

# Q2 2015

## Half Year Report JANUARY – JUNE 2015

- Sales for the second quarter increased by 9 percent to 3,644 MSEK (3,339). In local currencies, sales were marginally higher than prior year.
- Operating profit from product areas<sup>1)</sup> for the second quarter increased by 9 percent to 937 MSEK (862). In local currencies operating profit from product areas<sup>1)</sup> declined by 1 percent.
- Operating profit<sup>2)</sup> amounted to 1,021 MSEK (941) for the second quarter. Excluding a restructuring provision of 42 MSEK related to the relocation of distribution facilities in Sweden, recognized as a larger one-time item, operating profit amounted to 1,063 MSEK (941).
- EPS (basic) for the second quarter amounted to 3.62 SEK (3.27). Adjusted EPS<sup>3)</sup> amounted to 3.79 SEK (3.27).

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

2) Operating profit for the Group includes larger one-time items and share of net profit in STG.

3) Adjusted for larger one-time item.



## CEO Lars Dahlgren comments:

**Key elements of our strategy are to defend and develop our market positions and to lead the development of the snus category in Scandinavia. A major challenge for the business over the past several years has been to halt the share losses that we have been suffering in the Swedish snus market. In the second quarter we made marked progress towards addressing this challenge as our share of snus in Sweden grew versus the first quarter. The reversal of our negative share trend has been achieved through hard work and targeted investments across all price segments. While we have been investing in the Swedish market to defend our market position, our US businesses have been delivering impressive profit growth from both underlying gains and a very strong currency tailwind.**

The Swedish snus market represents our largest profit contributor. Delivering the highest quality snus to consumers has long been the core of our strategy and since the start of 2014 we have been determined to take necessary steps to protect our leading share in the Swedish snus market. These steps have included increased R&D efforts, forgoing price increases, price repositioning of our *Kronan* product range, introducing new varieties and packaging on our value priced *Kaliber* range, and most recently our introduction of the innovative *XRANGE* snus series on the Swedish market. After just a few months in the market the *XRANGE* products have surpassed a 3 percent share. Within the value segment our *Kronan* and *Kaliber* products have gained 3 share points versus the same period last year. While our overall share in Sweden declined by one point in the second quarter versus the same period last year, our share grew versus the first quarter. The category growth in Sweden accelerated versus the first quarter. Factory shipments of our snus products declined in the second quarter versus prior year in spite of the strong category due to the timing effects of the Easter holiday and resulting trade inventory movements.

In Norway, the snus category continued its strong growth in the quarter. Our modern *General G.3* snus-series continued its positive momentum and we recently complemented the range with additional varieties. However, share gains for *G.3* could not compensate for challenging trends for some of our other products and overall market shares continued to decline. Also in Norway shipments were adversely affected by the timing of Easter.

During the second quarter our US business once again delivered excellent results in local currency, and our reported figures were further enhanced by a significantly stronger US dollar. Cigars in the US had another strong performance with both volume growth and an improved mix. Chewing tobacco volumes declined but at a slower rate than in the first quarter. Our Other tobacco products segment delivered another operating profit record quarter, which was aided, in part, by the absence of tobacco quota buy-out costs that were paid through the third quarter of 2014. Our US moist snuff business showed continued growth for pouches and tubs in line with our strategy to strengthen our positioning in growing segments. Our expansion of Swedish snus in the US showed progress with both improved volumes and profitability. With regard to the FDA, we anticipate a ruling on our modified risk tobacco products application for *General* snus during the third quarter.

Our Lights business had an unusually weak quarter. While matches performed well, the lighter business was hurt by lower volumes especially to Russia early in the quarter.

Yesterday, we announced that our joint venture company, SMPM International, is being dissolved and that we will independently develop our strategies for commercialization of snus outside Scandinavia and the US.

*In summary*, I am encouraged by what I am seeing from our efforts to provide a full range of competitive products for the dynamic Scandinavian snus market. I am also pleased with the continued solid performance by our US businesses and the progress that we are making with *General* snus in the US market.

## Summary of consolidated income statement

MSEK	April-June			January-June			Full year 2014
	2015	2014	Chg %	2015	2014	Chg %	
Sales	3,644	3,339	9	7,011	6,353	10	13,305
Operating profit from product areas <sup>1)</sup>	937	862	9	1,803	1,672	8	3,446
Operating profit <sup>2)</sup>	1,021	941	9	2,035	1,798	13	3,780
Profit before income tax	906	816	11	1,805	1,547	17	3,270
Profit for the period	705	651	8	1,426	1,231	16	2,626
Operating margin from product areas <sup>1)</sup> , %	25.7	25.8		25.7	26.3		25.9
Operating margin <sup>2)</sup> , %	28.0	28.2		29.0	28.3		28.4
Earnings per share, basic, SEK	3.62	3.27	11	7.31	6.18	18	13.23
Earnings per share, adjusted, basic, SEK <sup>3)</sup>	3.79	3.27	16	7.19	6.18	16	13.23

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

2) Including larger one-time items and share of net profit in STG. Swedish Match's share of net profit in STG for the first half of 2015 includes an adjustment of 56 MSEK relating to 2014 due to a reassessment of useful lives of certain intangible and tangible assets. See Note 3.

3) Adjusted for a larger one-time item in the second quarter 2015 (negative 42 MSEK before tax) and also for the above-mentioned STG adjustment for the first six months 2015.

## The second quarter

(Note: Comments below refer to the comparison between the second quarter 2015 vs. the second quarter prior year).

### Sales

Sales grew by 9 percent to 3,644 MSEK (3,339). Currency translation has affected the sales comparison positively by 290 MSEK. In local currencies, sales increased by less than 1 percent and were negatively impacted by the timing of the Easter.

### Earnings

Operating profit from product areas increased by 9 percent to 937 MSEK (862). In local currencies, operating profit from product areas declined by 1 percent. Operating profit increased in local currencies for Other tobacco products, but declined for Snus and moist snuff as well as for Lights. The reported share of net profit in STG, after interest and tax, amounted to 126 MSEK (78). Operating profit in the second quarter includes a larger one-time charge of 42 MSEK relating to the relocation of distribution facilities in Sweden. Operating profit, including the larger one-time item and the share of net profit in STG, increased by 9 percent to 1,021 MSEK (941). Excluding the larger one-time item, operating profit increased by 13 percent. Currency translation has affected the comparison of the operating profit, including the net profit of STG, positively by 89 MSEK.

The Group's net finance cost amounted to 115 MSEK (125) and income tax expense amounted to 200 MSEK (165), corresponding to a reported tax rate of 22.1 percent (20.2).

Profit for the period increased by 8 percent to 705 MSEK (651).

Basic and diluted earnings per share (EPS) for the second quarter increased to 3.62 SEK (3.27). Basic and diluted EPS, adjusted for a larger one-time item, increased to 3.79 SEK (3.27).

## The first six months

(Note: Comments below refer to the comparison between the first six months 2015 vs. the first six months prior year).

### Sales

Sales increased by 10 percent to 7,011 MSEK (6,353). Currency translation affected the sales comparison positively by 604 MSEK. In local currencies, sales increased by 1 percent. Trade destocking in Scandinavia following on excise tax increase on January 1<sup>st</sup> is estimated to have impacted sales negatively by somewhat less than 2 percent.

## Earnings

Operating profit from product areas amounted to 1,803 MSEK (1,672). In local currencies the operating profit from product areas was down by 2 percent, negatively affected by the trade destocking in Scandinavia.

The share of net profit in STG, after interest and tax, amounted to 274 MSEK (127) and was positively affected by a reassessment of useful lives of primarily trademarks. Adjusted for this reassessment, the share of net profit in STG amounted to 217 MSEK (127). Operating profit, including share of net profit in STG and larger one-time items, amounted to 2,035 MSEK (1,798). Currency translation has affected the operating profit comparison positively by 184 MSEK.

The Group's net finance cost amounted to 230 MSEK (251) and income tax expense amounted to 379 MSEK (316), corresponding to a tax rate of 21.0 percent (20.4).

Profit for the period increased by 16 percent to 1,426 MSEK (1,231).

Basic EPS for the first six months increased to 7.31 SEK (6.18) and diluted EPS increased to 7.30 SEK (6.18). Basic EPS, adjusted for a larger one-time item and the effect of the reassessment of useful lives for STG, increased to 7.19 SEK (6.18), while diluted EPS, similarly adjusted, increased to 7.18 SEK (6.18).

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## General G.3

G.3 is short for Generation no. 3 by General, referring to the third generation snus by General. The first generation is the loose snus from 1866 by Johan A. Boman. The second generation, the portion snus, was introduced in the 1970's.

The G.3-series was launched in 2014 and has been developed specifically for the Norwegian market. In addition to the G.3 Extra Strong varieties, four new varieties have recently been added to the product family.





## Snus and moist snuff

### Second quarter highlights:

- Swedish Match's market share in Sweden grew sequentially from the first quarter
- The share of the value segment of the Swedish market has remained stable during the second quarter
- Sales and operating profit grew in the US for both moist snuff and Swedish snus

### Key data

MSEK	April-June			January-June			Full year
	2015	2014	Chg %	2015	2014	Chg %	2014
Sales	1,271	1,267	0	2,461	2,421	2	5,001
Operating profit	514	562	-9	970	1,067	-9	2,207
Operating margin, %	40.5	44.4		39.4	44.1		44.1
EBITDA	559	604	-7	1,059	1,150	-8	2,380
EBITDA margin, %	44.0	47.6		43.0	47.5		47.6

### The second quarter

(Note: Comments below refer to the comparison between the second quarter 2015 vs. the second quarter prior year).

Sales for Snus and moist snuff were flat and were positively impacted by a stronger US dollar versus the Swedish krona. Sales in Scandinavia were negatively impacted by the timing of Easter which positively affected sales for the first quarter. Operating profit declined by 9 percent to 514 MSEK (562). The stronger US dollar versus the Swedish krona had a limited positive impact on operating profit as the Company continued to incur costs for support behind the growth of Swedish snus in the US market. The higher relative share of sales from the US business, along with lower operating margin in Scandinavia affected the operating margin for the product area negatively. The total net operating costs for snus expansion outside Scandinavia amounted to 76 MSEK (72), negatively impacted by the stronger US dollar.

In Scandinavia, shipment volumes measured in number of cans, were down by close to 3 percent. On an underlying basis, adjusted for calendar effects, consumption of Swedish Match's volumes in Scandinavia are estimated to have been up by 1 percent. The Swedish market, measured by number of cans, continued to grow, and Swedish Match estimates the total Scandinavian market to have grown by slightly more than 3 percent in volume terms on an underlying basis. The Norwegian market continued to grow at a faster pace than the Swedish market.

In Sweden, the value segment has grown its share of the total market on a year-on-year basis. However, during the second quarter the value segment's share of the total market has remained stable and comprised approximately 46 percent of the Swedish market in volume terms, which is the same as at the end of the first quarter. Swedish Match's market share in this segment continued to grow and was close to 41 percent at the end of the second quarter. During the second quarter Swedish Match successfully launched an assortment of competitively priced premium products under the innovative XRANGE snus series in Sweden. XRANGE has been very well received by consumers and was an important contributor to Swedish Match's market share development in the quarter. Swedish Match's market share increased sequentially from 68.8 percent in the first quarter to 69.1 percent in the second quarter.

In Norway, while the modern *General G.3*-series product line continued to gain share in the second quarter, Swedish Match's total market share declined both compared to the first quarter and the prior year.

Sales for Swedish Match in Scandinavia decreased, primarily due to the Easter calendar effects and portfolio price/mix effects. Over the course of the past twelve months Swedish Match has taken important steps to strengthen its long term position on the Swedish market. The increased market share within the growing value segment, the price repositioning of the *Kronan* brand in Sweden during 2014 and the recent launch of the *XRANGE* snus series in Sweden are all factors that have contributed to a lower average selling price per can. Reported operating profit and operating margin for snus in Scandinavia declined as a consequence of the lower average net sales price per can and negative volume and absorption effects related to the timing of Easter.

For *General* snus in the US, sales were significantly higher due to higher volumes and better realized pricing. Operating loss in local currency improved, due to both higher gross profit and somewhat reduced marketing spending. Swedish Match estimates that the growth of the US snus category accelerated in the quarter and that Swedish Match continued to gain market share.

For the US moist snuff business, volumes measured in number of can equivalents, continued to grow for pouches and tubs but declined for loose varieties. Total shipment volumes declined by less than 1 percent. Sales and operating profit in US dollars increased from a higher average net selling price. The US moist snuff market continued to grow in volume terms.

### The first six months

(Note: Comments below refer to the comparison between the first six months 2015 vs. the first six months prior year).

Sales for the product area declined by 4 percent in local currencies negatively impacted by trade destocking related to a substantial tax increase on snus in Sweden from January 1, 2015, as well as portfolio price/mix shifts. Operating profit amounted to 970 MSEK (1,067), and included net costs for Swedish snus expansion outside Scandinavia amounting to 162 MSEK (150).

In Scandinavia, shipment volumes declined by 3 percent, with value priced products comprising a larger share of the product portfolio. Swedish Match estimates that its underlying volumes (excluding destocking and calendar effects) on the Scandinavian market increased by somewhat less than 1 percent. Sales in Scandinavia declined more than shipments in percentage terms. Operating profit for snus in Scandinavia declined due to destocking effects and portfolio price/mix effects. In the US, sales revenues in local currency for moist snuff increased on 2 percent higher volumes and a slightly higher average price per can. Operating profit grew in local currency for moist snuff in the US.

### Swedish Match shipment volumes

	2015	April-June 2014	Chg %	2015	January-June 2014	Chg %	Full year 2014
Snus, millions of cans, Scandinavia	58.4	60.0	-3	110.7	113.8	-3	238.1
Moist snuff, millions of cans, US	33.2	33.5	-1	68.7	67.4	2	132.6

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

Percent	2015	April-June 2014	Chg ppts	2015	January-June 2014	Chg ppts	Full year 2014
Snus, Sweden, total	69.1	70.1	-1.0	68.9	70.1	-1.2	69.9
Snus, Sweden, premium	93.5	94.1	-0.6	93.5	94.2	-0.7	94.0
Snus, Sweden, value	40.7	37.5	3.2	40.3	37.4	2.9	38.1
Snus, Norway, total	56.8	60.5	-3.7	57.6	61.1	-3.5	60.1

1) Swedish Match estimates using Nielsen data (excluding tobaccoconists): 13 weeks and YTD to June 28, 2015.

## Other tobacco products (cigars and chewing tobacco)

### Second quarter highlights:

- Higher sales and operating profit in local currency from strong cigar performance
- Cigar volumes at same high level as in the first quarter
- The strong US dollar continued to result in even stronger growth in reported sales and operating profit



### Key data

MSEK	April-June			January-June			Full year 2014
	2015	2014	Chg %	2015	2014	Chg %	
Sales	982	699	41	1,915	1,385	38	2,832
Operating profit	414	279	49	798	546	46	1,109
Operating margin, %	42.2	39.9		41.7	39.4		39.2
EBITDA	429	291	47	828	570	45	1,161
EBITDA margin, %	43.7	41.6		43.2	41.1		41.0

### The second quarter

(Note: Comments below refer to the comparison between the second quarter 2015 vs. the second quarter prior year).

Sales and operating profit for Other tobacco products grew both as reported and in local currency. In local currency, sales increased by 10 percent while operating profit increased by 20 percent. Operating profit was positively affected by the absence of tobacco quota buy-out program fees (approximately 2 MUSD per quarter) which expired on October 1, 2014.

Cigar volumes were up by 9 percent, with shipments of more than 300 million sticks. The US cigar market remained highly competitive but Swedish Match has strengthened its presence within the natural leaf segment and in the value segment. Swedish Match's *Game* and *Jackpot* brands both continued to show strong growth. Higher volumes and an improved mix contributed to growth in both sales and operating profit in local currency. The operating profit and operating profit margin comparison was also positively affected by the absence of the tobacco quota buy-out fees.

Chewing tobacco shipments (excluding contract manufacturing volumes) were strong in the quarter, down by only 3 percent, following a weaker first quarter. Despite the volume decline, sales in US dollars were slightly up due to favorable pricing while operating profit was down due to somewhat increased overhead costs.

### The first six months

(Note: Comments below refer to the comparison between the first six months 2015 vs. the first six months prior year).

In local currency, sales were up by 8 percent, while operating profit was up by 17 percent, attributable to strong performance for US cigars. The operating margin of 41.7 percent was positively impacted by the absence of the tobacco quota buy-out fees of approximately 4 MUSD.

Cigar volumes increased by 7 percent while sales increased at a faster rate due to a somewhat higher average price per cigar related to portfolio mix shifts. Operating profit in local currency was also higher.

For chewing tobacco, sales in local currency were flat as higher pricing compensated for the decline in volumes. Operating profit for chewing tobacco in local currency declined.

### Swedish Match US shipment volumes

	April-June			January-June			Full year 2014
	2015	2014	Chg %	2015	2014	Chg %	
Cigars, millions of sticks	314	289	9	626	588	7	1,125
Chewing tobacco, thousands of pounds (excluding contract manufacturing volume)	2,028	2,099	-3	3,863	4,091	-6	7,856



## Lights (matches, lighters and complementary products)

### Second quarter highlights:

- Another quarter with higher sales and operating profit for matches, driven by pricing and positive currency effects
- Low shipments of lighters for the quarter

### Key data

MSEK	April-June			January-June			Full year
	2015	2014	Chg %	2015	2014	Chg %	2014
Sales	318	299	6	649	614	6	1,295
Operating profit	36	49	-26	93	104	-11	218
Operating margin, %	11.4	16.4		14.3	17.0		16.8
EBITDA	46	57	-20	112	121	-7	252
EBITDA margin, %	14.5	19.2		17.3	19.7		19.5

### The second quarter

(Note: Comments below refer to the comparison between the second quarter 2015 vs. the second quarter prior year).

Sales for Lights increased to 318 MSEK (299), while operating profit declined to 36 MSEK (49). The decline in operating profit stems primarily from weak performance for lighters in Russia, impacting both volumes and profitability. Adjusted for currency translation effects, sales grew by 3 percent while operating profit declined by 29 percent.

Sales and operating profit for lighters were affected negatively by the low shipments, primarily to Russia early in the quarter, as well as by somewhat lower prices in invoiced currency. The low shipments affected the gross profit margin negatively which also had a negative impact on the operating margin for the Lights product area.

Sales and operating profit for matches grew as price increases and positive currency effects compensated for the modest decline in volumes.

Sales from complementary products (mainly branded razors, batteries, high efficiency light bulbs, and tooth picks for the Brazilian market) increased.

### The first six months

(Note: Comments below refer to the comparison between the first six months 2015 vs. the first six months prior year).

Sales for Lights amounted to 649 MSEK (614), and operating profit amounted to 93 MSEK (104). Operating profit was up for matches but declined for lighters. Adjusted for currency translation effects, sales were flat, while operating profit for the product area declined by 18 percent. Low deliveries of lighters to Eastern Europe have been the main factor in the decline in both operating profit and operating margin for the Lights product area.

### Swedish Match shipment volumes, worldwide

	April-June			January-June			Full year
	2015	2014	Chg %	2015	2014	Chg %	2014
Matches, billion sticks	19.0	19.7	-4	39.3	40.5	-3	81.5
Lighters, million units	88.1	101.5	-13	188.7	220.1	-14	422.5

## Other operations

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

### The second quarter

Sales in Other operations for the second quarter amounted to 1,073 MSEK (1,074). Operating loss for Other operations was 28 MSEK (28).

### The first six months

Sales for the first six months amounted to 1,986 MSEK (1,932). Operating loss for the first six months was 58 MSEK (46).

## Scandinavian Tobacco Group

Swedish Match owns 49 percent of Scandinavian Tobacco Group (STG), the world's largest manufacturer of cigars and pipe tobacco. Please see Note 3 for a summary of the STG consolidated income statement.

### The second quarter

*(Note: Comments below refer to the comparison between the second quarter 2015 vs. the second quarter prior year). The useful lives of certain intangible and tangible assets were reassessed by STG's management in the financials for 2014. The comments on STG's performance below refer to the results of STG including the positive effect of the above-mentioned reassessment in the 2014 comparable figures. Please see Note 3 for more information).*

#### STG performance

Sales for STG increased by 14 percent to 1,748 MDKK (1,535). Adjusted for currency translation effects and the acquisition of Verellen, a Belgian cigar producer, effective as of September 1, 2014, sales were also higher. Sales were affected by positive development within handmade cigars and pipe tobacco. Reported EBITDA for the period increased to 376 MDKK (286). The increase in EBITDA reflected the underlying revenue growth, positive impact from the Verellen acquisition, production efficiencies, as well as positive currency effects.

Sales for machine made cigars increased in local currencies on higher volumes with contribution from Verellen. Gross profit from machine made cigars was also up driven by lower production costs.

For handmade cigars, both sales and gross profit were up in local currencies, reflecting strong volume development coupled with positive mix effects.

For both the fine cut and the pipe tobacco business, positive country mix contributed to increased sales and gross profit.

Operating expenses during the quarter increased primarily as a result of currency translation effects and the acquisition of Verellen.

Net financial costs for the quarter increased to 32 MDKK (11) reflecting exchange losses due to currency fluctuation between the quarters.

Net profit for the quarter amounted to 206 MDKK (163).

#### Swedish Match's share of net profit in STG

Swedish Match's reported share of net profit in STG amounted to 126 MSEK (78). Including the positive effect of the reassessment of useful lives in the 2014 comparable figures, Swedish Match's share of net profit would have increased from 92 MSEK in 2014 to 126 MSEK in 2015.

### The first six months

*(Note: Comments below refer to the comparison between the first six months 2015 vs. the first six months prior year. The useful lives of certain intangible and tangible assets were reassessed by STG's management in the financials for 2014. The comments on STG's performance below refer to the results of STG including the positive effect of the above-mentioned reassessment in the 2014 comparable figures. Please see Note 3 for more information).*

#### STG performance

Sales for STG increased by 13 percent to 3,225 MDKK (2,847). Adjusted for currency translation effects and the acquisition of Verellen, sales were also up reflecting strong performance in handmade cigars. Both

reported and underlying EBITDA improved driven by higher sales, improved production efficiency as well as contribution from Verellen with realized synergies according to plan.

Both sales and gross profit for machine made cigars in local currencies benefitted from the acquisition of Verellen and the gross margin was positively impacted by lower production costs.

For handmade cigars, both sales and gross profit in local currencies were up driven by strong volume development.

For the fine cut tobacco business, sales were flat while gross profit was up driven by lower production costs.

Sales for the pipe tobacco business in local currencies increased as a positive country mix more than compensated for lower volumes. Gross profit was also up.

Operating expenses increased largely as a result of currency translation effects and the acquisition of Verellen.

Net financial costs for the first six months decreased to 28 MDKK (36) positively impacted by exchange gains on the strengthening of the US dollar.

Net profit for the period amounted to 354 MDKK (262).

#### *Swedish Match's share of net profit in STG*

Swedish Match's reported share of net profit in STG amounted to 274 MSEK (127), which included a positive adjustment of 56 MSEK relating to the reassessment of useful lives primarily for trademarks. If the positive effect of the reassessment of useful lives had been included in the 2014 comparable figures, Swedish Match share of net profit would have increased from 154 MSEK in 2014 to 217 MSEK in 2015.

On March 25, 2015, Swedish Match received a dividend from STG of 261 MSEK (223).

## **Taxes**

For the first half of the year the reported tax expense amounted to 379 MSEK (316), corresponding to a reported tax rate of 21.0 percent (20.4). The reported tax rate, excluding associated companies and joint ventures, was 24.5 percent (22.0). The tax rate in 2015 has been affected by the stronger US dollar and earnings growth in the US which has resulted in a higher proportion of income being taxed at the higher relative US corporate tax rate. The earnings from associated companies and joint ventures are reported net after tax, and relate mainly to the share of earnings from STG.

## **Earnings per share**

Basic and diluted earnings per share (EPS) for the second quarter increased to 3.62 SEK (3.27). Basic and diluted EPS, adjusted for a larger one-time item, increased to 3.79 SEK (3.27).

Basic EPS for the first six months increased to 7.31 SEK (6.18) and diluted EPS increased to 7.30 SEK (6.18). Basic EPS, adjusted for a larger one-time item and the effect of the reassessment of useful lives for STG, increased to 7.19 SEK (6.18), while diluted EPS, similarly adjusted, increased to 7.18 SEK (6.18).

## **Financing and cash flow**

Cash flow from operating activities for the first six months amounted to 1,741 MSEK (1,921). The cash flow from operations decreased compared to the prior year mainly as a result of lower cash flow from changes in working capital, primarily relating to timing effects.

Investments in property, plant and equipment during the first six months amounted to 139 MSEK (134). Net cash used in investing activities amounted to 155 MSEK (158).

Net finance cost for the first six months declined to 230 MSEK (251), mainly due to decreased average debt compared to the same period of the prior year.

The net debt as of June 30, 2015 amounted to 8,412 MSEK compared to 8,126 MSEK at December 31, 2014.

During the first six months new bond loans of 498 MSEK were issued. Repayments of bond loans for the same period amounted to 139 MSEK. As of June 30, 2015 Swedish Match had 9,063 MSEK of interest

bearing debt excluding retirement benefit obligations compared to 8,703 MSEK at December 31, 2014. During the remainder of 2015, 1,000 MSEK of this debt falls due for payment.

As of June 30, 2015, Swedish Match had 1,500 MSEK in unutilized committed credit lines. Cash and cash equivalents amounted to 2,343 MSEK at the end of the period, compared to 2,312 MSEK at December 31, 2014.

In the first half of the year, Swedish Match paid a dividend totaling 1,464 MSEK and made share repurchases of 659 MSEK. During the same period the Company sold treasury shares of 141 MSEK as a result of option holders exercising options.

### **Number of shares**

During the first six months, Swedish Match repurchased 2.6 million shares for 659 MSEK at an average price of 253.26 SEK, following authorization from the Annual General Meetings held in 2014 and 2015. Total shares bought back by Swedish Match since the buyback program started have been repurchased at an average price of 110.11 SEK.

During the first quarter, the Company sold 0.7 million treasury shares at an average price of 197.45 SEK, totaling 141 MSEK, as a result of option holders exercising options. During the first quarter, all remaining options issued by Swedish Match, as part of its former option program, have been exercised and no further options are outstanding.

In accordance with the resolution at the Annual General Meeting on April 23, 2015, Swedish Match has cancelled 4 million repurchased treasury shares. The total number of outstanding shares in the Company, including treasury shares, after the cancellation amount to 196.5 million.

As per June 30, 2015 Swedish Match held 2.7 million shares, corresponding to 1.38 percent of the total number of shares. The number of shares outstanding, net, as per June 30, 2015, amounted to 193.8 million.

### **Other events and events after the reporting period**

SMD Logistics AB, a subsidiary of Swedish Match AB, has on April 27, 2015 reached an agreement to sell its distribution facility in Solna, Sweden, and at the same time reached an agreement to acquire a new distribution center located in Upplands-Bro, Sweden. The agreements form part of a strategic decision to modernize the distribution business to better accommodate current and future demands from customers and suppliers. The new facility will provide several improvements including a strategic geographical location and an increased cold-storage capacity.

The new distribution center, which is being developed, is planned to be taken into operation during the first quarter of 2016. At the same time, SMD Logistics AB's current distribution center in Hisings Backa will be consolidated into the new distribution center. The sale of the distribution center in Solna is planned to be closed at the end of the first quarter 2016 for approximately 150 MSEK at which time a capital gain estimated to be in excess of 140 MSEK will be recognized. The plan is to also divest the Hisings Backa distribution facility in the future. The investment in the new distribution center is estimated at approximately 150 MSEK and is expected to be paid in the fourth quarter of 2015. Restructuring costs of 42 MSEK related to the relocation project were recognized as a larger one-time item during the second quarter.

On July 16, it was announced that Swedish Match and Philip Morris International (PMI) have mutually agreed to dissolve the joint venture SMPM International. Swedish Match and PMI will now focus on independent strategies for the commercialization of snus in the former joint venture territory. Trademark licenses will revert to the original owners, and separate transitional agreements have been signed whereby Swedish Match will supply snus products to PMI for certain markets and PMI will perform distribution services on behalf of Swedish Match in Canada and in Russia.

## Outlook

Swedish Match generates a substantial share of its sales and operating profit in the US. Based on current exchange rates and particularly the stronger US dollar, currency translation effects on sales and operating profit in 2015 are expected to be positive.

From the second half of 2014 we noted a slowdown in market growth for snus in Scandinavia. For 2015 we expect Scandinavian snus consumption to continue to grow as measured in number of cans, although at a somewhat slower pace than in 2014. Shipment volumes in Scandinavia during 2015 are negatively affected by destocking following the 2014 year-end trade hoarding. In Sweden as well as in the US moist snuff market, we expect value priced products to grow faster than the overall market. In the US moist snuff market, Swedish Match's product portfolio is exclusively positioned in the value segment. In Sweden, Swedish Match competes in all price segments of the market with a particularly strong position in the premium segment. The expected faster growth of value priced products in Sweden, the price repositioning of the *Kronan* snus brand and the absence of price increases in 2014 are likely to imply negative mix effects.

During the year we will continue to invest in growth for snus internationally, particularly in the US. In Sweden and Norway, we will work hard to defend our market share.

For cigars in the US, Swedish Match expects the market to remain highly competitive during 2015. The US Food and Drug Administration (FDA) is expected to begin regulating cigars and in conjunction with this Swedish Match, like the rest of the cigar industry, will be subject to user fees to the FDA.

Due to the relatively high corporate income tax rate in the US, the strengthening of the US dollar is likely to put upward pressure on the effective corporate tax rate of the Group in 2015 compared to 2014.

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

## Risk factors

Swedish Match faces intense competition in all of its markets and for each of its products and such competition may increase in the future. In order to be successful the Group must develop products and brands that resonate with changing consumer trends, and price and promote its brands competitively. Restrictions on advertising and promotion may, however, make it more difficult to counteract loss of consumer loyalty. Competitors may develop and promote new products which could be successful, and could thereby have an adverse effect on Swedish Match results of operations.

Swedish Match has a substantial part of its production and sales in the US and also operations in Brazil, the Dominican Republic, Norway and EMU member countries. Consequently, changes in exchange rates of the euro, Norwegian krona, 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 and fiscal changes related to tobacco and other taxes, as well as to the marketing, sale and consumption of tobacco products, in the countries where the Group is operating may have an adverse effect on Swedish Match results of operations.

For a further description of risk factors affecting Swedish Match, see the Report of the Board of Directors in the published Swedish Match annual report for 2014.

## Swedish Match AB (publ)

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

Sales in the Parent Company for the first six months amounted to 18 MSEK (22). Profit before income tax amounted to 184 MSEK (loss 86) and net profit for the first six months amounted to 292 MSEK (41). The higher net profit for the first six months of 2015 mainly pertains to lower interest expenses due to lower average interest bearing debts and timing differences in dividends from subsidiaries compared to previous year.

Dividends of 687 MSEK (498) have been received during the period.

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

During the first six months repayments of bond loans amounted to 139 MSEK and new bond loans of 498 MSEK were issued. During the period, the Parent Company made share repurchases of 2.6 million (0.3) shares for 659 MSEK (68) and sold 0.7 million (0.4) treasury shares for 141 MSEK (53).

Capital expenditures on tangible assets for the period amounted to 2 MSEK (0). No capital expenditures on intangible assets have been recognized during the first six months of 2015 or 2014.

A dividend of 1,464 MSEK (1,453) has been paid during the period.

### Forward-looking information

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

### Additional information

This report has not been reviewed by the Company's auditors. The January-September 2015 report will be released on November 4, 2015.

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

Stockholm, July 17, 2015

Conny Karlsson  
Chairman of the Board

Andrew Cripps  
Deputy Chairman

Charles A. Blixt  
Board member

Kenneth Ek  
Board member

Patrik Engelbrektsson  
Board member

Jacqueline Hoogerbrugge  
Board member

Eva Larsson  
Board member

Wenche Rolfsen  
Board member

Meg Tivéus  
Board member

Joakim Westh  
Board member

Lars Dahlgren  
President and CEO

## Financial statements

### Sales by product area

MSEK	April-June			January-June			Full year 2014
	2015	2014	Chg %	2015	2014	Chg %	
Snus and moist snuff	1,271	1,267	0	2,461	2,421	2	5,001
Other tobacco products	982	699	41	1,915	1,385	38	2,832
Lights	318	299	6	649	614	6	1,295
Other operations	1,073	1,074	0	1,986	1,932	3	4,178
<b>Sales</b>	<b>3,644</b>	<b>3,339</b>	<b>9</b>	<b>7,011</b>	<b>6,353</b>	<b>10</b>	<b>13,305</b>

### Operating profit by product area

MSEK	April-June			January-June			Full year 2014
	2015	2014	Chg %	2015	2014	Chg %	
Snus and moist snuff	514	562	-9	970	1,067	-9	2,207
Other tobacco products	414	279	49	798	546	46	1,109
Lights	36	49	-26	93	104	-11	218
Other operations	-28	-28		-58	-46		-88
<b>Operating profit from product areas</b>	<b>937</b>	<b>862</b>	<b>9</b>	<b>1,803</b>	<b>1,672</b>	<b>8</b>	<b>3,446</b>
Share of net profit in STG <sup>1)</sup>	126	78	61	274	127	116	334
<b>Subtotal</b>	<b>1,063</b>	<b>941</b>	<b>13</b>	<b>2,077</b>	<b>1,798</b>	<b>15</b>	<b>3,780</b>
Relocation of distribution facilities	-42	-		-42	-		-
<b>Total larger one-time items</b>	<b>-42</b>	<b>-</b>		<b>-42</b>	<b>-</b>		<b>-</b>
<b>Operating profit</b>	<b>1,021</b>	<b>941</b>	<b>9</b>	<b>2,035</b>	<b>1,798</b>	<b>13</b>	<b>3,780</b>
Net finance cost	-115	-125		-230	-251		-510
<b>Profit before income tax</b>	<b>906</b>	<b>816</b>	<b>11</b>	<b>1,805</b>	<b>1,547</b>	<b>17</b>	<b>3,270</b>

1) Swedish Match's share of net profit in STG for the first half of 2015 includes an adjustment of 56 MSEK relating to 2014 due to a reassessment of useful lives of certain intangible and tangible assets. See Note 3.

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

Percent	April-June		January-June		Full year 2014
	2015	2014	2015	2014	
Snus and moist snuff	40.5	44.4	39.4	44.1	44.1
Other tobacco products	42.2	39.9	41.7	39.4	39.2
Lights	11.4	16.4	14.3	17.0	16.8
<b>Operating margin from product areas<sup>2)</sup></b>	<b>25.7</b>	<b>25.8</b>	<b>25.7</b>	<b>26.3</b>	<b>25.9</b>
<b>Operating margin<sup>3)</sup></b>	<b>29.2</b>	<b>28.2</b>	<b>29.6</b>	<b>28.3</b>	<b>28.4</b>

1) Excluding larger one-time items.

2) Excluding share of net profit in STG.

3) Including share of net profit in STG.

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

MSEK	April-June			January-June			Full year 2014
	2015	2014	Chg %	2015	2014	Chg %	
Snus and moist snuff	559	604	-7	1,059	1,150	-8	2,380
Other tobacco products	429	291	47	828	570	45	1,161
Lights	46	57	-20	112	121	-7	252
Other operations	-17	-17		-36	-25		-45
<b>EBITDA from product areas</b>	<b>1,017</b>	<b>935</b>	<b>9</b>	<b>1,963</b>	<b>1,816</b>	<b>8</b>	<b>3,749</b>
Share of net profit in STG <sup>2)</sup>	126	78	61	274	127	116	334
<b>EBITDA</b>	<b>1,143</b>	<b>1,013</b>	<b>13</b>	<b>2,236</b>	<b>1,942</b>	<b>15</b>	<b>4,083</b>

1) Excluding larger one-time items.

2) Swedish Match's share of net profit in STG for the first half of 2015 includes an adjustment of 56 MSEK relating to 2014 due to a reassessment of useful lives of certain intangible and tangible assets. See Note 3.

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

Percent	April-June		January-June		Full year 2014
	2015	2014	2015	2014	
Snus and moist snuff	44.0	47.6	43.0	47.5	47.6
Other tobacco products	43.7	41.6	43.2	41.1	41.0
Lights	14.5	19.2	17.3	19.7	19.5
<b>EBITDA margin from product areas<sup>2)</sup></b>	<b>27.9</b>	<b>28.0</b>	<b>28.0</b>	<b>28.6</b>	<b>28.2</b>
<b>EBITDA margin<sup>3)</sup></b>	<b>31.4</b>	<b>30.3</b>	<b>31.9</b>	<b>30.6</b>	<b>30.7</b>

1) Excluding larger one-time items.

2) Excluding share of net profit in STG.

3) Including share of net profit in STG.

### Key ratios

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

	2015	January-June 2014	12 months ended	Full year 2014
			June 30, 2015	
Operating margin, %	29.6	28.3	29.1	28.4
Operating capital, MSEK	8,519	7,596	8,519	8,314
Return on operating capital, %			50.4	47.1
EBITDA, MSEK <sup>1)</sup>	2,236	1,942	4,376	4,083
EBITA, MSEK <sup>2)</sup>	2,099	1,819	4,100	3,821
Net debt, MSEK	8,412	8,214	8,412	8,126
Investments in property, plant and equipment, MSEK <sup>3)</sup>	139	134	229	223
EBITA interest cover	9.2	7.3	8.5	7.6
<i>Excluding share of net profit in STG</i>				
EBITA, MSEK <sup>2)</sup>	1,825	1,692	3,620	3,487
Net debt/EBITA <sup>2)</sup>			2.3	2.3
<i>Share data</i>				
Number of shares outstanding at end of period	193,788,416	199,088,729	193,788,416	195,677,067
Average number of shares outstanding, basic	195,224,450	199,105,020	196,535,539	198,475,824
Average number of shares outstanding, diluted	195,269,242	199,194,773	196,626,013	198,583,328

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

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

3) Including investments in forest plantations of 9 MSEK (9).

**Consolidated income statement in summary**

MSEK

	April-June			January-June			12 months ended		Full year	
	2015	2014	Chg %	2015	2014	Chg %	June 30, 2015	2014	Chg %	
Sales, including tobacco tax	6,907	6,603		13,097	12,300		26,705	25,908		
Less tobacco tax	-3,263	-3,264		-6,086	-5,947		-12,741	-12,603		
<b>Sales</b>	<b>3,644</b>	<b>3,339</b>	<b>9</b>	<b>7,011</b>	<b>6,353</b>	<b>10</b>	<b>13,964</b>	<b>13,305</b>	<b>5</b>	
Cost of goods sold	-1,929	-1,784		-3,681	-3,345		-7,444	-7,109		
<b>Gross profit</b>	<b>1,715</b>	<b>1,555</b>	<b>10</b>	<b>3,330</b>	<b>3,007</b>	<b>11</b>	<b>6,520</b>	<b>6,197</b>	<b>5</b>	
Selling and admin. expenses	-771	-681		-1,512	-1,318		-2,897	-2,703		
Share of profit/loss in associated companies and joint ventures <sup>1)</sup>	119	67		259	109		435	285		
Relocation of distribution facilities	-42	-		-42	-		-42	-		
<b>Operating profit<sup>1)</sup></b>	<b>1,021</b>	<b>941</b>	<b>9</b>	<b>2,035</b>	<b>1,798</b>	<b>13</b>	<b>4,016</b>	<b>3,780</b>	<b>6</b>	
Finance income	4	8		8	16		20	27		
Finance costs	-119	-133		-238	-267		-508	-537		
Net finance cost	-115	-125		-230	-251		-488	-510		
<b>Profit before income tax</b>	<b>906</b>	<b>816</b>	<b>11</b>	<b>1,805</b>	<b>1,547</b>	<b>17</b>	<b>3,528</b>	<b>3,270</b>	<b>8</b>	
Income tax expense	-200	-165		-379	-316		-707	-644		
<b>Profit for the period<sup>1)</sup></b>	<b>705</b>	<b>651</b>	<b>8</b>	<b>1,426</b>	<b>1,231</b>	<b>16</b>	<b>2,821</b>	<b>2,626</b>	<b>7</b>	
<i>Attributable to:</i>										
Equity holders of the Parent	705	651		1,426	1,231		2,821	2,625		
Non-controlling interests	0	0		0	0		0	0		
<b>Profit for the period<sup>1)</sup></b>	<b>705</b>	<b>651</b>	<b>8</b>	<b>1,426</b>	<b>1,231</b>	<b>16</b>	<b>2,821</b>	<b>2,626</b>	<b>7</b>	
Earnings per share, basic, SEK	3.62	3.27		7.31	6.18		14.35	13.23		
Earnings per share, adjusted, basic, SEK <sup>2)</sup>	3.79	3.27		7.19	6.18		14.23	13.23		
Earnings per share, diluted, SEK	3.62	3.27		7.30	6.18		14.35	13.22		
Earnings per share, adjusted, diluted, SEK <sup>2)</sup>	3.79	3.27		7.18	6.18		14.23	13.22		

1) Swedish Match's share of net profit in STG for the first half of 2015 includes an adjustment of 56 MSEK relating to 2014 due to a reassessment of useful lives of certain intangible and tangible assets. See Note 3.

2) Adjusted for a larger one-time item in the second quarter 2015 (negative 42 MSEK before tax) and also for the above-mentioned STG adjustment for the first six months 2015.

## Consolidated statement of comprehensive income

MSEK	April-June		January-June		12 months	Full year
	2015	2014	2015	2014	ended June 30, 2015	2014
<b>Profit for the period</b>	<b>705</b>	<b>651</b>	<b>1,426</b>	<b>1,231</b>	<b>2,821</b>	<b>2,626</b>
<i>Other comprehensive income that may be reclassified to the income statement</i>						
Translation differences related to foreign operations	-185	234	-107	256	369	732
Translation differences included in profit and loss	44	-	44	-	44	-
Effective portion of changes in fair value of cash flow hedges	41	18	41	-15	-2	-57
Share of other comprehensive income in associated companies and joint ventures	-136	8	293	19	596	322
Income tax relating to reclassifiable components of other comprehensive income	-9	-4	-9	3	0	13
<b>Subtotal, net of tax for the period</b>	<b>-246</b>	<b>256</b>	<b>263</b>	<b>264</b>	<b>1,008</b>	<b>1,009</b>
<i>Other comprehensive income that will not be reclassified to the income statement</i>						
Actuarial gains/losses attributable to pensions, incl. payroll tax	316	-7	220	-87	-102	-410
Share of other comprehensive income in associated companies and joint ventures	-	-	-	0	-25	-25
Income tax relating to non-reclassifiable components of other comprehensive income	-112	3	-87	35	32	154
<b>Subtotal, net of tax for the period</b>	<b>204</b>	<b>-4</b>	<b>133</b>	<b>-52</b>	<b>-96</b>	<b>-281</b>
<b>Total comprehensive income for the period</b>	<b>664</b>	<b>903</b>	<b>1,822</b>	<b>1,442</b>	<b>3,733</b>	<b>3,353</b>
<i>Attributable to:</i>						
Equity holders of the Parent	664	903	1,823	1,442	3,733	3,353
Non-controlling interests	0	0	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>664</b>	<b>903</b>	<b>1,822</b>	<b>1,442</b>	<b>3,733</b>	<b>3,353</b>

## Consolidated balance sheet in summary

MSEK	June 30, 2015	December 31, 2014
Intangible assets	1,050	1,030
Property, plant and equipment	2,073	2,074
Investments in associated companies and joint ventures	5,350	5,233
Other non-current financial receivables <sup>1)</sup>	1,685	1,669
Current operating assets	3,257	4,255
Cash and cash equivalents	2,343	2,312
<b>Total assets</b>	<b>15,759</b>	<b>16,573</b>
Equity attributable to equity holders of the Parent	118	277
Non-controlling interests	1	1
<b>Total equity</b>	<b>119</b>	<b>279</b>
Non-current provisions	1,129	1,081
Non-current loans	8,042	7,803
Other non-current financial liabilities <sup>2)</sup>	2,036	2,063
Current provisions	145	98
Current loans	1,256	1,141
Other current liabilities	3,032	4,109
<b>Total equity and liabilities</b>	<b>15,759</b>	<b>16,573</b>

1) Includes pension assets of 100 MSEK (81) and currency component of derivatives of 327 MSEK (305) used to hedge the Parent Company's bond loans denominated in currencies other than Swedish kronor.

2) Includes pension liabilities of 1,792 MSEK (1,815) and currency component of derivatives of 92 MSEK (65) used to hedge the Parent Company's bond loans denominated in currencies other than Swedish kronor.

## Consolidated cash flow statement in summary

MSEK

January-June  
2014

	2015	2014
<i>Operating activities</i>		
<b>Profit before income taxes</b>	<b>1,805</b>	<b>1,547</b>
Share of profit/loss in associated companies and joint ventures	-259	-109
Dividend received from associated companies	264	228
Other non-cash items and other	333	242
Income tax paid	-299	-252
<b>Cash flow from operating activities before changes in working capital</b>	<b>1,844</b>	<b>1,655</b>
Cash flow from changes in working capital	-103	266
<b>Net cash from operating activities</b>	<b>1,741</b>	<b>1,921</b>
<i>Investing activities</i>		
Purchase of property, plant and equipment	-139	-134
Proceeds from sale of property, plant and equipment	1	0
Purchase of intangible assets	-7	0
Investments in associated companies and joint ventures <sup>1)</sup>	-10	-25
Changes in financial receivables etc.	0	0
<b>Net cash used in investing activities</b>	<b>-155</b>	<b>-158</b>
<i>Financing activities</i>		
Changes in loans	360	-484
Dividend paid to equity holders of the Parent	-1,464	-1,453
Repurchase of own shares	-659	-68
Stock options exercised	141	53
Other	-21	-1
<b>Net cash used in financing activities</b>	<b>-1,644</b>	<b>-1,953</b>
<b>Net decrease in cash and cash equivalents</b>	<b>-57</b>	<b>-190</b>
Cash and cash equivalents at the beginning of the period	2,312	3,164
Effect of exchange rate fluctuations on cash and cash equivalents	89	48
<b>Cash and cash equivalents at the end of the period</b>	<b>2,343</b>	<b>3,022</b>

1) Investments in associated companies and joint ventures pertain to additional investments in SMPM International of 10 MSEK in 2015 and 20 MSEK in 2014. Additional investments in Road Cargo of 5 MSEK have been made in 2014.

## Change in shareholders' equity

MSEK

	Equity attributable to holders of the Parent	Non-controlling interests	Total equity
<b>Equity at January 1, 2014</b>	<b>-786</b>	<b>1</b>	<b>-785</b>
Profit for the period	1,231	0	1,231
Other comprehensive income, net of tax for the period	211	0	211
<b>Total comprehensive income for the period</b>	<b>1,442</b>	<b>0</b>	<b>1,442</b>
Dividend	-1,453	-	-1,453
Repurchase of own shares	-68	-	-68
Stock options exercised	53	-	53
Cancellation of shares	-3	-	-3
Bonus issue	3	-	3
<b>Equity at June 30, 2014</b>	<b>-812</b>	<b>1</b>	<b>-811</b>
<b>Equity at January 1, 2015</b>	<b>277</b>	<b>1</b>	<b>279</b>
Profit for the period	1,426	0	1,426
Other comprehensive income, net of tax for the period	396	0	396
<b>Total comprehensive income for the period</b>	<b>1,823</b>	<b>0</b>	<b>1,822</b>
Dividend	-1,464	-	-1,464
Repurchase of own shares	-659	-	-659
Stock options exercised	141	-	141
Cancellation of shares	-8	-	-8
Bonus issue	8	-	8
<b>Equity at June 30, 2015</b>	<b>118</b>	<b>1</b>	<b>119</b>

## Parent Company income statement in summary

MSEK	2015	January-June 2014
Sales	18	22
Administrative expenses	-104	-95
<b>Operating loss</b>	<b>-86</b>	<b>-73</b>
Result from participation in Group companies	687	498
Net finance cost	-416	-511
<b>Profit/Loss before income tax</b>	<b>184</b>	<b>-86</b>
Income tax	108	127
<b>Profit for the period</b>	<b>292</b>	<b>41</b>

## Parent Company statement of comprehensive income

MSEK	2015	January-June 2014
<b>Profit for the period</b>	<b>292</b>	<b>41</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	41	-15
Income tax relating to components of other comprehensive income	-9	3
<b>Subtotal, net of tax for the period</b>	<b>32</b>	<b>-11</b>
<b>Total comprehensive income for the period</b>	<b>324</b>	<b>30</b>

## Parent Company balance sheet in summary

MSEK	June 30, 2015	June 30, 2014	December 31, 2014
Intangible and tangible assets	3	1	2
Non-current financial assets <sup>1)</sup>	51,347	51,113	51,311
Current assets <sup>1)</sup>	230	222	1,977
<b>Total assets</b>	<b>51,580</b>	<b>51,335</b>	<b>53,290</b>
<b>Equity</b>	<b>19,188</b>	<b>20,753</b>	<b>20,846</b>
<b>Untaxed reserves</b>	<b>415</b>	<b>290</b>	<b>415</b>
Provisions <sup>1)</sup>	53	19	35
Non-current liabilities	26,386	26,902	26,137
Current liabilities	5,537	3,371	5,855
<b>Total liabilities</b>	<b>31,976</b>	<b>30,292</b>	<b>32,027</b>
<b>Total equity and liabilities</b>	<b>51,580</b>	<b>51,335</b>	<b>53,290</b>

1) Balances as of June 2014 related to endowment insurance policies pledged as securities for pension obligations of 45 MSEK have been reclassified and netted against the pension obligations in operating provisions in accordance with IAS 19.

### Note 1 – Accounting principles

This report for the Group is prepared in accordance with the Accounting Standard IAS 34 Interim Financial Reporting and applicable rules in the Annual Accounts Act. The report for the Parent Company for the same period is prepared in accordance with the Annual Accounts Act, Chapter 9 and RFR 2.

The new amendments and interpretations to existing standards applicable as of January 1, 2015; *IFRIC 21*, *Levies*, and annual improvements to *IFRS 3*, *IFRS 13*, and *IAS 40* have not had a material effect on the Group's financial result or position.

The accounting principles and basis of calculation in this report are the same as in the annual report for 2014, except as mentioned above.

### Note 2 – Related parties transactions

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

In the normal course of business, Swedish Match conducts various transactions with associated companies and joint ventures. Transactions are conducted at an arms-length basis. At the end of the first half 2015,

receivables from these companies amounted to 39 MSEK (24) and total payables to these companies amounted to 11 MSEK (9). During the first six months 2015, total sales to associated companies and joint ventures amounted to 100 MSEK (65) and total purchases from associated companies and joint ventures amounted to 48 MSEK (56).

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

### Note 3 – Scandinavian Tobacco Group

#### Summary of STG net profit

<i>MDKK</i>	2015	January-June 2014	Chg %	Full year 2014
<b>Net profit for the period</b>	<b>354</b>	<b>207</b>	<b>71</b>	<b>550</b>
<i>MSEK</i>				
<b>Swedish Match's share of net profit</b>	<b>217</b>	<b>122</b>	<b>78</b>	<b>329</b>
Change in estimate of useful lives	56	-		-
Adjustment to estimate vs. actual	-	5		5
<b>Swedish Match's reported share of net profit</b>	<b>274</b>	<b>127</b>	<b>116</b>	<b>334</b>

The STG result, and consequently the Swedish Match reported share of the net result in STG, may for some reporting periods be partly based on estimates due to differences in reporting time schedules. Any differences between such estimates and the actual result of STG for the period are adjusted in the following reporting period.

The useful lives of certain intangible and tangible assets were reassessed by STG's management in the financials for 2014. The net profit from STG recognized in Swedish Match's interim reports for 2014 and the annual report for 2014 were based on the 2013 assessment of useful lives. The reassessment led to a decrease in the amortization and depreciation costs on longer useful lives of approximately 127 MDKK and an increase in net profit of approximately 94 MDKK for the full year 2014, the majority of the effect relating to the reassessed useful lives of trademarks. The effect on Swedish Match share of net profit in STG, relating to 2014, amounted to 56 MSEK and was recognized in Swedish Match's financial statements for the first quarter 2015. See adjusted financial statement for 2014 in the table below.

#### Summary of STG consolidated income statement, adjusted<sup>1)</sup>

<i>MDKK</i>	2015	January-June 2014	Chg %	Full year 2014
Sales	3,225	2,847	13	6,126
Gross profit	1,587	1,353	17	2,947
Operating expenses <sup>2)</sup>	-1,089	-974		-2,033
Operating profit <sup>2)</sup>	497	379	31	914
Net finance income/cost	-28	-36		-68
Income tax expense <sup>2)</sup>	-115	-90		-206
<b>Net profit for the period<sup>2)</sup></b>	<b>354</b>	<b>253</b>	<b>40</b>	<b>640</b>
<b>EBITDA</b>	<b>638</b>	<b>507</b>	<b>26</b>	<b>1,183</b>
<i>MSEK</i>				
<b>Swedish Match's share of adjusted net profit</b>	<b>217</b>	<b>149</b>	<b>46</b>	<b>383</b>
Adjustment to estimate vs. actual	-	5		5
<b>Swedish Match's adjusted reported share of net profit</b>	<b>217</b>	<b>154</b>	<b>41</b>	<b>388</b>

1) The consolidated income statement of STG with the effect of the reassessment of useful lives included on comparable basis in both 2014 and 2015. Note that the 2014 summary of STG consolidated income statement presented in the Swedish Match 2014 interim and full year reports did not include the reassessment of the useful lives.

2) The operating expenses in 2014 (January-June) are adjusted by 64 MDKK and the income tax expense by 17 MDKK due to the lower amortization and depreciation.

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

The following table shows carrying value and fair value for financial instruments per June 30, 2015.

##### Carrying value and fair value

<i>MSEK</i>	Items carried at fair value via the income statement	Loans and receivables	Other financial liabilities	Cash flow hedges	Total carrying value	Fair value
Trade receivables	-	1,383	-	-	1,383	1,383
Non-current receivables	-	-	-	351	351	351
Other receivables	5	-	-	-	5	5
Cash and cash equivalents	-	2,343	-	-	2,343	2,343
<b>Total assets</b>	<b>5</b>	<b>3,726</b>	<b>-</b>	<b>351</b>	<b>4,082</b>	<b>4,082</b>
Loans and borrowings	-	-	9,298	-	9,298	9,887
Other liabilities	-	-	-	245	245	245
Trade payables	-	-	604	-	604	604
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>9,902</b>	<b>245</b>	<b>10,147</b>	<b>10,736</b>

All items valued at fair value in the balance sheet are considered to be included in level 2 within the fair value hierarchy. No transfer in or out of level 2 has been made during the second quarter 2015.

The recognized amounts are regarded as reasonable estimates for all items measured at carrying value in the balance sheet, except for loans and borrowings, since these amounts have a long time to maturity. The fair value of loans and borrowings has been calculated by discounting future cash flow. Total nominal amount of outstanding derivatives (cross currency and interest rate swaps) is 5,472 MSEK, all in cash flow hedges.

#### Quarterly data

##### Consolidated income statement in summary

<i>MSEK</i>	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13
Sales, including tobacco tax	6,907	6,190	6,840	6,768	6,603	5,697	6,284	6,518	6,430
Less tobacco tax	-3,263	-2,822	-3,304	-3,351	-3,264	-2,683	-3,106	-3,288	-3,210
<b>Sales</b>	<b>3,644</b>	<b>3,368</b>	<b>3,536</b>	<b>3,416</b>	<b>3,339</b>	<b>3,014</b>	<b>3,178</b>	<b>3,230</b>	<b>3,220</b>
Cost of goods sold	-1,929	-1,752	-1,910	-1,853	-1,784	-1,561	-1,698	-1,749	-1,673
<b>Gross profit</b>	<b>1,715</b>	<b>1,615</b>	<b>1,627</b>	<b>1,563</b>	<b>1,555</b>	<b>1,452</b>	<b>1,481</b>	<b>1,481</b>	<b>1,546</b>
Selling and administrative expenses	-771	-741	-710	-675	-681	-637	-633	-638	-668
Share of net profit/loss in associated companies and joint ventures	119	140	75	101	67	43	84	81	87
	<b>1,063</b>	<b>1,014</b>	<b>992</b>	<b>989</b>	<b>941</b>	<b>858</b>	<b>932</b>	<b>924</b>	<b>966</b>
<i>Larger one-time items</i>									
Capital gain from sale of land	-	-	-	-	-	-	-	-	2
Relocation of distribution facilities	-42	-	-	-	-	-	-	-	-
<b>Operating profit</b>	<b>1,021</b>	<b>1,014</b>	<b>992</b>	<b>989</b>	<b>941</b>	<b>858</b>	<b>932</b>	<b>924</b>	<b>968</b>
Finance income	4	4	5	7	8	8	9	9	8
Finance costs	-119	-118	-137	-134	-133	-134	-137	-151	-146
Net finance cost	-115	-114	-132	-127	-125	-126	-128	-142	-138
<b>Profit before income tax</b>	<b>906</b>	<b>900</b>	<b>861</b>	<b>862</b>	<b>816</b>	<b>732</b>	<b>804</b>	<b>782</b>	<b>830</b>
Income tax expense	-200	-179	-161	-167	-165	-152	-128	-154	-163
<b>Profit for the period</b>	<b>705</b>	<b>721</b>	<b>700</b>	<b>695</b>	<b>651</b>	<b>580</b>	<b>675</b>	<b>628</b>	<b>667</b>
<i>Attributable to:</i>									
Equity holders of the Parent	705	721	700	695	651	580	675	629	667
Non-controlling interests	0	0	0	0	0	0	0	-1	0
<b>Profit for the period</b>	<b>705</b>	<b>721</b>	<b>700</b>	<b>695</b>	<b>651</b>	<b>580</b>	<b>675</b>	<b>628</b>	<b>667</b>

### Sales by product area

MSEK	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13
Snus and moist snuff	1,271	1,191	1,323	1,257	1,267	1,154	1,247	1,217	1,230
Other tobacco products	982	933	723	724	699	687	590	622	687
Lights	318	331	362	319	299	315	345	332	326
Other operations	1,073	912	1,129	1,117	1,074	858	996	1,058	976
<b>Sales</b>	<b>3,644</b>	<b>3,368</b>	<b>3,536</b>	<b>3,416</b>	<b>3,339</b>	<b>3,014</b>	<b>3,178</b>	<b>3,230</b>	<b>3,220</b>

### Operating profit by product area

MSEK	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13
Snus and moist snuff	514	455	577	562	562	505	562	553	546
Other tobacco products	414	384	288	276	279	267	228	246	295
Lights	36	57	63	51	49	55	63	56	53
Other operations	-28	-29	-27	-15	-28	-18	-18	-19	-22
<b>Operating profit from product areas</b>	<b>937</b>	<b>866</b>	<b>900</b>	<b>874</b>	<b>862</b>	<b>809</b>	<b>835</b>	<b>836</b>	<b>871</b>
Share of net profit in STG <sup>1)</sup>	126	148	92	115	78	49	97	88	95
<b>Subtotal</b>	<b>1,063</b>	<b>1,014</b>	<b>992</b>	<b>989</b>	<b>941</b>	<b>858</b>	<b>932</b>	<b>924</b>	<b>966</b>
Capital gain from sale of land	-	-	-	-	-	-	-	-	2
Relocation of distribution facilities	-42	-	-	-	-	-	-	-	-
<b>Total larger one-time items</b>	<b>-42</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>
<b>Operating profit</b>	<b>1,021</b>	<b>1,014</b>	<b>992</b>	<b>989</b>	<b>941</b>	<b>858</b>	<b>932</b>	<b>924</b>	<b>968</b>

1) Swedish Match's share of net profit in STG for the first quarter of 2015 includes an adjustment of 56 MSEK relating to 2014 due to a reassessment of useful lives of certain intangible and tangible assets. See Note 3.

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

Percent	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13
Snus and moist snuff	40.5	38.2	43.6	44.8	44.4	43.8	45.1	45.4	44.4
Other tobacco products	42.2	41.1	39.8	38.1	39.9	38.8	38.6	39.6	42.9
Lights	11.4	17.1	17.3	16.0	16.4	17.6	18.1	16.8	16.2
<b>Operating margin from product areas<sup>2)</sup></b>	<b>25.7</b>	<b>25.7</b>	<b>25.5</b>	<b>25.6</b>	<b>25.8</b>	<b>26.9</b>	<b>26.3</b>	<b>25.9</b>	<b>27.1</b>
<b>Operating margin<sup>3)</sup></b>	<b>29.2</b>	<b>30.1</b>	<b>28.1</b>	<b>29.0</b>	<b>28.2</b>	<b>28.5</b>	<b>29.3</b>	<b>28.6</b>	<b>30.0</b>

1) Excluding larger one-time items.

2) Excluding share of net profit in STG.

3) Including share of net profit in STG.

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

MSEK	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13
Snus and moist snuff	559	500	623	608	604	546	607	592	584
Other tobacco products	429	399	302	289	291	279	242	259	307
Lights	46	66	72	59	57	64	71	64	61
Other operations	-17	-19	-16	-5	-17	-7	-7	-13	-16
<b>EBITDA from product areas</b>	<b>1,017</b>	<b>946</b>	<b>982</b>	<b>952</b>	<b>935</b>	<b>881</b>	<b>913</b>	<b>902</b>	<b>937</b>
Share of net profit in STG <sup>2)</sup>	126	148	92	115	78	49	97	88	95
<b>EBITDA</b>	<b>1,143</b>	<b>1,093</b>	<b>1,074</b>	<b>1,067</b>	<b>1,013</b>	<b>930</b>	<b>1,009</b>	<b>990</b>	<b>1,031</b>

1) Excluding larger one-time items.

2) Swedish Match's share of net profit in STG for the first quarter of 2015 includes an adjustment of 56 MSEK relating to 2014 due to a reassessment of useful lives of certain intangible and tangible assets. See Note 3.

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

Percent	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13
Snus and moist snuff	44.0	42.0	47.1	48.3	47.6	47.3	48.7	48.6	47.5
Other tobacco products	43.7	42.7	41.8	40.0	41.6	40.6	41.0	41.6	44.7
Lights	14.5	20.0	19.8	18.6	19.2	20.2	20.5	19.3	18.8
<b>EBITDA margin from product areas<sup>2)</sup></b>	<b>27.9</b>	<b>28.1</b>	<b>27.8</b>	<b>27.9</b>	<b>28.0</b>	<b>29.2</b>	<b>28.7</b>	<b>27.9</b>	<b>29.1</b>
<b>EBITDA margin<sup>3)</sup></b>	<b>31.4</b>	<b>32.5</b>	<b>30.4</b>	<b>31.2</b>	<b>30.3</b>	<b>30.8</b>	<b>31.8</b>	<b>30.6</b>	<b>32.0</b>

1) Excluding larger one-time items.

2) Excluding share of net profit in STG.

3) Including share of net profit in STG.

### Depreciation, amortization and write-down

MSEK	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13
Property, plant and equipment	69	68	71	67	62	61	66	59	59
Intangible assets	11	11	10	10	10	10	12	7	7
<b>Total</b>	<b>80</b>	<b>79</b>	<b>81</b>	<b>78</b>	<b>72</b>	<b>72</b>	<b>78</b>	<b>66</b>	<b>66</b>

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The character of the information in this report is such that it shall be disclosed by Swedish Match AB (publ) in accordance with the Swedish Securities Markets Act. The information was disclosed to the media on July 17, 2015 at 08.15 a.m. (CET).

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

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

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