</b>	<b>27</b>	<b>2,674</b>	<b>16,739</b>	<b>16,667</b>

<sup>1)</sup> 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 on deferred income*.

Fair value measurement by level	Level 1	Level 2	Level 3	Total
Derivative financial assets	-	622	-	622
Derivative financial liabilities	-	47	-	47

The following tables show carrying value and fair value for financial applying IAS 39 per December 31, 2017. The Group has elected not to restate the comparative information for 2017.

2017	Items carried at fair value via the income statement	Loans and receivables	Other financial liabilities	Cash flow hedges	Non-financial instruments	Total carrying value	Estimated fair value
Trade receivables	-	1,536	-	-	-	1,536	1,536
Other non-current financial receivables	-	-	-	273	438	711	711
Other current assets and financial receivables	0	-	-	-	193	193	193
Prepaid expenses and accrued income <sup>1)</sup>	-	-	-	1	80	81	81
Cash and cash equivalents	-	3,998	-	-	-	3,998	3,998
<b>Total assets</b>	<b>0</b>	<b>5,534</b>	<b>-</b>	<b>274</b>	<b>711</b>	<b>6,519</b>	<b>6,519</b>
Loans and borrowings	-	-	11,530	-	-	11,530	11,705
Other non-current financial liabilities	-	-	-	72	74	147	147
Other current liabilities	40	-	-	-	1,431	1,471	1,471
Accrued expenses and deferred income <sup>1)</sup>	-	-	100	25	729	854	854
Trade payables	-	-	698	-	-	698	698
<b>Total liabilities</b>	<b>40</b>	<b>-</b>	<b>12,328</b>	<b>97</b>	<b>2,234</b>	<b>14,700</b>	<b>14,875</b>

<sup>1)</sup> 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 on deferred income*.

Fair value measurement by level	Level 1	Level 2	Level 3	Total
Derivative financial assets	-	274	-	274
Derivative financial liabilities	-	137	-	137

## 27 Operating lease agreements

The Group's leasing expenses for operating lease agreements for 2018 amounted to 103 MSEK (60).

Future annual minimum lease payments under the terms of non-cancellable operating lease agreements with initial or remaining terms of one year or more fall due as follows:

Minimum lease payments	2018	2017
Within one year	91	54
Between 1–5 years	165	148
Later than 5 years	44	51
<b>Total</b>	<b>299</b>	<b>253</b>

The operating lease agreements are mainly attributable to the rental of real estate.

## 28 Pledged assets

Pledged assets at December 31 comprised the following:

Pledged assets for debt to credit institutions and other commitments	2018	2017
Floating charges	10	7
Endowment insurances	90	80
Other	22	-
<b>Total</b>	<b>122</b>	<b>87</b>

## 29 Commitments and contingent liabilities and assets

### Contingent liabilities

Guarantees on behalf of subsidiaries pertain to undertakings on behalf of the companies over and above the amounts utilized and recognized as liabilities by the companies. Other guarantees and contingent liabilities pertain to contractual commitments with tobacco growers for future purchases of leaf tobacco, guarantees made to government authorities for Group companies fulfillment of undertakings in connection with imports and payment of tobacco taxes.

Contingent liabilities	2018	2017
Guarantees on behalf of subsidiaries	57	52
Other guarantees and contingent liabilities	179	181
<b>Total</b>	<b>236</b>	<b>233</b>

### Legal disputes

The Company is involved in a number of legal proceedings. Although the outcomes of these proceedings cannot be predicted with any certainty, and accordingly, no guarantees can be made, management is of the opinion that obligations attributable to these disputes, if any, should not have any significant impact on the results of operations or the financial position of Swedish Match.

In 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 has notified Swedish Match that certain deductions in two cases have been denied. The Tax Agency is claiming total income tax and penalties of approximately 300 MSEK. Swedish Match does not agree with the Tax Agency's assessment and has appealed the decisions to the County Administrative Court. Based on management's interpretation of applicable tax regulations, expert advice on the likely outcome and developments in similar case rulings, no provision has been recognized for potential losses associated with these cases.

### Contingent assets

As per December 31, 2018, the Group had no contingent assets.

## 30 Group companies

Subsidiary holdings <sup>1)</sup>	Subsidiary's domicile, country	Ownership share, %	
		2018	2017
SM Comercio Importacao e Exportacao Ltda	Brazil	100	100
SM da Amazonia S.A.	Brazil	100	100
SM do Brazil S.A.	Brazil	99.7	99.7
SM Brazil Holdings AB <sup>2)</sup>	Brazil	-	100
V2 Holding ApS <sup>2)</sup>	Denmark	-	100
V2 Tobacco A/S	Denmark	100	100
House of Oliver Twist A/S	Denmark	100	-
V2E ApS <sup>2)</sup>	Denmark	-	100
SM Dominicana, S.A.S.	Dominican Republic	100	100
SM Deutschland GmbH	Germany	100	100
SM Malaysia Holdings AB <sup>2)</sup>	Malaysia	-	100
SM Group BV <sup>3)</sup>	Netherlands	-	100
SM Lighters BV	Netherlands	100	100
SM Overseas BV	Netherlands	100	100
SM Distribution A/S	Norway	100	100
SM Norge A/S	Norway	100	100
SM Philippines Inc.	Philippines	100	100
SMINT Holdings Corp	Philippines	100	100
Swedmat Corp	Philippines	100	100
Swedish Match Fósforos Portugal, SA	Portugal	100	100
Road Cargo Sweden Holding AB	Sweden	100	100
Lysstickan AB	Sweden	100	100
SMD Logistics AB	Sweden	100	100
SM Industries AB	Sweden	100	100
SM Intellectual Property AB	Sweden	100	100
SM North Europe AB	Sweden	100	100
Gotlands Snus AB	Sweden	95	-
Gotland Production AB	Sweden	95	-
Svenska Tändsticks AB	Sweden	100	100
Svenska Tändsticksbolaget Försäljningsaktiebolag	Sweden	100	100
SM Holding AB	Sweden	100	100
Swedish Match US AB	Sweden	100	100
SMD Logistics Holding AB <sup>2)</sup>	Sweden	-	100
SMD Logistics Örnäs AB <sup>2)</sup>	Sweden	-	100
SM (PM) International AB	Sweden	100	100
Svenska Tobaks AB	Sweden	100	100
Svenskt Snus AB	Sweden	100	100
Nyz AB	Sweden	100	100
V2 Tobacco Distribution AB	Sweden	100	100
SM Treasury Switzerland AG	Switzerland	100	100
SM Kibrit ve Cakmak Endustri A.S.	Turkey	100	100
SM Cigars Holding Inc	USA	100	100
SM Cigars Inc.	USA	100	100
SM USA Inc	USA	100	100
SM Leaf Tobacco Company	USA	100	100
SM North America LLC	USA	100	100
The Pinkerton Tobacco Co. LLC	USA	100	100

<sup>1)</sup> The designation includes both directly and indirectly owned companies. Dormant companies are not included.

<sup>2)</sup> SM Brazil Holdings AB and SM Malaysia Holdings AB have been merged into Svenska Tändsticksbolaget Försäljningsaktiebolag, V2 Holding ApS and V2E ApS has been merged into V2 tobacco A/S. SMD Logistics Holding AB and SMD Logistics Örnäs AB have been merged into SMD Logistics AB.

<sup>3)</sup> SM Group BV has been liquidated during 2018.

## 31 Supplementary information to cash flow statement

The definition and composition of cash and cash equivalents is cash and bank and other current investments.

	2018	2017
Interest paid and interest received		
Interest received	59	48
Interest paid	-295	-316
<b>Total</b>	<b>-235</b>	<b>-267</b>

Interest payments and interest receipts are reflected in cash flow from operations.

	2018	2017
Adjustments for non cash items and other		
Depreciation, amortization and write down	415	381
Result sale of fixed assets	-2	0
Change in defined benefit plans	130	152
Change in employer contributions of plan assets	-148	-230
Income from defined benefit plan amendment	-	-69
Change in accrued interest	11	4
Change in market value revaluations and unrealized exchange rate differences	89	-123
Realized exchange rate differences moved to financing	-136	150
Capital gain from sale of shares in STG	-	-197
Capital gain from sale of land	-	-107
Dividends from STG moved to financing	-	-107
Other	16	-28
<b>Total</b>	<b>374</b>	<b>-175</b>

### Reconciliation of liabilities arising from financing activities

	Dec 31, 2017	Acquisitions	Cash flows	Non-cash changes			Dec 31, 2018
				Adj. current portion from non-current	Foreign exchange movement	Fair value changes	
Long-term borrowings	10,277	7	2,844	-1,078	232	-	12,282
Short-term borrowings	1,252	1	-1,254	1,078	151	-	1,229
Net assets held to hedge long-term borrowings	-202	-	-	-	-379	-39	-619
<b>Total liabilities from financing activities</b>	<b>11,328</b>	<b>8</b>	<b>1,590</b>	<b>0</b>	<b>4</b>	<b>-39</b>	<b>12,892</b>

## 32 Related parties

The Group's related parties include associated companies and key management personnel with significant influence over the Group. Key management personnel with significant influence over the Group are Swedish Match Board of Directors and members of the Group Management Team. Related parties transactions are conducted at an arms-length basis. For further information about the Group's transactions with associated companies, see *Note 15 Investments in associated companies*. Information about remuneration to the Board of Directors and Group Management Team, see *Note 6 Personnel*. Besides this, and disregarding intergroup transactions that are eliminated in the consolidated financial statements of the Group, no other related parties transactions have been conducted during the year.

### Investments in associated companies and other companies

No investments has been made in associated companies during 2018 or 2017.

#### Investment of subsidiaries

During 2018 Swedish Match acquired two subsidiaries: House of Oliver Twist A/S and Gotlands Snus AB, including its subsidiary Gotland Production AB. The total consideration paid for the two acquisitions, less acquired liquid funds, amounted to 541 MSEK.

During 2017 Swedish Match acquired V2 Holding ApS, including its subsidiaries. The total consideration paid, less acquired liquid funds, amounted to 929 MSEK.

For more information see *Note 4 Business combination*.

#### Divestment of subsidiaries

No divestments of subsidiaries have been made during 2018 and 2017.

## 33 Information about the Parent Company

Swedish Match AB (publ) is a company domiciled in Stockholm and registered in Sweden.

The Parent Company's shares are listed on Nasdaq Stockholm. The address of the head office is Sveavägen 44, postal address: SE-118 85 Stockholm, Sweden.

The consolidated financial statements for 2018 include the Parent Company and its subsidiaries, jointly referred to as "the Group". The Group also comprises the Group's interest in associated companies.

## Parent Company income statement

MSEK	Note	2018	2017
Sales	1	48	47
Administrative expenses	2, 7, 25	-247	-196
Other operating income and expenses	3	-2	30
<b>Operating loss</b>		<b>-201</b>	<b>-118</b>
Result from participation in Group companies	4	-2	5,310
Interest income and similar items	4	-	1
Interest expenses and similar items	4	-299	-609
<b>Profit/loss after financial items</b>		<b>-502</b>	<b>4,584</b>
Appropriations	5	2,208	2,080
<b>Profit before income tax</b>		<b>1,706</b>	<b>6,664</b>
Income tax expense	6	-378	-298
<b>Profit for the year</b>		<b>1,328</b>	<b>6,367</b>

## Parent Company statement of comprehensive income

MSEK	Note	2018	2017
<b>Profit for the year</b>		<b>1,328</b>	<b>6,367</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	24	39	-104
Income tax relating to components of other comprehensive income	6	-11	23
<b>Other comprehensive income, net of tax for the year</b>		<b>28</b>	<b>-81</b>
<b>Total comprehensive income for the year</b>		<b>1,356</b>	<b>6,286</b>

## Parent Company balance sheet

MSEK	Note	December 31, 2018	December 31, 2017
<b>Assets</b>			
Tangible assets	7	1	1
<b>Non-current financial assets</b>			
Participations in Group companies	8	31,151	31,654
Other non-current receivables	9	485	273
Deferred income tax assets	6	65	75
<b>Total non-current financial assets</b>		<b>31,701</b>	<b>32,002</b>
<b>Total non-current assets</b>		<b>31,702</b>	<b>32,003</b>
<b>Current assets</b>			
Receivables from Group companies		2,687	2,446
Other receivables	10	175	32
Prepaid expenses and accrued income	11	24	16
<b>Total current assets</b>		<b>2,886</b>	<b>2,494</b>
<b>Other current deposits</b>	24	<b>1,000</b>	<b>1,900</b>
<b>TOTAL ASSETS</b>		<b>35,588</b>	<b>36,397</b>
<b>Equity</b>			
Restricted equity	12		
Share capital		390	390
Unrestricted equity			
Reserve for fair value		-163	-191
Retained earnings		13,600	12,656
Profit for the year		1,328	6,367
<b>TOTAL EQUITY</b>		<b>15,154</b>	<b>19,221</b>
<b>Untaxed reserves</b>	13	<b>1,785</b>	<b>1,330</b>
Other provisions	14	78	86
<b>Total provisions</b>		<b>78</b>	<b>86</b>
<b>Non-current liabilities</b>			
Bond loans	15	12,278	10,277
Other liabilities	16	2	72
<b>Total non-current liabilities</b>		<b>12,280</b>	<b>10,349</b>
<b>Current liabilities</b>			
Bond loans		1,227	1,248
Trade payables		9	17
Liabilities to Group companies		4,767	3,890
Current income tax liabilities	6	104	77
Other liabilities		2	2
Accrued expenses and deferred income	17	182	175
<b>Total current liabilities</b>		<b>6,290</b>	<b>5,409</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>35,588</b>	<b>36,397</b>

## Statement of changes in Parent Company equity

2017	Note	Restricted equity		Unrestricted equity		Total equity
		Share capital	Reserve for fair value <sup>1)</sup>	Retained earnings	Profit for the year	
<b>Equity at beginning of year</b>	12	<b>390</b>	<b>-110</b>	<b>14,113</b>	<b>4,041</b>	<b>18,434</b>
Profit for the year		-	-	-	6,367	6,367
Other comprehensive income, net of tax for the year		-	-81	-	-	-81
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-81</b>	<b>-</b>	<b>6,367</b>	<b>6,286</b>
Allocation of profit		-	-	4,041	-4,041	-
Dividend		-	-	-2,908	-	-2,908
Repurchase of own shares		-	-	-2,590	-	-2,590
Cancellation of shares		-14	-	14	-	-
Bonus issue		14	-	-14	-	-
<b>Equity at end of year</b>		<b>390</b>	<b>-191</b>	<b>12,656</b>	<b>6,367</b>	<b>19,221</b>

<sup>1)</sup> Reserve for fair value consists of a hedge reserve.

2018	Note	Restricted equity		Unrestricted equity		Total equity
		Share capital	Reserve for fair value <sup>1)</sup>	Retained earnings	Profit for the year	
<b>Equity at beginning of year</b>	12	<b>390</b>	<b>-191</b>	<b>12,656</b>	<b>6,367</b>	<b>19,221</b>
Profit for the year		-	-	-	1,328	1,328
Other comprehensive income, net of tax for the year		-	28	-	-	28
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>28</b>	<b>-</b>	<b>1,328</b>	<b>1,356</b>
Allocation of profit		-	-	6,367	-6,367	-
Dividend		-	-	-2,911	-	-2,911
Repurchase of own shares		-	-	-2,512	-	-2,512
Cancellation of shares		-13	-	13	-	-
Bonus issue		13	-	-13	-	-
<b>Equity at end of year</b>		<b>390</b>	<b>-163</b>	<b>13,600</b>	<b>1,328</b>	<b>15,154</b>

<sup>1)</sup> Reserve for fair value consists of a hedge reserve.

## Cash flow statement for the Parent Company

MSEK	Note	2018	2017
<b>Operating activities</b>	24		
Profit after financial items		-502	4,584
Adjustments for non-cash items and other		613	18,508
Income tax paid		-352	-234
<b>Subtotal</b>		<b>-240</b>	<b>22,858</b>
Increase (-)/Decrease (+) in operating receivables		-15	-32
Increase (+)/Decrease (-) in operating liabilities		4	9
<b>Net cash generated from operating activities</b>		<b>-251</b>	<b>22,835</b>
<b>Investing activities</b>			
Purchase of tangible assets		0	-
Proceeds from subsidiaries, net of cash disposed of		-	107
Shareholders contribution		-114	-934
<b>Net cash from investing activities</b>		<b>-114</b>	<b>-827</b>
<b>Financing activities</b>			
Proceeds from non-current borrowings		2,846	3,293
Repayment of borrowings		-1,250	-1,988
Repurchase of own shares		-2,512	-2,590
Dividend		-2,911	-2,908
Changes in financial receivables/liabilities Group companies		3,292	-16,906
Other		0	-13
<b>Net cash used in financing activities</b>		<b>-535</b>	<b>-21,112</b>
<b>Net increase/decrease in cash and cash equivalents</b>		<b>-900</b>	<b>895</b>
Cash and cash equivalents at the beginning of the year		1,900	1,005
<b>Cash and cash equivalents at end of year</b>		<b>1,000</b>	<b>1,900</b>

## Notes for the Parent Company

All amounts referred to in the notes of the Parent Company financial statements are in millions of Swedish kronor (MSEK) unless stated otherwise. The amounts within brackets refer to the preceding year, 2017.

For remuneration and other benefits to Parent Company President and other members of the Group Management Team, see *Note 6 Personnel* for the Group on page 80.

### 1 Sales

Sales pertains to services provided to Group companies.

### 2 Audit fees

Expenses for auditor's fees are included in the administrative expenses as set out in the table below. The audit firm for 2018 and 2017 was Deloitte.

Audit fees	2018	2017
Audit services	2	2
Tax services	0	0
Other services	1	0
<b>Total</b>	<b>3</b>	<b>3</b>

### 3 Other operating income and expense

Other operating income and expense 2018 mainly relates to foreign exchange gains and losses. Previous year also included an one-time income from a surplus of assets relating to insurance contracts purchased in previous years to settle certain defined benefit obligations.

### 4 Financial items

Result from participation in Group companies	2018	2017
Dividends received	1,246	23,827
Gain on sale of Group companies	-	107
Write-downs of participations in subsidiaries	-1,247	-18,624
<b>Total</b>	<b>-2</b>	<b>5,310</b>

The major part of the impairment loss was recognized following dividends from subsidiaries, whereof a dividend in kind of 630 MSEK.

Interest income and similar items	2018	2017
Interest income relating to Group companies	-	0
Interest income relating to financial assets measured at amortized cost	-	1
Net foreign exchange gains	-	0
<b>Total</b>	<b>-</b>	<b>1</b>

Interest expenses and similar items	2018	2017
Interest expense relating to Group companies	-3	-270
Interest expense relating to other financial liabilities measured at amortized cost	-228	-259
Interest expense relating to financial instruments measured at fair value in hedging relationships	-64	-73
Other financial expenses	-3	-7
Net foreign exchange losses	0	-
<b>Total</b>	<b>-299</b>	<b>-609</b>

### 5 Appropriations

Appropriations	2018	2017
<b>Difference between reported depreciation and according to plan</b>		
Equipment, tools and fixtures	0	0
<b>Tax allocation reserve</b>		
Appropriation for the year	-570	-450
Reversal appropriation	115	115
<b>Group contributions</b>		
Group contributions received	2,670	2,428
Group contributions granted	-8	-13
<b>Total</b>	<b>2,208</b>	<b>2,080</b>

### 6 Income tax

Income tax reported in income statement	2018	2017
Current tax expense for the period	-379	-302
Deferred tax due to temporary differences	1	5
<b>Total</b>	<b>-378</b>	<b>-298</b>

Income tax reported in other comprehensive income	2018	2017
Effective portion of changes in fair value of cash flow hedges	-11	23
<b>Total</b>	<b>-11</b>	<b>23</b>

	2018		2017	
Reconciliation of effective tax rate	(%)		(%)	
<b>Income before tax</b>		<b>1,706</b>		<b>6,664</b>
<b>Swedish statutory tax rate</b>	<b>22.0</b>	<b>-375</b>	<b>22.0</b>	<b>-1,466</b>
Non-taxable dividends	-16.1	274	-78.7	5,242
Tax exempt income	-	-	-0.4	24
Non-deductible expenses	16.1	-275	61.5	-4,096
Taxes related to prior years	0.0	0	0.0	-2
Standard interest income, tax allocation reserve	0.1	-1	0.0	-1
<b>Reported effective tax</b>	<b>22.2</b>	<b>-378</b>	<b>4.5</b>	<b>-298</b>

The change to the current tax liability during the period is explained below:

Current income tax liabilities	2018	2017
<b>Carrying value at beginning of year</b>	<b>77</b>	<b>9</b>
Current tax expense	379	302
Paid tax	-352	-234
<b>Carrying value at end of year</b>	<b>104</b>	<b>77</b>

Net tax liabilities amounts to 104 MSEK and consists of taxes to be paid on income for the year.

## NOTE 6 Continued

The tax effects of deductible temporary differences that resulted in deferred tax assets at December 31 are summarized below:

	2018	2017
Deferred income tax assets		
Hedge reserve	42	54
Provision	22	21
<b>Carrying value at end of year</b>	<b>65</b>	<b>75</b>

The following reconciles the deferred tax assets at the beginning of the year to that at the end of the year.

2018	Balance Jan. 1	Charges to profit for the year	Charges to other comprehensive income	Balance Dec. 31
Hedge reserve	54	-	-11	42
Provision	21	1	-	22
<b>Total</b>	<b>75</b>	<b>1</b>	<b>-11</b>	<b>65</b>

2017	Balance Jan. 1	Charges to profit for the year	Charges to other comprehensive income	Balance Dec. 31
Hedge reserve	31	-	23	54
Provision	16	5	-	21
<b>Total</b>	<b>47</b>	<b>5</b>	<b>23</b>	<b>75</b>

## 7 Tangible assets

	2018	2017
Equipment, tools and fixtures		
<b>Cost at beginning of year</b>	<b>4</b>	<b>4</b>
Purchases/investments	0	-
<b>Cost at end of year</b>	<b>4</b>	<b>4</b>
<b>Accumulated depreciation at beginning of year</b>	<b>-3</b>	<b>-2</b>
Depreciation for the year	-1	-1
<b>Accumulated depreciation at end of year</b>	<b>-3</b>	<b>-3</b>
<b>Net carrying value at end of year</b>	<b>1</b>	<b>1</b>

Depreciation charges on tangible assets are included in administrative expenses in the income statement and amounts to -1 MSEK (-1).

No borrowing costs have been capitalized during 2018 nor during 2017.

## 8 Group companies

2018	Balance Jan. 1	Acquisition	Shareholder's contribution	Liquidation	Impairments	Balance Dec. 31
Cost	56,772	630	114	-	-	<b>57,516</b>
Impairments	-25,118	-	-	-17	-1,230	<b>-26,365</b>
<b>Carrying value</b>	<b>31,654</b>	<b>630</b>	<b>114</b>	<b>-17</b>	<b>-1,230</b>	<b>31,151</b>

2017	Balance Jan. 1	Acquisition	Shareholder's contribution	Liquidation	Impairments	Balance Dec. 31
Cost	55,838	-	934	-	-	<b>56,772</b>
Impairments	-6,494	-	-	-	-18,624	<b>-25,118</b>
<b>Carrying value</b>	<b>49,344</b>	<b>-</b>	<b>934</b>	<b>-</b>	<b>-18,624</b>	<b>31,654</b>

### Shares in subsidiaries, directly owned

Subsidiary	Corp. Reg.no.	Domicile	Number of shares	Ownership, %	2018	Ownership, %	2017
Svenskt Snus AB	556367-1261	Stockholm, Sweden	1,000	100	300	100	300
Swedish Match North Europe AB	556571-6924	Stockholm, Sweden	1,000	100	16,684	96	16,054
SMD Logistics AB	556571-7039	Stockholm, Sweden	1,000	100	2,350	100	2,350
Svenska Tändsticksbolaget Försäljningsaktiebolag	556012-2730	Stockholm, Sweden	34,403,000	100	8,949	100	8,949
Swedish Match Holding AB	556367-1253	Stockholm, Sweden	2,000	100	14	100	1,130
Swedish Match Industries AB	556005-0253	Tidaholm, Sweden	30,853	100	95	100	95
Swedish Match US AB	556013-4412	Stockholm, Sweden	96,000	100	0	100	0
Svenska Tändsticks AB	556105-2506	Stockholm, Sweden	1,000	100	0	100	0
Svenska Tobaks AB	556680-3028	Stockholm, Sweden	100,000	100	0	100	0
Swedish Match USA, Inc	62-1257378	USA	1,000	100	849	100	849
Swedish Match Cigars Holding Inc	81-0733029	USA	1,000	100	1,739	100	1,739
Swedish Match Dominicana S.A.	05338-2007-STI	Dominican Republic	9,249,907	99.99	171	99.99	171
Swedish Match Group BV <sup>1)</sup>	17080059	Netherlands	-	-	-	100	17
Swedish Match Distribution A/S	930567647	Norway	500	100	0	100	1
SA Allumettiére Causemille <sup>2)</sup>		Algeria	10,000	100	0	100	0
The Burma Match Co Ltd <sup>3)</sup>		Burma	300,000	100	0	100	0
Vulcan Trading Co. Ltd <sup>4)</sup>		Burma	4,000	100	0	100	0
<b>Carrying value at end of year</b>					<b>31,151</b>		<b>31,654</b>

<sup>1)</sup> Liquidated during 2018.

<sup>2)</sup> Nationalized in 1963.

<sup>3)</sup> Nationalized in 1968.

<sup>4)</sup> Nationalized in 1969.

In addition, shares are owned in Union Allumettiére Marocaine S.A. Ownership is purely formal. Group companies hold all rights and obligations.

## 9 Other non-current receivables

Other non-current receivables consists of derivatives including exchange rate differences and fair values of cross currency and interest rate swaps of 485 MSEK (273).

## 10 Other receivables

Other receivables	2018	2017
Derivatives	134	-
Tax account	39	31
VAT receivables	2	1
Other current receivables	0	0
<b>Carrying value at end of year</b>	<b>175</b>	<b>32</b>

## 11 Prepaid expenses and accrued income

Prepaid expenses and accrued income	2018	2017
Accrued interest income	2	1
Prepaid bank charge	3	4
Prepaid rent	4	4
Other prepaid expenses	15	7
<b>Carrying value at end of year</b>	<b>24</b>	<b>16</b>

## 12 Equity

For information regarding the change in Parent Company equity see Statement of changes in Parent Company equity.

Number of registered shares in the Parent Company are detailed below:

Number of registered shares	2018	2017
Issued at beginning of year	181,800,000	188,750,000
Cancellation	-5,850,000	-6,950,000
<b>Total shares outstanding at end of year</b>	<b>175,950,000</b>	<b>181,800,000</b>
Of which held by Swedish Match AB	-5,739,295	-5,889,462
<b>Total shares outstanding, net of shares held by Swedish Match AB</b>	<b>170,210,705</b>	<b>175,910,538</b>
<b>Total outstanding shares quota value</b>	<b>2.2138</b>	<b>2.1425</b>

### Repurchase of own shares

Repurchase of own shares encompass the acquisition cost for treasury shares owned by the Parent Company. At December 31, 2018, the Parent Company's holding of treasury shares amounted to 5,739,295 shares (5,889,462).

Number of shares held in treasury and cumulative repurchases of own shares included in retained earnings are detailed below:

	Number of shares (thousands)		Cumulative effect on equity [MSEK]	
	2018	2017	2018	2017
<b>Balance at beginning of year</b>	<b>5,889</b>	<b>4,077</b>	<b>-28,928</b>	<b>-26,338</b>
Repurchase of own shares during the year	5,700	8,762	-2,512	-2,590
Allocated to retained earnings by cancellation of shares	-5,850	-6,950	13	14
Bonus issue	-	-	-13	-14
<b>Balance at end of year</b>	<b>5,739</b>	<b>5,889</b>	<b>-31,440</b>	<b>-28,928</b>

The Annual General Meeting on April 11, 2018 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 5.9 million shares held in treasury, with a simultaneous bonus issue, without issuing new shares, of an amount equivalent to the amount represented by the cancelled shares or 12.5 MSEK. Furthermore the shareholders approved the proposal that the reduction will be allocated to a fund for use pursuant to a resolution adopted by the Annual General Meeting.

During the year 5.7 million shares were repurchased for 2,512 MSEK at an average price of 440.75 SEK. Total shares bought back since the buyback program started have been repurchased at an average price of 130.61 SEK.

As per December 31, 2018 Swedish Match held 5.7 million shares in its treasury, corresponding to 3.26 percent of the total number of shares.

The number of shares outstanding, net, as per December 31, 2018, amounted to 170.2 million.

### Dividend

After the balance sheet date, the Board proposed a dividend for 2018 of 10.50 SEK per share (16.60). The dividend then amounts to 1,787 MSEK based on the 170.2 million shares outstanding at the end of 2018. The dividend for 2017, paid in 2018, amounted to 2,911 MSEK, consisting of an ordinary dividend of 1,613 MSEK corresponding to 9.20 SEK per share and a special dividend of 7.40 SEK per share amounting to 1,298 MSEK.

### Reserve for fair value

Reserve for fair value consists of a hedge reserve, the change during the year is explained below:

Hedge reserve	2018	2017
<b>Carrying value at beginning of year</b>	<b>-191</b>	<b>-110</b>
Effective portion of changes in fair value of cash flow hedges	39	-104
Income tax	-11	23
<b>Carrying value at end of year</b>	<b>-163</b>	<b>-191</b>

The hedge reserve includes the accumulated effective portion of changes in fair value of cash flow hedges attributable to interest rate hedges.

## 13 Untaxed reserves

Untaxed reserves	2018	2017
<i>Excess depreciation:</i>		
<b>Tangible assets</b>		
Carrying value at beginning of year	0	0
Excess depreciation for the year	0	0
<b>Total</b>	<b>0</b>	<b>0</b>
<i>Tax allocation reserve:</i>		
Carrying value at beginning of year	1,330	995
Reversal of appropriation	-115	-115
Appropriation current year	570	450
<b>Total</b>	<b>1,785</b>	<b>1,330</b>
<b>Carrying value at end of year</b>	<b>1,785</b>	<b>1,330</b>

## 14 Other provisions

Non-current and current provisions at December 31 comprised the following:

Other provisions	2018	2017
Pension obligations	48	58
Deferred compensation	30	26
Other operating provisions	1	2
<b>Carrying value at end of year</b>	<b>78</b>	<b>86</b>
Where of total non-current	72	79
Where of total current	6	7

Movements in provisions during the year were as follows:

2018	Pension obligations	Deferred compensation	Other operating provisions	Total
<b>Carrying value at beginning of year</b>	<b>58</b>	<b>26</b>	<b>2</b>	<b>86</b>
Provisions made during the year	3	15	1	19
Provisions used during the year	0	-	-2	-2
Provisions reversed during the year and changes in estimates	-13	4	0	-9
Provisions reclassified to accrued expenses	-	-16	-	-16
<b>Carrying value at end of year</b>	<b>48</b>	<b>30</b>	<b>1</b>	<b>78</b>

2017	Pension obligations	Deferred compensation	Other operating provisions	Total
<b>Carrying value at beginning of year</b>	<b>71</b>	<b>29</b>	<b>-</b>	<b>100</b>
Provisions made during the year	3	10	2	15
Provisions used during the year	0	-	-	0
Provisions reversed during the year and changes in estimates	-16	2	-	-14
Provisions reclassified to accrued expenses	-	-15	-	-15
<b>Carrying value at end of year</b>	<b>58</b>	<b>26</b>	<b>2</b>	<b>86</b>

### Pension obligations

Pension obligations pertain to provisions recognized for special income taxes on pension obligations secured in endowment insurances and provisions for post-employment defined benefit obligations. The major part of the pension provisions pertains to a pension trust for former employees in the divested Swedish Match UK Ltd. Due to a change in the assumption of the discount rate the provision for the UK pension obligations has decreased. Payments relating to the pension obligations later than five years after balance sheet date are calculated to an amount of 21 MSEK.

### Deferred compensation

Deferred compensation refers to long term incentive plans for certain managers which will be settled within three years.

### Other operating provisions

Other operating provisions refers to restructuring provisions.

## 15 Bond loans

Liabilities due for payment later than five years after the balance sheet date amount to 5,570 MSEK (6,402).

## 16 Other liabilities

Other liabilities mainly consist of the change in fair value of the derivatives, due to increase or decrease of interest rates and currencies. Derivative liabilities with maturity over five years after the balance sheet date amount to 0 MSEK (72).

## 17 Accrued expenses and deferred income

Accrued expenses and deferred income	2018	2017
Accrued interest expenses	129	125
Accrued incentives including social security charges	39	38
Accrued social security charges	4	4
Accrued vacation pay	2	2
Personnel expenses	0	0
Other accrued expenses	5	4
Deferred income	1	2
<b>Carrying value at end of year</b>	<b>182</b>	<b>175</b>

## 18 Carrying value and fair value of financial instruments

Beginning January 1, 2018, Swedish Match applies IFRS 9, which contains new principles in how financial assets are classified and measured, determined by the business model in which the financial asset is held. For 2017, the classification of financial assets is based on measurement category applying IAS 39.

For information regarding the models and the transition of the classification and measurement, see *Note 26 Financial instruments and financial risks* for the Group on page 93.

Swedish Match applies IFRS 13 for financial instruments measured at fair value on the balance sheet whereby an entity shall classify fair value measurement using a fair value hierarchy that reflects the significance of input used according to the following levels:

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

The following table shows carrying value (including accrued interest) and fair value for each category of financial instruments at December 31, 2018. Derivatives attributable to cash flow hedges are carried at fair value via other comprehensive income in level 2 of the fair value hierarchy. In assessing the fair values of these derivatives, a variety of methods are used to make assumptions based on market conditions at each reporting date. Quoted market prices or dealer quotes for identical or similar instruments are used. All other items, except loans and borrowings, have a short duration and are considered non-interest bearing, and therefore, the total carrying value of the financial instruments corresponds to the estimated fair value. The carrying amount for loans and borrowings differ from their fair value as a consequence of changes in the market interest rates, determined by using current official market quotations for outstanding bonds or similar instruments and discounting future cash flows. The values presented are indicative and may not necessarily be realized.

## NOTE 18 Continued

## Carrying value and fair value

Carrying value and fair value for financial instruments applying IFRS 9 per December 31, 2018.

2018	Financial assets measured at amortised cost	Other financial liabilities	Cash flow hedges measured at FVOCI	Other receivables and liabilities	Total carrying value	Estimated fair value
Other non-current financial receivables	–	–	485	–	485	485
Receivables from Group companies	2,687	–	–	–	2,687	2,687
Other current receivables	–	–	134	316	451	451
Prepaid expenses and accrued income <sup>1)</sup>	–	–	2	22	24	24
Cash & cash equivalents	1,000	–	–	–	1,000	1,000
<b>Total assets</b>	<b>3,687</b>	<b>–</b>	<b>621</b>	<b>338</b>	<b>4,647</b>	<b>4,647</b>
Loans and borrowings	–	13,505	–	–	13,505	13,432
Other liabilities	–	–	2	2	4	4
Liabilities to Group companies (current)	–	4,767	–	–	4,767	4,767
Accrued expenses and deferred income <sup>1)</sup>	–	104	25	53	182	182
Trade payables	–	9	–	–	9	9
<b>Total liabilities</b>	<b>–</b>	<b>18,385</b>	<b>27</b>	<b>55</b>	<b>18,467</b>	<b>18,394</b>

<sup>1)</sup> 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	Level 1	level 2	Level 3	Total
Derivative financial assets	–	621	–	621
Derivative financial liabilities	–	27	–	27

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

2017	Loans and receivables	Other financial liabilities	Cash flow hedges	Other receivables and liabilities	Total carrying value	Estimated fair value
Other non-current financial receivables	–	–	273	–	273	273
Receivables from Group companies	2,446	–	–	–	2,446	2,446
Other current receivables	–	–	–	32	32	32
Prepaid expenses and accrued income <sup>1)</sup>	–	–	1	15	16	16
Cash & cash equivalents	1,900	–	–	–	1,900	1,900
<b>Total assets</b>	<b>4,346</b>	<b>–</b>	<b>274</b>	<b>47</b>	<b>4,667</b>	<b>4,667</b>
Loans and borrowings	–	11,525	–	–	11,525	11,705
Other liabilities	–	–	72	2	74	74
Liabilities to Group companies (current)	–	3,890	–	–	3,890	3,890
Accrued expenses and deferred income <sup>1)</sup>	–	100	25	50	175	175
Trade payables	–	17	–	–	17	17
<b>Total liabilities</b>	<b>–</b>	<b>15,532</b>	<b>97</b>	<b>52</b>	<b>15,681</b>	<b>15,861</b>

<sup>1)</sup> 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	Level 1	level 2	Level 3	Total
Derivative financial assets	–	274	–	274
Derivative financial liabilities	–	97	–	97

## 19 Derivatives under netting agreements

To reduce the credit risk in receivables from banks arising via derivative instruments, Swedish Match has entered into netting agreements, known as ISDA Master Agreements, with all of its counterparties. These agreements grant rights to net market valuations on assets and liabilities if the counterpart is in an event of default, as with suspended payments. The following table shows the netted exposures per December 31. No collateral has been received or pledged. All the derivatives are related to Group's central funding.

### Financial instruments under master netting agreements

2018	Gross amount for financial instruments	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	Net
Derivatives – Assets	621	–22	599
Derivatives – Liabilities	27	–22	5

2017	Gross amount for financial instruments	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	Net
Derivatives – Assets	274	–95	179
Derivatives – Liabilities	97	–95	3

## 20 Operating lease agreements

Total expense for operating lease agreements for 2018 amounted to 16 MSEK (15). Operating leasing agreements mainly refer to rental of office and storage premises. The contracts are non-cancellable during the agreed leasing period and the agreements include indexation clauses.

Future annual minimum lease payments under the terms of non-cancellable operating lease agreements with initial or remaining terms of one year or more fall due as follows:

Minimum lease payments	2018	2017
Within one year	14	13
Between 1–5 years	16	29
Later than 5 years	–	–
<b>Total</b>	<b>30</b>	<b>42</b>

Certain parts of the leased premises are sub-leased to a Swedish Match AB's subsidiary. Rental income for the year relating to items that are being subleased to a subsidiary amounted to 12 MSEK (12).

## 21 Pledged assets and contingent liabilities

### Pledged assets

Pledged assets pertain to endowment insurance policies pledged as security for pension obligations amounting to 86 MSEK (76).

In accordance with IAS 19, endowment insurance policies pledged as securities for certain defined contribution obligations have been netted against the pension obligation in other provisions.

Contingent liabilities	2018	2017
Guarantees on behalf of subsidiaries	57	52
<b>Total</b>	<b>57</b>	<b>52</b>

## 22 Distribution of earnings

### Proposed distribution of earnings

Dividend (10.50 SEK based on 170,210,705 shares)	SEK	1,787,212,403
Retained earnings to be carried forward	SEK	12,977,109,000
<b>Total amount</b>	<b>SEK</b>	<b>14,764,321,403</b>

NOTE 24 Continued

### Reconciliation of liabilities arising from financing activities

	2017	Cash flows	Non-cash changes			2018
			Adj. current portion from non-current	Foreign exchange movement	Fair value changes	
Long-term borrowings	10,277	2,846	–1,077	232	–	12,278
Short-term borrowings	1,248	–1,250	1,077	152	–	1,227
Net assets held to hedge long-term borrowings	–202	–	–	–379	–39	–619
<b>Total liabilities from financing activities</b>	<b>11,323</b>	<b>1,596</b>	<b>0</b>	<b>5</b>	<b>–39</b>	<b>12,885</b>

## 23 Related parties

Summary of transactions with related parties	Subsidiaries	
	2018	2017
<b>Revenues</b>		
Dividends	1,246	23,827
Group contribution	2,670	2,428
Interest income	–	0
Sale of goods/services	48	47
Rental income	12	12
<b>Expenses</b>		
Group contribution	–8	–13
Interest expenses	–3	–270
Purchase of goods/services	–28	–18
<b>Receivables</b>	<b>2,687</b>	<b>2,446</b>
<b>Liabilities</b>	<b>4,767</b>	<b>3,890</b>
<b>Contingent liabilities</b>	<b>57</b>	<b>52</b>

Transactions with related parties are determined at an arms-length basis. For remunerations to key management personnel, see Note 6 Personnel for the Group.

In the normal course of business, the Parent company conducts various transactions with subsidiaries. For information about directly owned subsidiaries, see Note 8 Group companies.

No transactions with the Group's associated companies have been conducted for 2018 and 2017.

## 24 Supplementary information to cash flow statement

Interest paid and received and dividend received	2018	2017
Dividend received	616	23,827
Interest received, non-Group companies	0	0
Interest paid, non-Group companies	–286	–332
Interest received, Group companies	–	0
Interest paid, Group companies	–3	–270
<b>Total</b>	<b>327</b>	<b>23,225</b>

Interest payments and interest receipts are reflected in cash flow from operations.

Adjustments for non cash items and other	2018	2017
Depreciation	1	1
Proceeds from sale of subsidiaries	–	–107
Write-down of subsidiaries	1,247	18,624
Dividend in kind	–630	–
Change in accrued interest	9	8
Change in pension provision	–14	–17
Exchange rate differences	0	0
<b>Total</b>	<b>613</b>	<b>18,508</b>

Cash and cash equivalents	2018	2017
Cash and bank	–	–
Other current deposits <sup>1)</sup>	1,000	1,900
<b>Total</b>	<b>1,000</b>	<b>1,900</b>

<sup>1)</sup> Other current deposits have been classified as cash and cash equivalents based on that they are readily convertible to known amounts of cash.

## 25 Employee benefits

### Post-employment employee benefits

Swedish Match AB has post-employment benefit obligations that are insured by Swedish pension trust arrangements. Swedish Match AB also has assumed the role as sponsor and Principal Employer for a pension trust for former employees in the divested Swedish Match UK Ltd.

As per December 31, 2018 the larger Swedish pension trust arrangement shows a net surplus while a small plan reflects a net deficit. The pension plan for former employees in the UK shows a net deficit.

The tables below specify the pension obligations assumed by Swedish Match AB:

Defined benefit pension plans	2018	2017
Present value of funded obligations	791	850
Fair value of separately held assets	-848	-898
<b>Surplus, net</b>	<b>-56</b>	<b>-48</b>
Net surplus in pension trust not recognized in balance sheet	82	88
<b>Net pension liability recognized in the balance sheet</b>	<b>26</b>	<b>40</b>

Specification of movements in the net liability recognized in the balance sheet attributable to pension:

Net pension liability	2018	2017
<b>Balance at beginning of year</b>	<b>40</b>	<b>57</b>
Benefits paid	8	8
Contribution received from pension trust	-8	-8
Change in pension provision	-14	-17
<b>Balance at end of year</b>	<b>26</b>	<b>40</b>

81 MSEK (88) of the total net pension asset is covered by "Tryggandelagen".

Specification of expenses and income attributable to pension:

Defined benefit pension plans	2018	2017
Difference between contribution received from pension trust and benefits paid	0	0
Interest cost on obligation	-20	-22
Actual return on separately held assets	-27	26
Change in pension provision	13	17
<b>Net income/expense for pension</b>	<b>-34</b>	<b>21</b>
<b>Pensions covered by insurance premiums:</b>		
Costs for pension insurance premiums recognized in income statement	-17	-16
Change in surplus in pension trust	47	-4
<b>Net pension costs recognized in income statement attributable to pension</b>	<b>-3</b>	<b>1</b>

The expenses attributable to pension are recognized in the income statement under administration costs.

The actual return on separately held assets expressed in percentage is -3.0 percent (2.8).

Separately held assets of the pension trusts are comprised as follows:

Separately held assets	2018	2017
Debt instruments	63	70
Equity securities	140	147
Other <sup>1)</sup>	645	682
<b>Total</b>	<b>848</b>	<b>898</b>

<sup>1)</sup> Large part pertains to the UK annuity policies at the insurance company Aviva.

### Significant actuarial assumptions at the balance sheet date

The obligations are calculated based on a weighted average discount rate of 2.7 percent (2.4).

A contribution to the UK pension plan will be paid during the first quarter of 2019 in an amount of approximately 5 MSEK.

## 26 Subsequent events

No significant events has occurred after the balance sheet date.

# Auditor's report

To the general meeting of the shareholders of Swedish Match AB (publ)  
corporate identity number 556015-0756

## Report on the annual accounts and consolidated accounts

### Opinions

We have audited the annual accounts and consolidated accounts of Swedish Match AB (publ) for the financial year 2018-01-01 – 2018-12-31. The annual accounts and consolidated accounts of the company are included on pages 57–109 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial

performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these

requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the con-

text of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

### Carrying value of goodwill

Swedish Match report goodwill of MSEK 1 643 as of 31 December 2018. For cash generating units ("CGUs") which contain goodwill, the determination of recoverable amount, being the higher of fair value less costs to sell and value in use, requires judgement on the part of management in both identifying and then valuing the relevant CGUs. Management prepared impairment assessments for the goodwill by CGU, as required under accounting standards, which was based on a value in use calculation. Such calculations are based on management's view of variables such as sales growth, EBITDA margin, working capital, investment needs, terminal growth rate of free cash flow, and the most appropriate discount rate.

Disclosures regarding goodwill and other intangible assets are included in note 1 Accounting principles, and note 12 Intangible assets.

Our audit procedures included, but were not limited to:

- evaluating the design and implementation of relevant internal controls over the impairment assessment process including indicators of impairment;
- with the support of our valuation specialists, we benchmarked and challenged key assumptions in management's valuation models used to determine recoverable amount against external data, including assumptions of sales growth, EBITDA margin, working capital, investment needs, terminal growth rate, and discount rate;
- testing of the mathematical accuracy of the cash flow models used by management; and
- evaluating the appropriateness of disclosures made in the financial statements.

### Post-employment defined benefit obligations

Swedish Match has obligations under defined benefit pension plans and post-employment medical benefit plans in a number of subsidiaries. Swedish Match's main defined benefit plans cover employees in the US.

Actuarial valuation of these defined benefit obligations and plan assets require the use of estimates and significant judgements, and a small change in key assumptions can have a significant impact on the financial statements of Swedish Match. Significant actuarial assumptions used are among other future salary growth rate, future pension growth rate, future mortality experience, medical cost trend rate, inflation and discount rate.

Disclosures regarding defined benefit obligations and plan assets are included in note 1 Accounting principles and note 22 Employee benefits.

Our audit procedures included, but were not limited to:

- evaluating of relevant internal controls over the valuations of obligations and assets;
- involving our actuarial specialist and assess the reasonableness of the actuarial assumptions used including comparing the assumptions with our internally developed benchmarks;
- evaluating the completeness of plan assets by obtaining confirmations from independent fund managers;
- testing the fair value of the plan assets by reviewing a sample of plan asset valuations;
- evaluating the appropriateness of disclosures made in the financial statements.

### Acquisition of Oliver Twist and Gotlandssnus

On April 3, 2018, Swedish Match acquired 100 percent of the shares in House of Oliver Twist A/S ("Oliver Twist") and the total consideration paid, less acquired liquid funds, amounted to MSEK 306. On August 22, 2018, Swedish Match acquired 95 percent of the shares in Gotlands Snus AB ("Gotlandssnus") and the total consideration paid, less acquired liquid funds, amounted to MSEK 283.

Accounting for business combinations requires significant judgments and estimates by management to determine the fair value of acquired assets and assumed liabilities.

Disclosures regarding subsidiaries are included in note 1 Accounting principles and note 4 Business combinations.

Our audit procedures included, but were not limited to:

- evaluating the applied methodology and assumptions made by management including those related to the allocation of the purchase price;
- assessment of purchase price allocation utilizing our valuation specialists to review fair values assigned to acquired assets and assumed liabilities;
- assessing disclosures made in the financial statements to be in compliance with *IFRS 3 – Business Combinations*.

### Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages ii–56. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual

accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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## Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the

company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

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## Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably

be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibilities for the audit of the annual accounts and consolidated accounts is located at the Swedish Inspectorate of Auditors website: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description forms part of the auditor's report.

## Report on other legal and regulatory requirements

### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Swedish Match AB (publ) for the financial year 2018-01-01 – 2018-12-31 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for

accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things con-

tinuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibilities for the audit of the management's administration is located at the Swedish Inspectorate of Auditors website: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description forms part of the auditor's report.

Deloitte AB, was appointed auditor of Swedish Match AB by the general meeting of the shareholders on May 4, 2017 and has been the company's auditor since May 4, 2017.

Stockholm, March 14, 2019

Deloitte AB

Peter Ekberg  
Authorized public accountant

## CORPORATE GOVERNANCE

# Chairman's comment



This annual report covers both our financial results and business model, and provides further insight into many of the activities we have taken over the past year, with regard to our products and markets. The report

also highlights many of the efforts we have made in the areas of sustainability. I am pleased with the steps we have taken toward our vision of a world without cigarettes in areas from market to product development. We have also geographically expanded our smokeless offerings, for example through the acquisitions of House of Oliver Twist and Gotlandssnus. Good governance is one of the most critical elements in ensuring a strong and viable organization. Further details on the activities of the Board of Directors, as well as corporate governance and risk assessment during the year are presented on pages 115–121 in the Governance report.

## Swedish Match continues to evolve and grow, along the lines of its vision of a world without cigarettes

Swedish Match's activities this year are an important step toward our vision of a world without cigarettes. The positive reception both by consumers and retailers of ZYN nicotine pouches without tobacco, both in the US and in Sweden, provides a solid platform for future growth in line with the vision. It is a positive development that more regulators and governments are beginning to recognize the importance of the concept of continuum of risk and harm reduction, and I am hopeful that more and more will realize the benefits of this approach.

Cash returns to shareholders during the year came in the form of both dividends and an ongoing share repurchase program. The Board of Directors will propose to the Annual General Meeting to increase the dividend to 10.50 SEK per share as regards 2018.

The Board is committed to active engagement with Swedish Match's management, and plays an important role in governance. Its efforts are further supported by contributions made by our various board committees.

The work this past year of the Board, the CEO, and his management team has been impressive, and has supported our efforts to have the right platforms for a well governed, strong, and dynamic company, moving toward its vision.

I am especially proud of the employees of Swedish Match whose hard work and dedication make Swedish Match such a great company.

I would also like to thank you, our shareholders, for your support of our outstanding organization.”



**Conny Karlsson**  
Chairman of the Board



# Governance report

**Swedish Match AB (publ) is a public Swedish limited liability company listed on Nasdaq Stockholm. The objective of the Company's operations, as stated in the Company's Articles of Association, is to directly or indirectly conduct business relating to the development and manufacture of and trade in tobacco products, matches, and lighters and to carry out other activities that are related to these businesses.**

Swedish Match is subject to a variety of rules that affect its governance, including the Company's Articles of Association, the Swedish Companies Act, the Rule Book for Issuers on Nasdaq Stockholm, the Swedish Code of Corporate Governance, and other applicable laws and regulations.

Internal regulations and standards that affect Swedish Match's corporate governance include the Company's Articles of Association, the Board's rules of procedure, the Board's instructions to the CEO, the Group's Code of Conduct, and other policy documents issued within the Group. The Articles of Association are adopted by the General Meeting of shareholders.<sup>1)</sup> They do not contain any limitations on the number of votes that a shareholder may cast at a General Meeting or any specific provisions concerning the appointment and dismissal of directors or regarding amendments of the Articles of Association.

Swedish Match applies the Swedish Code of Corporate Governance (the Code).<sup>2)</sup> The Code is based on the "comply or explain" principle, meaning that a company that applies the Code may deviate from regulations of the Code, but must provide explanations for each deviation. The Company is not reporting any deviations from the Code for 2018, except with regard to the Code's regulation that auditors are to review the Company's half year or nine-month report. The reason for this

deviation is that the Board of Directors, with reference to the Company's stable operations, is of the opinion that the extra cost that would be incurred by such a review is not warranted and that sufficient control is achieved through the Company's internal reporting and control systems. This Corporate Governance report has been examined by the Company's auditors but does not represent part of the formal annual report.

## Shareholding

The share capital of Swedish Match was 389,515,417.20 SEK distributed over 175,950,000 shares at the end of 2018. Each share carries one vote. On December 31, 2018, no shareholder<sup>3)</sup> had a shareholding in the Company representing one tenth or more of the votes of all shares of the Company. The Swedish Match share is listed on Nasdaq Stockholm. Further information concerning Swedish Match's ownership structure and share performance are presented on pages 50–51 of the 2018 Annual Report.

## Annual General Meeting 2019

Swedish Match's 2019 Annual General Meeting will be held on April 9, in Stockholm, Sweden. All shareholders who have been entered in the share register and have informed the Company of their attendance within the correct time limit stated in the notice are entitled to

participate personally or by proxy at the General Meeting and to vote according to the number of shares held. Notice of the General Meeting is published in Post- och Inrikes Tidningar and on the Company's website. Information that notice to a General Meeting has been issued, is published in the Swedish daily newspaper, Svenska Dagbladet.

Shareholders who wish to have a matter addressed by the Annual General Meeting must submit a written request to the Board in sufficient time prior to the meeting.<sup>4)</sup>

Shareholders may submit proposals to the Company's Nominating Committee at any time, however, no later than two months prior to the Annual General Meeting, so that the Committee can consider proposals received with due care.

## Nominating Committee for the Annual General Meeting 2019

The Nominating Committee for the Annual General Meeting in 2019 was announced on the Company's website on October 7, 2018. In addition to the Chairman of the Board of Swedish Match, Conny Karlsson, the Nominating Committee consists of the following members: Tal Klausner (GIC Asset Management Private Limited), Filippa Gerstädt (Nordea Funds), Johan Strandberg (SEB Investment Management AB) and Will James (Standard Life Aberdeen PLC). Johan Strandberg serves as Chairman of the Nominating Committee.

## PROPOSALS TO THE NOMINATING COMMITTEE ARE TO BE SUBMITTED TO:

Swedish Match AB  
The Nominating Committee  
c/o General Counsel Marie-Louise Heiman  
SE-118 85 Stockholm, Sweden  
E-mail: nominating.committee@swedishmatch.com

<sup>1)</sup> Available on Swedish Match's website

[www.swedishmatch.com/governance](http://www.swedishmatch.com/governance).

<sup>2)</sup> Available on Swedish Corporate Governance Board's website  
[www.corporategovernanceboard.se](http://www.corporategovernanceboard.se).

<sup>3)</sup> Source: Euroclear Sweden AB.

<sup>4)</sup> More information is available on Swedish Match's website  
[www.swedishmatch.com/aggm](http://www.swedishmatch.com/aggm).

# GOVERNANCE OF THE SWEDISH MATCH GROUP

## External auditors

The auditors are elected by the Annual General Meeting (AGM) for a term of between one and four years. According to the Articles of Association, the number of authorized public auditors must be one or two with a maximum of one or two deputy auditors or one or two auditing firms.

The duties of the external auditors include auditing the management of the Board and the President as well as the Company's annual accounts and accounting records. The external auditors report continuously to the Board's Audit Committee and, in conjunction with preparation of the annual accounts, they also report their observations from the audit to the Board.

## General Meeting

The General Meeting constitutes the highest governing body in a limited liability company, and shareholders' rights to participate in resolutions regarding the Company's affairs are exercised at General Meetings. The Company's shareholders are informed of their legal rights to have issues addressed at General Meetings through the Company's website [www.swedishmatch.com/agm](http://www.swedishmatch.com/agm). There are no special provisions on how the General Meeting works in the Articles of Association or, as far as known to the Company, due to any shareholders agreement. Resolutions adopted by General Meetings are generally resolved by a simple majority. However, according to the Swedish Companies Act, certain matters are to be resolved by a qualified majority.

## Audit Committee

The Audit Committee is appointed annually by the Board of Directors and is a body within the Board. Although the Audit Committee's work is primarily of a preparatory and advisory nature, the Board of Directors delegates decision-making authority on specific issues to the Committee. The Committee is responsible for monitoring the Company and its subsidiaries' accounting and financial reporting processes as well as, in respect of the financial reporting, the efficiency of the internal controls, internal audit and risk management.

The Committee is also to review and monitor the impartiality and independence of the auditors. The Committee's responsibilities are to large extent set by the EU Audit and Auditor Regulation, which includes responsibility for the audit selection procedure and otherwise to assist the Nominating Committee in preparing proposals regarding election of auditors and recommendations on audit fees. It also keeps itself informed regarding the audit of the annual report and consolidated accounts. In conjunction with the Audit Committee's review of the financial reporting, the members of the Committee also discuss accounting issues relating to the Company's financial reporting. The Committee also establishes guidelines by which services other than auditing may be secured from the Company's auditors. The Audit Committee also discusses other important issues relating to the Company's financial reporting and reports its observations to the Board.

In consultation with committee members, the Chairman of the Audit Committee is to decide where and how frequently the Committee is to meet.\*

## The Board of Directors

The Board of Directors is the Company's highest administrative body under the General Meeting. The Board of Directors is responsible for ensuring that the Group's organization is appropriate for its purpose and conducts ongoing evaluations of the financial position of the Company, of management guidelines and of the investment of company funds. The Board also safeguards the Company's financial accounting, internal controls and the quality of its financial reporting through the internal control system described in detail in the section entitled Risk management and internal control over financial reporting. The Board is primarily responsible for establishing Swedish Match's strategic and financial Long Range Plan, monitoring the performance of the operations on an ongoing basis, reviewing and approving the financial accounts, and taking decisions regarding investments and divestments.

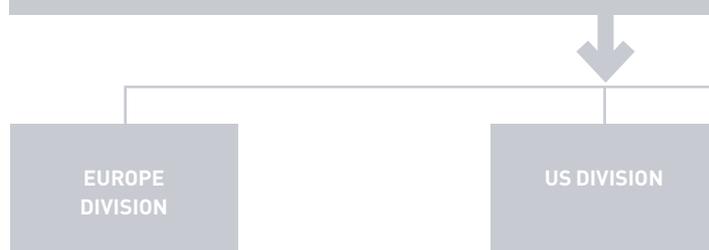
## Disclosure Committee

The President has appointed a Disclosure Committee whose primary responsibility is to ensure that all external reporting, including interim reports, annual reports, and press releases, whose content could have an impact on the share price or that contains financial information, is prepared in accordance with the Group's prevailing procedural routines.

## President and CEO

The President is appointed by the Board of Directors and manages the Company's operations within the framework of rules established by the Board.

With regard to the Board of Directors, the President's duties include responsibility for ensuring that the Board of Directors receives objective, comprehensive, and relevant information prior to Board meetings, thus enabling the Board to reach well-founded decisions. The President also submits proposals



The AGM must be held within six months of the close of the fiscal year. At the AGM, resolutions are adopted concerning such matters as dividend, approval of the annual report, discharge of the Board of Directors and the President from personal liability, election and compensation of the Chairman and members of the Board of Directors and, auditors, guidelines for determination of compensation payable to senior executives, and other matters of importance to the Company.

### Nominating Committee

The Nominating Committee is established according to the principles resolved by the AGM. The AGM also resolves on instructions for the Nominating Committee and according to the instructions the Nominating Committee shall submit to the AGM proposals regarding any changes to these instructions. The Nominating Committee's duties are to prepare and submit proposals to the AGM concerning the election of the Chairman of the AGM, the election of the Chairman and other members of the Board, the amount of Board fees and their apportionment between the Chairman of the Board and other Board members and any fees for committee work, as well as the election of and fees to be paid to the auditors.

In the autumn of each year, the Board of Directors commissions an external consultant to evaluate the performance and functioning of the Board's work. The Chairman of the Board informs the Nominating Committee about the outcome of the evaluation. This evaluation gives the Nominating Committee a basis from which to assess the competence and experience of the Board members and requirements for the future. The Nominating Committee is to meet as often as necessary to discharge its duties, but at least once per year.

The Board of Directors appoints and issues instructions for the President and monitors the President's work.

The working procedures for the Board of Directors are established annually at the statutory Board meeting. The working procedures include instructions relating to the role of the Chairman of the Board, the division of responsibilities between the Board of Directors and the President and the guidelines for financial reporting to the Board.

The Chairman of the Board is responsible for organizing and directing the Board's work and ensuring that the Board fulfills its obligations. The Chairman's other responsibilities include forwarding the owners' opinions to the Board of Directors.

### Compensation Committee

The Compensation Committee is appointed annually by the Board of Directors and is a body within the Board. The Committee's duties are to prepare and submit to the Board proposals for resolutions relating to remuneration and other terms of employment for the Company's President, principles regarding remuneration to senior executives, which the Board will present to the AGM for a resolution and other remuneration and employment term matters which by law or other regulations, the Swedish Code of Corporate Governance or established practice shall be resolved by the General Meeting or the Board of Directors.

The Board of Directors has delegated decision-making authority to the Compensation Committee in certain issues such as calculation and payment of variable salary to the Company's President, salary and other compensation that, within the framework of the guidelines resolved by the AGM, is to be paid to members of the Group Management Team other than the President, including performance criteria, and targets in any long term incentive plan and approval of significant engagements outside the Company with respect to members of the Group Management Team other than the President.

The Committee is to meet as often as necessary but at least twice annually.\*

for decisions by the Board. On a monthly basis, the President provides Board members with the information required to monitor the position, liquidity and development of the Group, while also providing the Chairman with ongoing information regarding the operations of the Group.

[www.swedishmatch.com](http://www.swedishmatch.com)



\* Further information regarding for example the committees' respective responsibilities and authorizations, the Company's system of variable remuneration to senior executives as well as minutes from shareholders' meetings, is to be found on the Company's website, [www.swedishmatch.com/governance](http://www.swedishmatch.com/governance).

LIGHTS DIVISION

# GOVERNANCE OF THE SWEDISH MATCH GROUP 2018

## ANNUAL GENERAL MEETING 2018

In 2018, the Annual General Meeting was held on April 11. The minutes of the meeting are available on the Company's website [www.swedishmatch.com/agm](http://www.swedishmatch.com/agm).

The Annual General Meeting 2018 passed the following resolution, amongst others:

- An ordinary dividend of 9.20 SEK per share and a special dividend of 7.40 SEK per share, in total 16.60 SEK per share for the 2017 fiscal year.
- Re-election of Charles A. Blixt, Andrew Cripps, Jacqueline Hoogerbrugge, Conny Karlsson, Pauline Lindwall, Wenche Rolfsen, and Joakim Westh as Board members. Re-election of Conny Karlsson as Chairman of the Board and Andrew Cripps as deputy Chairman of the Board.
- The Chairman shall receive 1,910,000 SEK, the deputy Chairman shall receive 900,000 SEK and the other Board members elected by the Meeting shall each receive 764,000 SEK. Furthermore, as compensation for committee work carried out, it was decided to allocate 270,000 SEK to the Chairman of the Compensation Committee, 310,000 SEK to the Chairman of the Audit Committee and to allocate 135,000 SEK to each of the other members of these committees.
- Withdrawal of 5,850,000 repurchased shares in the Company.
- Authorization of the Board of Directors to acquire, on one or more occasions prior to the next Annual General Meeting, a maximum of as many shares as may be acquired without the Company's holding at any time exceeding 10 percent of all shares in the Company.
- Authorization of the Board of Directors to decide on transfer of the Company's own shares and to issue new ordinary shares.
- Principles for determining the salary and other remuneration of the President and other members of the Company's management.
- Adoption of income statements and balance sheets for 2017 and discharge from personal liability granted of the Board of Directors and the Chief Executive Officer.

For information on the utilization of the authorization granted by the General Meeting to the Board of Directors to acquire treasury shares, see the *Report of the Board of Directors*, page 58 of the 2018 Annual Report.

## Nominating Committee

Pursuant to instructions established by the Annual General Meeting 2011, the Nominating Committee is, until further notice, to include the Chairman of the Board of Directors and one member appointed by each of the four largest shareholders who wish to appoint a member to the Nominating Committee. The four largest shareholders are to be identified on the basis of the known numbers of votes on August 31, the year before the forthcoming Annual General Meeting.

## Nominating Committee for the Annual General Meeting 2018

The Nominating Committee for the Annual General Meeting in 2018 comprised the following five members: Mark Husson (Cedar Rock Capital), Ossian Ekdahl (Första AP-fonden), Daniel Ovin (Nordea Asset Management), William James (Standard Life Investments), as well as Conny Karlsson (the Chairman of the Board). Daniel Ovin served as Chairman of the Nominating Committee.

The main task of the Committee is to propose Board members for election by the Annual General Meeting. As member of the Nominating Committee, the Chairman of the Board of Directors fulfills an important role to inform the Committee of the Company's strategy and future challenges. Such insights are necessary for the Committee to be able to assess the competence and experience that is required by the Board. In addition, the Committee

must consider independence rules applicable to the Board of Directors and its committees. When preparing proposals for the Board for the 2018 Annual General Meeting, the Nominating Committee paid particular attention to the issues of diversity and for gender balance on the board and the Committee thus applied Item 4.1 of the Swedish Corporate Governance Code as its diversity policy when preparing these proposals.

The Nominating Committee held three meetings during the period between the 2017 and 2018 Annual General Meetings combined with informal contacts and discussions among the members. A report on the work of the Nominating Committee was presented to the Annual General Meeting 2018.

## Board of Directors

### Composition

According to the Articles of Association, the Company's Board of Directors shall consist of at least five and at most ten directors, apart from those persons who, pursuant to law, may be appointed according to other arrangements. At the end of 2018, the Swedish Match Board of Directors comprised seven members elected by the General Meeting plus three employee representatives and their three deputies in accordance with the Trade Union Representatives (Status at the Workplace) Act.

The Nominating Committee advised before the Annual General Meeting 2018 that the Nominating Committee had

applied the Swedish Corporate Governance Code, section 4.1, as diversity policy with the aim to propose a composition of Board members with complementing experiences and competencies that is diverse also in terms of age, gender and cultural/geographical background. The current Board composition is the result of the work of the Nomination Committee prior to the Annual General Meeting 2018.

Since the Annual General Meeting 2018, the Board of Directors consisted of the following directors elected by the General Meeting: Conny Karlsson, Charles A. Blixt, Andrew Cripps, Jacqueline Hoogerbrugge, Pauline Lindwall, Wenche Rolfsen, and Joakim Westh. Conny Karlsson served as Chairman of the Board. Employee representatives on the Board were, Patrik Engelbrektsson, Eva Larsson (until April 2018), Pär-Ola Olausson (from April 2018), and Dragan Popovic with Niclas Bengtsson (from April 2018), Matthias Eklund (from April 2018), and Niclas Ed as deputies. Detailed information about individual Board members and deputies is provided on pages 122–123 of the 2018 Annual Report.

### Independence of Board members

According to the Nominating Committee, all Board members elected by the Annual General Meeting are considered to be independent, under the rules of the Swedish Code of Corporate Governance, in relation to the Company's major shareholders and in relation to management and the Company.

### Meetings

The Board of Directors convenes for at least six scheduled meetings and one statutory meeting per year. In addition to the scheduled Board meetings, the Board is summoned to additional meetings convened at the discretion of any director or of the President. The auditors participate in the Board meeting at which the annual accounts for the fiscal year are presented in order to communicate their observations from the audit. The auditors also meet with the Board without the presence of the President or any other member of the Group Management Team.

### Evaluation of the work of the Board of Directors

During autumn 2018, the Board's work was evaluated with the assistance of an independent consulting company. The Nominating Committee was informed of the result of the evaluation.

### Compensation to the Board of Directors

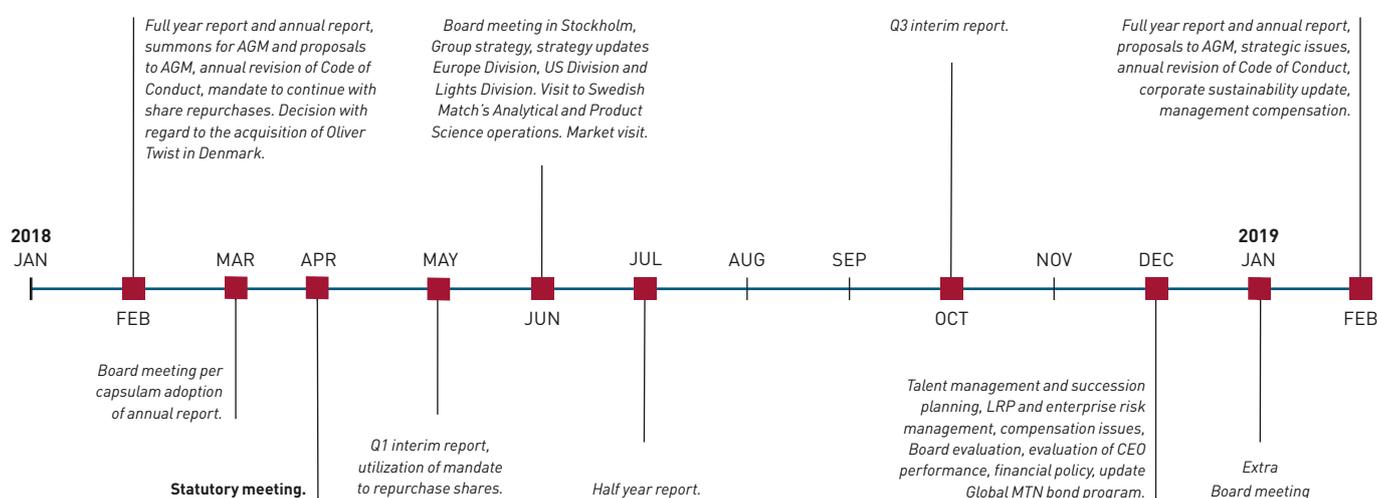
Compensation to the Board for the period from the 2018 Annual General Meeting up to and including the 2019 Annual General Meeting was paid in accordance with the resolution adopted by the 2018 Annual General Meeting. No compensation for

directorship work was paid to directors employed by the Swedish Match Group.

For further information about Directors' fees for 2018, see *Note 6 Personnel*, page 80 of the 2018 Annual Report.

### Activities of the Board of Directors during 2018

During the period from January 1, until December 31, 2018, the Board held seven scheduled meetings and one statutory meeting. During 2019 (until and including February) two Board meetings have been held.



Composition of the Board and attendance 2018	Board of Directors	Audit Committee	Compensation Committee	Independent <sup>1)</sup>	Member since	Compensation, TSEK
<b>Total number of meetings</b>	<b>8</b>	<b>6</b>	<b>2</b>			
<b>Members elected by the General Meeting</b>						
Conny Karlsson (Chairman)	8		2	Yes	2006	2,180
Andrew Cripps (Deputy Chairman)	8	6		Yes	2006	1,035
Charles A. Blixt	8		2	Yes	2015	899
Jacqueline Hoogerbrugge	8		2	Yes	2015	899
Pauline Lindwall	7			Yes	2017	764
Wenche Rolfsen	8	6		Yes	2013	899
Joakim Westh	8	6		Yes	2011	1,074
<b>Employee representatives</b>						
Patrik Engelbrektsson	7					
Eva Larsson (until April, 2018)	1					
Pär-Ola Olausson (from April, 2018)	7					
Dragan Popovic	8					
<b>Employee representatives (deputies)</b>						
Joakim Andersson (until April, 2018)	1					
Niclas Bengtsson (from April, 2018)	5					
Niclas Ed	7					
Matthias Eklund (from April, 2018)	6					
Gert-Inge Rang (until April, 2018)	1					

<sup>1)</sup> As defined in the Swedish Code of Corporate Governance.

At all scheduled Board meetings, with the exception of the statutory Board meeting, the Board received a general report from the CEO and discussed the activities and financial results of the Company and the associated companies, as well as other pertinent projects and matters.

All meetings held during the year followed an approved agenda. Prior to each meeting, a proposed agenda and, where applicable, documents relevant to the items on the agenda were sent to the Board. The Company's auditors attended the Board meeting in February 2018 to present the audit report and observations from the audit. At the board meeting in June, which was held in Stockholm, the Board visited Swedish Match's Analytical and Product Science operations and met with the company's employees who told about their business. The Board also made market visits in stores where Swedish Match's products are sold.

In April 2018, Swedish Match acquired House of Oliver Twist A/S, a Danish privately owned company active in smokeless tobacco on the European market, and in August, Swedish Match acquired a majority share in Gotlands Snus AB, a privately held Swedish company located in Romakloster on the island of Gotland, Sweden. Gotlands Snus develops, produces and sells both snus and pouch products with neither nicotine nor tobacco and has sales in Sweden, the US, Asia and parts of Europe.

### Audit Committee

In 2018, the members of the Audit Committee were Joakim Westh, (Chairman), Andrew Cripps, and Wenche Rolfsen.

Throughout the year, the Chairman of the Audit Committee kept the Board of Directors regularly informed of the committee's work and decisions. A total of six meetings were held in 2018. The Company's auditor, as well as the head of the Internal Audit, participated in all meetings of the Audit Committee in 2018 and, at two of these meetings, also met with the committee without the presence of the management of the Company.

### Compensation Committee

Following the AGM and the statutory meeting, the members of the Compensation Committee in 2018 were Conny Karlsson (Chairman), Charles A. Blixt, and Jacqueline Hoogerbrugge. The Company's President presents reports on certain issues but is not a member of the committee and is not present when the committee prepares decisions regarding compensation to the President.

During the year, the Compensation Committee's Chairman kept the Board of Directors regularly informed about the committee's work and decisions. The committee is to meet as often as necessary but at least twice annually. Two meetings were held in 2018.

During 2018, the committee devoted special attention to determination of variable compensation for 2017 to be paid in 2018, and on targets relevant to variable compensation, proposals to the Board concerning adjustments of the President's salary and variable compensation for 2019, and determination of salaries and variable compensation for other members of the Group Management Team for 2019. In addition, the committee submitted a proposal to the Board concerning guidelines for the determination of salary and other remuneration paid to the President and other members of the Group Management Team.

### Group Management Team

In 2018, the Swedish Match Group Management Team consisted of Lars Dahlgren, President and Chief Executive Officer; Richard Flaherty, President US Division; Marlene Forsell, Senior Vice President and Chief Financial Officer (up until March 9, 2018); Thomas Hayes, Vice President and Chief Financial Officer, US Division (up until March 9, 2018) and thereafter as Senior Vice President and Chief Financial Officer; Marie-Louise Heiman, Senior Vice President Group Legal Affairs; Lars Olof Löfman, Senior Vice President R&D, Europe Division; Fredrik Peyron, Senior Vice President Regulatory Affairs and Group Communication; Håkan

Söderberg, President, Lights Division and Joakim Tilly, President, Europe Division.

Detailed information about the President and Chief Executive Officer Lars Dahlgren, including his and related persons shareholding in the Company, is provided on page 124 of the 2018 Annual Report. Lars Dahlgren has no significant shareholdings and partnerships in companies with which Swedish Match has important business relations.

### Compensation to the Group Management Team

The 2018 Annual General Meeting established certain guidelines for determining salary and other compensation to the President and other members of the Group Management Team. For information on the guidelines established at the Annual General Meeting, see *Note 6 Personnel*, page 80 of the 2018 Annual Report. For information concerning compensation and other benefits to the Group Management Team, see *Note 6 Personnel*, page 80 of the 2018 Annual Report.

### Audit and auditors

The accounting firm Deloitte AB was elected by the General Meeting 2017 as the Company's external auditors for the period from 2017 up to and including the Annual General Meeting in 2019. During 2018, in addition to auditing, Deloitte AB provided consultancy services to the Group to a large part related to tax services.

Peter Ekberg, authorized public accountant, served as auditor in charge. For information concerning compensation to the Swedish Match's auditors during 2018, see *Note 7 Audit fees*, page 83 of the 2018 Annual Report.

### Disclosure Committee

Members of the Disclosure Committee during 2018 included the heads of Group Legal Affairs, Investor Relations and Corporate Sustainability, as well as Regulatory Affairs and Group Communication.

## RISK MANAGEMENT AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors is responsible for internal control over financial reporting pursuant to the Swedish Companies Act and the Swedish Corporate Governance Code. The Audit Committee has a specific responsibility for monitoring the effectiveness of risk management and internal controls regarding financial reporting. This report describes the Group's system for internal control and risk management regarding financial reporting.

### Control environment

The foundation for internal control over financial reporting is the control environment that has been documented and communicated. It includes the Swedish Match Code of Conduct and internal policies and instructions on delegation of authority, accounting and reporting, internal control and information security. All governing documents are regularly updated and distributed to key individuals who implement them within their area of responsibility. Fundamental to creating an effective control environment is the Board of Directors', the Audit Committee's and management's unyielding dedication to reliable financial reporting. Swedish Match has established clear decision-making and review structures, including a system of regular review meetings between the Group, operating units and local management during which the Group values are reinforced.

### Risk assessment

The Group applies a risk assessment and a risk management method to ensure that the risks to which the Group is exposed are managed within the established framework. Based on the risk assessment, the Group defines a standardized system of controls to ensure reliable financial recordkeeping, transparent financial reporting and

disclosure, and protection of physical and immaterial assets. These standardized controls are reviewed and updated annually. In addition, each operating unit is charged with the responsibility to assess company-specific risks and identify additional key internal controls not covered by the standardized system of controls.

### Control activities

Based on the framework of Group policies and instructions, the heads of Swedish Match's operating units are charged with the responsibility to establish internal controls over financial reporting to meet the requirements of the standardized system of controls as well as to mitigate material company specific financial reporting risks. Control activities are established in all business processes and systems supplying information to the financial accounts in order to safeguard the reliability of the information.

### Information and communication

The information and communication component includes the systems and procedures that support the identification, capture, and exchange of information in a form and timeframe that enable personnel to carry out their responsibilities and reliable financial reports to be generated. Management has established communication channels and forums to allow for an effective information flow relating to business conditions and changes affecting financial reporting. The Swedish Match Code of Conduct encourages employees to raise compliance concerns promptly and prohibits retribution for doing so.

### Monitoring

The Group monitors compliance with governing documents in the form of internal policies and instructions, and

evaluates the effectiveness of the control structure. Financial accounts are provided on a monthly, quarterly and annual basis to the Group and operating unit management through a common reporting and consolidation system. Financial and operating management review the financial information to validate completeness and accuracy. The Board receives monthly reports, and the financial status of the Group is discussed at every scheduled Board meeting. At these Board meetings the Chairman of the Audit Committee also informs the Board on the work of the Audit Committee relating to the monitoring of the effectiveness of internal controls regarding financial reporting. The Disclosure Committee monitors the sufficiency of financial reports with regard to disclosure requirements.

The Group Internal Audit department is established with the primary task of independently evaluating the effectiveness of internal controls. Internal Audit's work is based on annual risk-focused plans that are updated throughout the year based on changes and events which influence the risks relating to the system for internal control. These plans are reviewed and approved by the Audit Committee and Internal Audit reports regularly on the results directly to the Audit Committee and to company management. The Audit Committee monitors that recommended actions are taken to improve the internal control regarding financial reporting. The head of Internal Audit reports directly to the Chairman of the Audit Committee and to the CFO. The Audit Committee also receives regular reports from the external auditor.

Stockholm, February 12, 2019

The Board of Directors of  
Swedish Match AB

## Auditors' report on the corporate governance report

To the general meeting of the shareholders in Swedish Match AB (publ.), Corporate Identity Number 556015-0756

### Engagement and responsibility

It is the Board of Directors who is responsible for the corporate governance statement for the financial year 2018-01-01 – 2018-12-31 on pages 114–125 and that it has been prepared in accordance with the Annual Accounts Act.

### The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard *RevU 16 The auditor's examination of the corporate governance statement*. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

### Opinions

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm, March 14, 2019

Deloitte AB

Peter Ekberg  
Authorized Public Accountant

# Board of Directors 2018

**Conny Karlsson**



**CONNY KARLSSON**

Born 1955. M.Sc. in Economics and Business from Stockholm School of Economics. Chairman of the Board of Directors since 2007. Board member since 2006. Chairman of the Compensation Committee.  
*Other board assignments:* Chairman of Cake 0 emission AB. Non-Executive Board member of Malte Månsson AB and Yrkesakademien AB.  
*Previous positions:* Chief Executive Officer, Duni AB; Marketing Director, Procter & Gamble UK; Marketing Director and Regional Director, Procter & Gamble Scandinavia; Marketing Director, Procter & Gamble E&S0.  
*Own and related parties' shares:* 30,000

**Andrew Cripps**



**ANDREW CRIPPS**

Born 1957. B.A. University of Cambridge. Chartered Accountant. Board member since 2006. Deputy Chairman of the Board of Directors and member of the Audit Committee.  
*Other board assignments:* Non-Executive Director and Audit Committee Chair of the Howden Joinery Group plc and Boparan Holdings Ltd.  
*Previous positions:* Director of Corporate Finance, Rothmans International; Director of Investments, British American Tobacco; President, Laurens International SA. Board member of a number of European consumer products businesses.  
*Own and related parties' shares:* 19,200

**Charles A. Blixt**



**CHARLES A. BLIXT**

Born 1951. Jur. Dr. and B.A. University of Illinois. Board member since 2015. Member of the Compensation Committee.  
*Other board assignments:* Non-Executive Chairman, Atrium Coal Limited; Non-Executive Director, Lamb Weston Holdings Inc.  
*Previous positions:* Interim General Counsel, Krispy Kreme Doughnuts Inc; Executive Vice President and General Counsel, Reynolds American Inc.  
*Own and related parties' shares:* 3,000

**Jacqueline Hoogerbrugge**



**JACQUELINE HOOGERBRUGGE**

Born 1963. M.Sc. Chemical Engineering from the University of Groningen. Board member since 2015. Member of the Compensation Committee.  
*Other board assignments:* Non-Executive Board member of Ikea Industry AB, Dometic AB, Broadview BV and BA Glass.  
*Previous positions:* President Operations, Cloetta AB; President Operations, Leaf International BV; Vice President Operations, Danone's Medical Nutrition Division; Vice President Procurement, Numico Baby & Medical Food; various positions in engineering, manufacturing and procurement, Unilever; and various positions in engineering and sales, Fluor Daniel.  
*Own and related parties' shares:* 3,200

**Pauline Lindwall**



**PAULINE LINDWALL**

Born 1961. BSc., University of Växjö. Board member since 2017.  
*Other board assignments:* Non-Executive Board member of McKesson Europe AG and Duni AB.  
*Previous positions:* Category Director Coffee, France and Southern Europe Mondelez International; Country Business Manager, Nestlé Nutrition Germany & Austria; Country Business Manager, Nestlé Nutrition Indonesia; Nordic Marketing Director, Nestlé Nordic; Head of Nestlé Innovation, Out of Home Coffee UK; Nordic Marketing Manager, Nestlé Coffee & Beverages.  
*Own and related parties' shares:* 2,165

Holdings of own and related parties shares as of December 31, 2018. For a detailed report of remuneration and benefits for the Board of Directors, refer to Note 6 Personnel.

**Wenche Rolfsen****WENCHE ROLFSEN**

Born 1952. M.Sc. in Pharmacy and Ph.D. in Pharmacology from Uppsala University. Board member since 2013. Member of the Audit Committee.

*Other board assignments:* Chairman of Index Pharmaceuticals and Bioarctic AB; Board member of Recipharm AB.

*Previous positions:* Vice President Quintiles Phase I, Europe; CEO, Quintiles, Scandinavia; Director, Quintiles, Sweden; Managing Director of Pharmacology, Pharmacia Upjohn; Head of Pharmacology, Pharmacia Ophthalmics; Head of Pharmacology, Pharmacia Läkemedel.

*Own and related parties' shares:* 3,180

**Joakim Westh****JOAKIM WESTH**

Born 1961. M.Sc. Royal Institute of Technology and M.Sc. Aeronautics and Astronautics MIT. Board member since 2011. Chairman of the Audit Committee.

*Other board assignments:* Chairman of the Board of Amexci AB. Board member and Chairman of the Audit Committee of Saab AB; Board member and Chairman of the HR Committee of CGI Inc; Non-Executive Board member of Absolent Group AB.

*Previous positions:* Senior Vice President and Head of Group Function Strategy and Operational Excellence and member of Group Management Team, Telefonaktiebolaget LM Ericsson; Group Vice President and member of the Executive Management Team, Assa Abloy AB; Chairman, Absolent AB; Partner, McKinsey & Co. Inc.

*Own and related parties' shares:* 2,500

**AUDITOR**

Deloitte AB, Peter Ekberg,  
Authorized Public Accountant.  
Swedish Match auditor since 2017.

**SECRETARY**

Marie-Louise Heiman,  
Senior Vice President Group Legal  
Affairs and General Counsel.  
Secretary to the Board since 2015.

**INDEPENDENCE OF BOARD MEMBERS**

According to the Nominating Committee, all of the Board members elected by the Annual General Meeting are considered to be independent, under the rules of the Swedish Code of Corporate Governance, in relation to the Company's major shareholders and in relation to management and the Company.

**CHANGES IN THE BOARD OF DIRECTORS**

Pär-Ola Olausson replaced Eva Larsson as an employee representative. Matthias Eklund and Niclas Bengtsson replaced Joakim Andersson and Gert-Inge Rang as new deputy members.

**EMPLOYEE REPRESENTATIVES****Patrik Engelbrektsson****Pär-Ola Olausson****Dragan Popovic****PATRIK ENGELBREKTSSON**

Born 1965. Board member since 2013. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Chairman of the Trade Union Association at Swedish Match's snus factory in Gothenburg, Sweden. Logistic Technician at Swedish Match's snus factory in Gothenburg.

*Previous positions:* Mill worker, Machine Operator, Forklift driver at Swedish Match's snus factory in Gothenburg.

*Own and related parties' shares:* 0

**PÄR-OLA OLAUSSON**

Born 1972. Board member since 2018. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Vice Chairman of IF Metall's Trade Union Association at Swedish Match's match factory in Tidaholm, Sweden. Technical support at Swedish Match's match factory in Tidaholm.

*Own and related parties' shares:* 0

**DRAGAN POPOVIC**

Born 1973. Board member since 2017. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Board member of the Swedish Association of Management and Professional Staff (Ledarna) at the snus factories in Gothenburg and Kungälv, Sweden. Area Manager Production at Swedish Match's snus factory in Gothenburg.

*Previous positions:* Area Manager Pilot Plant and Machine Operator, at Swedish Match's snus factory in Gothenburg.

*Own and related parties' shares:* 0

**EMPLOYEE REPRESENTATIVES (DEPUTIES)****Niclas Bengtsson****Niclas Ed****Matthias Eklund****NICLAS BENGTTSSON**

Born 1969. Deputy member since 2018. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Vice President Group Tax at Swedish Match's headquarters, Stockholm, Sweden.

*Previous positions:* Tax Director Group Finance, Swedish Match; Manager, Ernst & Young; Tax Litigation Officer, the Swedish Tax Agency.

*Own and related parties' shares:* 285

**NICLAS ED**

Born 1968. Deputy member since 2017. Appointed by the Council for Negotiation and Co-operation (SACO) within Swedish Match. Deputy Chairman of the Trade Union Association (Sälj-klubben) within Swedish Match Europe Division. Sales Representative, Swedish Match Europe Division.

*Previous positions:* Sales Representative, JC - Brothers; Sales support, Skandia; Sales Representative, Eltte; Sales Representative, Nikko.

*Own and related parties' shares:* 0

**MATTHIAS EKLUND**

Born 1980. Deputy member since 2018. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Board member of the Swedish Food Workers' Trade Union Association (Livs) at SMD Logistics in Kungsängen, Sweden. Warehouse worker at SMD Logistics in Kungsängen.

*Previous positions:* Warehouse worker, Swedish Match Distribution in Solna.

*Own and related parties' shares:* 0

# Group Management 2018



## LARS DAHLGREN

President and Chief Executive Officer, Swedish Match since 2008. Joined Swedish Match in 1996. Member of the Group Management Team since 2004. Born 1970. M.Sc. in Business and Economics from the Stockholm School of Economics, Sweden. *Board assignments:* Board member of Orkla ASA.

*Previous positions:* Senior Vice President and Chief Financial Officer, Swedish Match AB; Vice President Group Finance, Swedish Match AB; Finance Director, Swedish Match Philippines; Financial analyst, SBC Warburg. *Own and related parties' shares:* 40,550

Lars Dahlgren



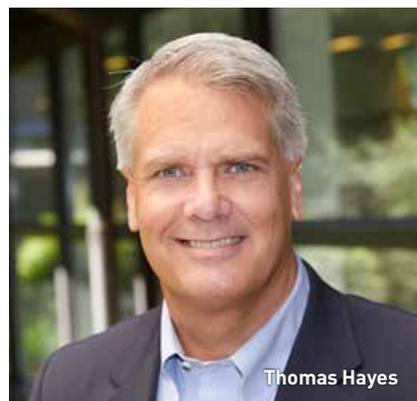
Richard Flaherty

## RICHARD FLAHERTY

President, US Division, Swedish Match since 2008. Joined Swedish Match in 2000. Member of the Group Management Team since 2008. Born 1958. B.A. Economics, J.D. Law Rutgers University, and LLM Taxation New York University, USA.

*Previous positions:* Chief Operating Officer, Swedish Match North America Division OTP; Chief Financial Officer, Swedish Match North America Division; Chief Financial Officer, Bumble Bee Seafoods; Commercial Director, Unilever.

*Own and related parties' shares:* 18,125



Thomas Hayes

## THOMAS HAYES

Chief Financial Officer and Senior Vice President, Group Finance, Swedish Match since 2018. Joined Swedish Match in 2006. Member of the Group Management Team since 2017. Born 1966. B.S. in Accounting from Wake Forest University, USA.

*Previous positions:* Vice President and Chief Financial Officer, Swedish Match US Division; Chief Financial Officer Swedish Match International Division; Controller and Chief Accounting Officer, Chesapeake Corporation; Managing Director, PricewaterhouseCoopers.

*Own and related parties' shares:* 3,565

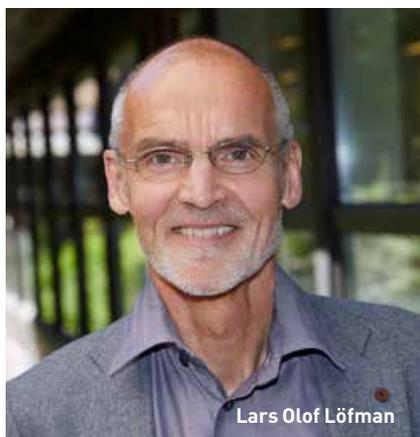


Marie-Louise Heiman

## MARIE-LOUISE HEIMAN

Senior Vice President, Group Legal Affairs and General Counsel, Swedish Match since 2015. Joined Swedish Match in 1996. Member of the Group Management Team and Secretary to the Board since 2015. Born 1965. Master of Laws (LLM), Uppsala University, Sweden.

*Previous positions:* Vice President Legal Affairs, Swedish Match AB; General Counsel Swedish Match North Europe AB; Legal Counsel, AB Fortos, BCP Branded Consumer Products AB and Procordia AB. *Own and related parties' shares:* 3,025



Lars Olof Löfman

**LARS OLOF LÖFMAN**

Senior Vice President R&D, Europe Division, Swedish Match since 2017. Joined Swedish Match in 1987. Member of the Group Management Team since 2004. Born 1956. M.Sc. in Engineering and Controller DIHM, Sweden.

*Previous positions:* Senior Vice President Product Supply and Innovation, Swedish Match Scandinavia Division; President, Swedish Match Smokefree Products Division; President, Swedish Match Distribution AB; President, Swedish Match North Europe Division; Vice President Production & Development, Swedish Match North Europe Division; Vice President Operations, Swedish Match Snuff Division; Plant and Production Manager, Swedish Match North Europe Division.

*Own and related parties' shares:* 10,689



Fredrik Peyron

**FREDRIK PEYRON**

Senior Vice President, Regulatory Affairs and Group Communications. Joined Swedish Match in 2016. Member of the Group Management Team since 2016. Born 1967. Bachelor of Law (LLB), Lund University, Sweden.

*Previous positions:* Group Vice President, Legal Affairs, General Counsel and Secretary, Autoliv; Senior Vice President, Legal Affairs and General Counsel, Swedish Match AB; Vice President Corporate Affairs, Swedish Match AB; Legal Counsel, Akzo Nobel; Associate, Mannheimer Swartling law firm.

*Own and related parties' shares:* 2,500



Håkan Söderberg

**HÅKAN SÖDERBERG**

President, Lights Division, Swedish Match since 2017. Joined Swedish Match in 2007. Member of the Group Management Team since 2017. Born 1969. M.Sc BA from the University of Stockholm, Sweden.

*Previous positions:* COO Lights International Division, Swedish Match; COO Continental Europe Division Netherlands, Swedish Match; Vice President Finance & IT International Division Netherlands, Swedish Match; Regional Finance Director Belgium, AstraZeneca; CFO South Africa, AstraZeneca; Director, Finance Supply chain and Logistics England, AstraZeneca; Director, Business logistics and Finance, AstraZeneca; Corporate controller, Astra AB.

*Own and related parties' shares:* 1,998



Joakim Tilly

**JOAKIM TILLY**

President, Europe Division, Swedish Match since 2013. Joined Swedish Match in 2004. Member of the Group Management Team since 2008. Born 1970. M. Sc. in Business and Economics from the Stockholm School of Economics, Sweden.

*Previous positions:* Senior Vice President, Group Finance and IT, and Chief Financial Officer, Swedish Match AB; Senior Vice President Group Finance, Swedish Match AB; Vice President Group Finance, Swedish Match AB; Chief Executive Officer and Chief Financial Officer, Netgiro International; Chief Financial Officer, Swedish Match Lighter Division.

*Own and related parties' shares:* 8,240

**CHANGES IN THE GROUP MANAGEMENT TEAM 2018**

Thomas Hayes was appointed as Chief Financial Officer as of March 10, 2018. Marlene Forsell left the Group Management Team on March 9, 2018.

## Swedish Match's vision is of a world without cigarettes.

*We create shareholder value  
by offering tobacco consumers enjoyable products  
of superior quality in a responsible way.  
By providing products that are recognized as safer  
alternatives to cigarettes, we can contribute  
significantly to improved public health.*



### Swedish Match AB (publ)

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