

## Half Year Report JANUARY – JUNE 2016

- Sales increased by 8 percent to 3,920 MSEK (3,644) for the second quarter. In local currencies, sales increased by 10 percent.
- Operating profit from product areas<sup>1)</sup> increased by 8 percent to 1,008 MSEK (937) for the second quarter. In local currencies, operating profit from product areas<sup>1)</sup> increased by 11 percent.
- Growth of sales and operating profit from product areas<sup>1)</sup> was positively affected by calendar effects in Scandinavia (timing of Easter and differences in number of delivery days).
- Operating profit<sup>2)</sup> amounted to 1,061 MSEK (1,021) for the second quarter.
- Earnings per share amounted to 4.01 SEK (3.62) for the second quarter. Adjusted earnings per share<sup>3)</sup> amounted to 4.01 SEK (3.79).
- The outlook has been updated based on the developments during the first six months, but remains broadly the same as the previous outlook for the full year.

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

2) Operating profit for the Group includes larger one-time items and share of net profit in STG. Swedish Match's share of net profit in STG is reported with a one quarter lag. For the second quarter 2016, Swedish Match's reported share of STG's net profit represents 31.1 percent of STG's first quarter 2016 net profit.

3) Adjusted for Swedish Match's larger one-time items in 2015.



## CEO Lars Dahlgren comments:

### Progress across the board in Q2

For Swedish Match the second quarter represented another period of progress with strong demand and improved results. Sales in local currencies grew for all product areas and operating profit increased for all product areas except for Other operations. Our most important product categories have shown strong volume growth over the long term, and the growth continued in the most recent quarter. During the quarter we introduced several innovative products and expanded existing initiatives to drive long-term growth.

The Scandinavian snus market continued to show good growth in the quarter, albeit with some deceleration in the Swedish market. In Scandinavia, Swedish Match snus volumes grew at a good rate on an underlying basis. As was the case in the first quarter, growth in actual shipments was stronger than for underlying volumes, positively impacted by favorable calendar effects. Revenues in Scandinavia grew in line with volumes despite the weaker Norwegian krone and some negative mix impacts. This reflected strong deliveries to Norway, a relatively stable premium segment in Sweden and modest price increases at the beginning of the year. Volumes in our US moist snuff business grew compared to the prior year and sales as well as operating profit grew on improved pricing and the higher volumes.

The US cigar market continued to grow, and our strong momentum within the natural leaf cigar segment continued. We increased our market share in the cigar category and the second quarter marked a new all-time high in terms of cigar shipments. Within Other tobacco products the strong result for cigars more than compensated for a relatively soft quarter for chewing tobacco. During the quarter, the FDA published its final deeming regulations for cigars which means that they will start regulating the category in August of this year. While the new regulations imply an increased regulatory burden (including fees that will be paid to the FDA from October 1, 2016) and some uncertainty on longer term market dynamics, Swedish Match has extensive experience from the FDA regulation of moist snuff, snus, and chewing tobacco in the US over the past several years.

Our Lights business delivered a marked improvement in the second quarter. Operating profit grew when compared both to the first quarter of 2016 and to the second quarter of the prior year.

During the second quarter we drove several initiatives to support long-term growth. We continued to support our snus business in the US and sales, volumes and gross profit improved compared to the prior year. During the quarter we also expanded the distribution of ZYN, a nicotine pouch product without tobacco, in the US. The product is currently available in about 2,000 stores. In cigars, we introduced *Night Owl* on the US market – our first product in the sizable pipe tobacco cigar segment. Our launch of a modern form of chewing tobacco under the *General* brand name in Switzerland was also expanded during the quarter and consumer reception has been positive. In the Scandinavian snus market we complemented our portfolio with innovative offerings. In Sweden and Norway we selectively introduced *Omni*, a completely new form of dry and white snus, and in Norway we complemented our successful *General G.3* range with a superslim product – an innovative pouch format that we believe will resonate with consumers that demand a full snus experience with maximum discreteness.

In summary, I am very pleased with the second quarter – with the solid financial performance across our businesses, and with the many innovative market initiatives directed at future growth within our markets. For the second half of this year, we expect a continued strong development for Other tobacco products, particularly in the third quarter. For Snus and moist snuff we do not expect the same tailwind from calendar effects in the second half and we also expect the market growth in Scandinavia to moderate somewhat.

## Summary of consolidated income statement

MSEK	April-June		Chg %	January-June		Chg %	Full year 2015
	2016	2015		2016	2015		
Sales	3,920	3,644	8	7,477	7,011	7	14,486
Operating profit from product areas <sup>1)</sup>	1,008	937	8	1,947	1,803	8	3,690
Operating profit <sup>2)</sup>	1,061	1,021	4	2,772	2,035	36	4,008
Profit before income tax	971	906	7	2,575	1,805	43	3,545
Profit for the period	752	705	7	2,155	1,426	51	2,803
Operating margin from product areas <sup>1)</sup> , %	25.7	25.7		26.0	25.7		25.5
Operating margin <sup>2)</sup> , %	27.1	28.0		37.1	29.0		27.7
Earnings per share, basic, SEK	4.01	3.62	11	11.45	7.31	57	14.48
Earnings per share, adjusted, basic, SEK <sup>3)</sup>	4.01	3.79	6	7.71	7.19	7	14.36

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

2) Including larger one-time items and share of net profit in STG. Larger one-time items for 2016 include the net proceeds from the sale of shares in STG of 560 MSEK and proceeds from the sale of a distribution facility of 145 MSEK, both tax-free recognized in the first quarter. Larger one-time items for 2015 include costs of 42 MSEK (33 MSEK after tax) on the relocation of distribution facilities recognized in the second quarter. The second quarter and first six months 2016 share of net profit in STG is reported on a one quarter lag. The full year 2015 includes only the first nine months of net profit in STG due to transition to a one quarter lag reporting. Swedish Match's share of net profit in STG for the first six and nine months of 2015 includes an adjustment of 56 MSEK relating to 2014 due to a reassessment of useful lives of certain intangible and tangible assets (primarily trademarks). See Note 3.

3) Adjusted for Swedish Match larger one-time items and STG reassessment of useful lives. The full year 2015 is affected by the inclusion of only nine months of net profit in STG due to transition to a one quarter lag reporting.

## The second quarter

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

### Sales

Sales grew by 8 percent to 3,920 MSEK (3,644). Currency translation has affected the sales comparison negatively by 74 MSEK. Sales in local currencies increased for all product areas. In local currencies, sales increased by 10 percent. For Snus and moist snuff, as well as for Other operations, sales growth was positively affected by calendar effects.

### Earnings

Operating profit from product areas increased by 8 percent to 1,008 MSEK (937). Operating profit increased for Snus and moist snuff, Other tobacco products and Lights but declined marginally for Other operations. In local currencies, operating profit from product areas increased by 11 percent.

Operating profit, including the share of net profit in STG and larger one-time items, amounted to 1,061 MSEK (1,021, including a cost of 42 MSEK for the relocation of distribution facilities recognized as a larger one-time item). Currency translation has affected the comparison of the operating profit negatively by 30 MSEK.

The Group's net finance cost amounted to 90 MSEK (115) and income tax expense amounted to 220 MSEK (200), corresponding to a reported tax rate of 22.6 percent (22.1).

Profit for the period amounted to 752 MSEK (705).

Earnings per share (EPS) for the second quarter amounted to 4.01 SEK (3.62).

## The first six months

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

### Sales

Sales increased by 7 percent to 7,477 MSEK (7,011). Currency translation affected the sales comparison negatively by 106 MSEK. In local currencies, sales increased by 8 percent. Sales comparisons versus prior year for Snus and moist snuff and for Other operations were positively affected by a lower level of trade destocking in early 2016 than in early 2015.

### Earnings

Operating profit from product areas amounted to 1,947 MSEK (1,803). In local currencies the operating profit from product areas increased by 10 percent. Operating profit increased for all product areas.

Operating profit, including the share of net profit in STG and larger one-time items amounted to 2,772 MSEK (2,035). During the first six months of 2016, the non-taxable capital gains on the partial sale of STG in conjunction with the IPO and the sale of distribution real estate in Sweden were recognized as larger one-time items of 560 MSEK and 145 MSEK, respectively. During the first six months of 2015, a cost of 42 MSEK for the relocation of distribution facilities was recognized as a larger one-time item. Currency translation has affected the comparison of the operating profit negatively by 41 MSEK.

The Group's net finance cost amounted to 197 MSEK (230) and income tax expense amounted to 420 MSEK (379), corresponding to a tax rate of 16.3 percent (21.0). The tax rate, excluding associated companies and joint ventures and non-taxable larger one-time items, was 24.0 percent (24.5).

Profit for the period increased by 51 percent to 2,155 MSEK (1,426).

EPS for the first six months increased to 11.45 SEK (7.31). EPS increased by 7 percent to 7.71 SEK (7.19) when adjusted for the larger one-time items in both years as well as the adjustment in 2015 for the STG reassessment of useful lives of certain assets (primarily trademarks).

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## General

With the heritage of Johan A. Boman's first variety of *General* snus dating from 1866, the *General* brand continues to develop and is available today in different varieties both on the Swedish market and internationally.

**General G.3 Super Slim Mint Strong** is the latest addition to the *General* G.3 series and the new portion pouches with optimized and discreet fit are even thinner than the rest of Swedish Match's assortment of slim format pouches. The *General* G.3 Super Slim Mint Strong has a mellow and spicy tobacco taste with distinct notes of peppermint, along with hints of herbs and vanilla. *General* G.3 Super Slim Mint Strong is currently available in Norway.





## Snus and moist snuff

### Second quarter highlights:

- Continued strong market growth in Scandinavia but with signs of some slowdown
- Strong shipment and sales growth in Scandinavia aided by calendar effects
- Volume and sales growth for both moist snuff and snus in the US
- Continued reduced operating loss for snus outside Scandinavia

### Key data

MSEK	April-June		Chg %	January-June		Chg %	Full year 2015
	2016	2015		2016	2015		
Sales	1,338	1,271	5	2,584	2,461	5	5,090
Operating profit	557	514	8	1,078	970	11	2,071
Operating margin, %	41.7	40.5		41.7	39.4		40.7
EBITDA	603	559	8	1,166	1,059	10	2,247
EBITDA margin, %	45.1	44.0		45.1	43.0		44.1

### The second quarter

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

Sales for Snus and moist snuff increased by 7 percent in local currencies. Underlying sales grew both in Scandinavia and the US. In Scandinavia, growth of shipments and sales were positively affected by calendar effects. Operating profit increased mainly driven by stronger volumes in all markets. The total net operating loss for snus outside Scandinavia decreased to 55 MSEK (70) attributable to both improved gross profit and lower costs. This lower operating loss in snus markets outside Scandinavia was the driver behind the higher operating margin for the product area.

In Scandinavia, both the Swedish and Norwegian markets grew in the quarter and Swedish Match estimates that the total Scandinavian market grew by 5 percent on an underlying basis. In Sweden, the market growth was lower in the second quarter than in the first quarter. Swedish Match's shipment volumes measured in number of cans were up by more than 6 percent, positively affected by calendar effects, and are estimated to have been up by 3 percent on an underlying basis. In Sweden, Swedish Match's volume market share was down somewhat, both compared to previous quarter and prior year period, stemming primarily from share declines in the value segment. The value segment's share of the Swedish market has continued to be relatively stable and was slightly below the previous quarter but somewhat up versus the prior year period. In Norway, Swedish Match lost market share both compared to the previous quarter and the prior year period. Estimated underlying sales in Scandinavia (adjusted for calendar effects and currency translation) increased at a rate modestly above the volume development as negative mix effects were offset by list price increases. The increase in operating profit for Scandinavia snus was driven by the same parameters as sales but also affected by higher costs for market initiatives.

On June 10, the Norwegian Ministry for Health and Care Services published a legislative proposal to transpose the EU Tobacco Products Directive into Norwegian law. The proposal includes a requirement for



standardized packaging for all tobacco products in Norway, including snus. The parliamentary vote is expected to take place late this fall and before the end of the year. A transition period following an enactment of the new law will likely be granted for the requirement to implement standardized packaging.

The Swedish law implementing the EU Tobacco Products Directive became effective on May 20, 2016. For snus the new law includes the requirement of two warning labels versus the previous requirement of one. The new warning labels will include the text: "This product harms your health and is addictive". The Public Health Agency of Sweden has communicated that a transition period shall apply and that the date after which snus cans with the current warning label may no longer be manufactured shall be August 31. In addition to changed warning labels for snus, the new law among other requirements stipulates some increased reporting requirements to authorities for snus manufacturers.

For snus in the US, sales continued to increase due to a combination of higher volumes and better realized pricing. Operating loss in US dollars was lower driven by the improved gross profit. During the quarter, ZYN, a line of nicotine pouch products without tobacco, expanded distribution to approximately 2,000 stores, primarily in the western states. Investments behind both *General* snus in the US and ZYN are included when referring to snus outside Scandinavia.

For the US moist snuff business, sales and operating profit grew in local currency as a result of both increased volumes and list price increases that were only partially offset by negative mix effects.

### The first six months

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

Sales for the product area grew by 7 percent in local currencies, positively affected by lower trade destocking in 2016 than in 2015. Operating profit increased to 1,078 MSEK (970), and included net costs for Swedish snus outside Scandinavia of 104 MSEK (151).

In Scandinavia, shipment volumes grew by 7 percent, positively affected by the same effects as sales. Swedish Match estimates that its underlying volumes (excluding destocking and calendar effects) on the Scandinavian market increased by more than 3 percent. Operating profit for snus in Scandinavia grew as higher sales were partially offset by increased market related costs. In the US, sales in local currency for moist snuff increased on flat volumes, due to improved pricing. Operating profit grew in local currency for moist snuff in the US. For snus in the US, both sales and gross profit increased.

### Swedish Match shipment volumes

	April-June		Chg %	January-June		Chg %	Full year 2015
	2016	2015		2016	2015		
Snus, millions of cans, Scandinavia	62.1	58.4	6	118.4	110.7	7	237.9
Moist snuff, millions of cans, US	34.0	33.2	2	68.5	68.7	0	132.1

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

Percent	April-June		Chg ppts	January-June		Chg ppts	Full year 2015
	2016	2015		2016	2015		
Snus, Sweden, total	68.2	69.3	-1.0	68.3	69.1	-0.8	69.2
Snus, Sweden, premium	93.2	93.6	-0.3	93.2	93.7	-0.5	93.5
Snus, Sweden, value	39.1	40.3	-1.2	39.4	39.9	-0.4	40.2
Snus, Norway, total	53.6	56.8	-3.3	54.1	57.6	-3.5	56.7

1) Swedish Match estimates using Nielsen data (excluding tobaccoconists): 13 weeks and YTD to June 26, 2016. All figures for the Swedish market have been restated to include nicotine free products (i.e. *Onico* etc.).



## Other tobacco products (cigars and chewing tobacco)

### Second quarter highlights:

- Continued solid performance for cigars, and a record quarter for cigar shipments
- Chewing tobacco sales in US dollar down on lower volumes
- Negative currency effects from the US dollar
- FDA published the regulation for cigars

### Key data

MSEK	April-June		Chg %	January-June		Chg %	Full year 2015
	2016	2015		2016	2015		
Sales	1,031	982	5	2,026	1,915	6	3,829
Operating profit	425	414	3	825	798	3	1,554
Operating margin, %	41.2	42.2		40.7	41.7		40.6
EBITDA	440	429	3	855	828	3	1,613
EBITDA margin, %	42.6	43.7		42.2	43.2		42.1

### The second quarter

(Note: Comments below refer to the comparison between the second quarter 2016 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 8 percent and operating profit increased by 5 percent.

Cigar volumes were up by 15 percent, and reached a record level in the quarter. The US cigar market remained highly competitive but Swedish Match continued to strengthen its presence within the natural leaf segment and in the value segment. Swedish Match's *Game* and *1882* natural leaf brands as well as the value brand *Jackpot* showed strong growth in the quarter. Sales and operating profit in local currency for cigars increased at a somewhat lower pace than the volume development on negative price/mix effects.

On May 5, the US Food and Drug Administration (FDA) published its deeming regulations which will be in force from August 8, 2016. For products that are on the market before the effective date of August 8 but were not on the market on or before February 15, 2007 (the predicate date), the regulations stipulate that either a substantial equivalent application must be filed within 18 months from the effective date or a new product application must be filed within 24 months. New products after the effective date may not be placed on the market before either a substantial equivalent application or a new product application has been approved. In addition, the regulations ban sampling of products, introduce new warning label requirements and introduce volume-based user fees to be paid to the FDA by manufacturers and importers beginning October 1, 2016. For Swedish Match, these volume-based user fees are expected to amount to approximately 2 MUSD in the fourth quarter. Moist snuff and chewing tobacco are already similarly regulated by the FDA and Swedish Match has extensive experience managing FDA regulation within these categories.

Chewing tobacco shipments (excluding contract manufacturing volumes) were down by 8 percent and year on year price increases did not fully offset the volume decline. Operating profit in local currency declined due to the lower volumes and included a minor operating loss for sales of chew bags in Switzerland.

## The first six months

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

In local currency, sales for Other tobacco products were up by 6 percent, while operating profit was up by 4 percent, attributable to the strong performance for US cigars.

Cigar volumes increased by 12 percent and sales in US dollars increased almost in line with volumes. Operating profit was also higher.

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

### Swedish Match US shipment volumes

	April-June			January-June			Full year 2015
	2016	2015	Chg %	2016	2015	Chg %	
Cigars, millions of sticks	361	314	15	703	626	12	1,256
Chewing tobacco, thousands of pounds (excluding contract manufacturing volumes)	1,857	2,028	-8	3,534	3,863	-9	7,390

## Lights (matches, lighters and complementary products)



### Second quarter highlights:

- Good performance for lighters with higher sales and operating profit
- Significantly improved performance for matches compared to a weak first quarter
- Operating profit up on higher gross profit and reduced operating expenses

### Key data

MSEK	April-June			January-June			Full year 2015
	2016	2015	Chg %	2016	2015	Chg %	
Sales	318	318	0	621	649	-4	1,295
Operating profit	54	36	50	96	93	3	190
Operating margin, %	17.0	11.4		15.5	14.3		14.7
EBITDA	64	46	39	115	112	3	228
EBITDA margin, %	20.1	14.5		18.5	17.3		17.6

## The second quarter

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

Sales were on par with prior year as increased sales for lighters offset modest declines for matches and complementary products. For lighters, shipment volumes grew strongly, in both Western Europe and Russia, and lighter volumes also grew modestly in Latin America. The second quarter performance for matches showed only a modest decline in sales and operating profit on a reported basis, as operating expenses were reduced and volume declines moderated. This was a significant improvement over the first quarter year on year performance.



## The first six months

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

Sales declined somewhat due primarily to the negative currency effects from the Brazilian real. Volumes for matches were down but this was partly compensated by price increases. Volumes for lighters were higher than the prior year as a result of strong second quarter performance. Operating profit for the product area was up due to a much stronger performance for lighters on a low prior year second quarter but partly offset by weaker performance for matches with lower volumes and costs of a temporary nature during the first quarter.

### Swedish Match shipment volumes, worldwide

	April-June		Chg %	January-June		Chg %	Full year 2015
	2016	2015		2016	2015		
Matches, billion sticks	18.2	19.0	-4	35.9	39.3	-9	73.1
Lighters, million units	100.4	90.8	11	196.0	193.4	1	402.9

## 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 1,231 MSEK (1,073). The revenue growth was positively affected by calendar effects. Operating loss for Other operations was 29 MSEK (28).

### The first six months

Sales for the first six months amounted to 2,246 MSEK (1,986). Operating loss for the first six months was 52 MSEK (58). Sales in Other operations for the prior year period were negatively affected by destocking following hoarding at the end of 2014.

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

## Scandinavian Tobacco Group

Scandinavian Tobacco Group (STG) is a world leading manufacturer of cigars and pipe tobacco. Through February 9, 2016, Swedish Match owned 49 percent (49 million shares) of STG. On February 10, 2016, STG was listed on Nasdaq Copenhagen and in conjunction with the listing Swedish Match sold 17.9 million shares including a partial exercise of an overallotment option, with the result that Swedish Match now holds 31.1 million shares and the ownership in STG amounts to 31.1 percent. According to the IPO underwriting agreement, there is a lock-in period for the selling shareholders which expires on August 8, 2016.

The final offer price in the IPO was set at 100 DKK per share corresponding to a market capitalization of STG of DKK 10 billion. Swedish Match's proceeds, net of transaction costs, from the sale of STG shares in the IPO amounted to 2,172 MSEK. The proceeds were, following approval by the Annual General Meeting, distributed to Swedish Match's shareholders in the form of a special dividend of 12.00 SEK per share (in total 2,258 MSEK). The tax-free capital gain from the partial divestment of STG in conjunction with the IPO amounted to 560 MSEK and was recognized as a larger one-time item in the first quarter 2016.

Swedish Match has, from the reporting period ending December 31, 2015, started to report its share of STG's net profit as well as its share of equity with a one quarter lag. For the second quarter 2016, Swedish Match's reported share of net profit in STG represented a 31.1 percent share of STG's net profit for the first quarter 2016. (For the first six months of 2016, Swedish Match's reported share of net profit in STG represented a 31.1 percent share of STG's combined net profit for the fourth quarter 2015 and the first quarter 2016. For the comparison period, Swedish Match's reported share of net profit in STG represented a

49 percent share of STG's net profit for the first six months of 2015. The first six months of 2015 also included a positive adjustment of 56 MSEK for a reassessment of useful lives of certain assets (primarily trademarks) relating to 2014. This adjustment was recognized by Swedish Match in the first quarter 2015).

The decrease in Swedish Match's reported share of net profit in STG is affected by the decreased ownership and the comparison period being affected by the positive adjustment. For the second quarter 2016, Swedish Match's reported share of STG's net profit amounted to 53 MSEK (126). For the first six months 2016, Swedish Match's reported share of STG's net profit amounted to 121 MSEK (274).

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

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

## Financing and cash flow

Cash flow from operating activities for the first six months amounted to 1,872 MSEK (1,741). Swedish Match received a dividend of 191 MSEK from STG during the second quarter 2016 (based on a 31.1 percent ownership) whereas a dividend of 261 MSEK was received during the first quarter of 2015 (based on a 49 percent ownership).

During the first half of the year, Swedish Match had a positive net cash flow from investing activities. Swedish Match received 2,172 MSEK from the partial divestment of STG in conjunction with the IPO and another 145 MSEK from the sale of a distribution center. Investments in property, plant and equipment as well as in intangible assets increased to 347 MSEK (146), affected by increased investments primarily in the cigar business as well as an investment in patent rights for a nicotine pouch product without tobacco. For the full year, investments in property, plant and equipment are expected to be in line with prior year.

Net finance cost for the first six months declined to 197 MSEK (230), mainly due to decreased average debt and lower interest rates compared to the same period of prior year.

The net debt as of June 30, 2016 amounted to 8,757 MSEK compared to 7,922 MSEK at December 31, 2015.

During the first six months, new bond loans of 497 MSEK were issued. Repayments of bond loans for the same period amounted to 363 MSEK. As of June 30, 2016, Swedish Match had 8,199 MSEK of interest bearing debt excluding defined pension and benefit obligations compared to 8,064 MSEK at December 31, 2015. During the remainder of 2016, 310 MSEK of this debt falls due for payment. For further detail of the maturity profile of the debt portfolio please see the Company website. Defined pension and benefit obligations increased to 2,033 MSEK as of June 30, 2016, from 1,591 MSEK at December 31, 2015, due primarily to lower discount rates.

As of June 30, 2016, Swedish Match had 1,500 MSEK in unutilized committed credit lines. Cash and cash equivalents amounted to 1,475 MSEK at the end of the period, compared to 1,732 MSEK at December 31, 2015.

In the first half of the year, Swedish Match paid a dividend totaling 3,764 MSEK, consisting of an ordinary dividend of 1,506 MSEK and a special dividend of 2,258 MSEK due to the partial divestment of shares in STG. Swedish Match made share repurchases during the period of 449 MSEK.

## Number of shares

During the first six months, Swedish Match repurchased 1.6 million shares for 449 MSEK at an average price of 279.29 SEK, following authorization from the Annual General Meetings held in 2015 and 2016. Total shares bought back by Swedish Match since the buyback program started have been repurchased at an average price of 114.74 SEK.

As per June 30, 2016 Swedish Match held 1.4 million shares, corresponding to 0.76 percent of the total number of shares. The number of shares outstanding, net, as per June 30, 2016, amounted to 187.3 million.

## Other events

On July 1, 2016 Swedish Match initiated legal proceedings in the UK in order to challenge the EU ban on snus. Swedish Match is of the opinion that the snus ban is both discriminatory and disproportionate. The aim is that the UK court shall refer the case to the European Court of Justice for preliminary ruling.

The European Court of Justice ruled in 2004 that the ban, set out in the previous Tobacco Products Directive (2001/37) was justified. However, the new Tobacco Products Directive (2014/40) reinforces the discriminatory and disproportionate nature of the EU ban on Swedish snus by permitting both novel tobacco products and e-cigarettes. The novelty of snus was a main argument for not allowing snus on the internal market at the time when the court last ruled on the issue.

The current directive (2014/40) disregards the role of snus as a harm reducing alternative to traditional cigarettes despite the abundance of scientific evidence suggesting that snus is amongst the least harmful tobacco products in the world.

### Outlook (from the first quarter report)

For 2016, on a full year basis, we expect Scandinavian snus as well as US moist snuff consumption to continue to grow as measured in number of cans. In our Scandinavian snus business, the average net selling price per can is expected to decline slightly versus prior year as modest price increases are offset by the effect of the weakened Norwegian krone, mix effects attributable to the successful launch of *XRANGE*, and growth of the value segment. Since December 2015 the competitive activity level in the Swedish snus market has increased and we expect it to remain high for the remainder of the year. For our US moist snuff business, we expect higher prices to more than compensate for negative mix effects during the year. We will continue to work hard to defend our market shares in both Scandinavia and in the US.

For cigars in the US, Swedish Match expects the market to continue to grow in 2016 but to remain highly competitive. Swedish Match expects the US Food and Drug Administration (FDA) to begin regulating cigars during the year and in conjunction with this Swedish Match, like the rest of the cigar industry, will be subject to user fees to the FDA.

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

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

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

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

### Updated outlook

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

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

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

factory downtime, the performance for Other tobacco products is expected to be notably stronger in the third quarter than in the fourth quarter.

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

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

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

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

## Risk factors

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

Swedish Match has a substantial part of its production and sales in the US and also operations in Brazil, the Dominican Republic, Norway and EMU member countries. Consequently, changes in exchange rates of the euro, Norwegian krone, Brazilian real, the Dominican peso and in particular the US dollar may adversely affect the Group's results of operations, cash flow, financial condition or relative price competitiveness in the future. Such effects may occur both in local currencies and when such local currencies are translated into Swedish currency for purposes of financial reporting.

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

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

## Swedish Match AB (publ)

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

Sales in the Parent Company for the first six months amounted to 26 MSEK (18). Profit before income tax amounted to 411 MSEK (184) and net profit for the first six months amounted to 497 MSEK (292). The higher net profit for the first six months of 2016 mainly pertains to timing differences in dividends from subsidiaries compared to the previous year.

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

During the period, the Parent Company received dividends of 856 MSEK (687).

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 363 MSEK and new bond loans of 497 MSEK were issued. During the period, the Parent Company made share repurchases of 1.6 million (2.6) shares for 449 MSEK (659). During the first six months of the prior year, 0.7 million treasury shares were sold for 141 MSEK.

No capital expenditures on tangible assets have been recognized during the period. During prior year's first six months, 2 MSEK was capitalized as tangible fixed assets.

A dividend of 3,764 MSEK (1,464) has been paid during the period.

### Forward-looking information

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

### Additional information

This report has not been reviewed by the Company's auditors. The January-September 2016 report will be released on October 28, 2016.

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 22, 2016

Conny Karlsson  
Chairman of the Board

Andrew Cripps  
Deputy Chairman

Charles A. Blixt  
Board member

Patrik Engelbrektsson  
Board member

Jacqueline Hoogerbrugge  
Board member

Eva Larsson  
Board member

Eva Norlén-Moritz  
Board member

Wenche Rolfsen  
Board member

Meg Tivéus  
Board member

Joakim Westh  
Board member

Lars Dahlgren  
President and CEO



## Product area summary and key ratios

### Sales by product area

MSEK	April-June		Chg %	January-June		Chg %	Full year 2015
	2016	2015		2016	2015		
Snus and moist snuff	1,338	1,271	5	2,584	2,461	5	5,090
Other tobacco products	1,031	982	5	2,026	1,915	6	3,829
Lights	318	318	0	621	649	-4	1,295
Other operations	1,231	1,073	15	2,246	1,986	13	4,272
<b>Sales</b>	<b>3,920</b>	<b>3,644</b>	<b>8</b>	<b>7,477</b>	<b>7,011</b>	<b>7</b>	<b>14,486</b>

### Operating profit by product area

MSEK	April-June		Chg %	January-June		Chg %	Full year 2015
	2016	2015		2016	2015		
Snus and moist snuff	557	514	8	1,078	970	11	2,071
Other tobacco products	425	414	3	825	798	3	1,554
Lights	54	36	50	96	93	3	190
Other operations	-29	-28		-52	-58		-124
<b>Operating profit from product areas</b>	<b>1,008</b>	<b>937</b>	<b>8</b>	<b>1,947</b>	<b>1,803</b>	<b>8</b>	<b>3,690</b>
Share of net profit in STG <sup>1)</sup>	53	126	-58	121	274	-56	360
<b>Subtotal</b>	<b>1,061</b>	<b>1,063</b>	<b>0</b>	<b>2,068</b>	<b>2,077</b>	<b>0</b>	<b>4,050</b>
<i>Larger one-time items</i>							
Sale of STG shares	-	-		560	-		-
Sale of distribution facility	-	-		145	-		-
Relocation of distribution facilities	-	-42		-	-42		-42
<b>Total larger one-time items</b>	<b>-</b>	<b>-42</b>		<b>704</b>	<b>-42</b>		<b>-42</b>
<b>Operating profit</b>	<b>1,061</b>	<b>1,021</b>	<b>4</b>	<b>2,772</b>	<b>2,035</b>	<b>36</b>	<b>4,008</b>
Net finance cost	-90	-115		-197	-230		-463
<b>Profit before income tax</b>	<b>971</b>	<b>906</b>	<b>7</b>	<b>2,575</b>	<b>1,805</b>	<b>43</b>	<b>3,545</b>

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

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

Percent	April-June		January-June		Full year 2015
	2016	2015	2016	2015	
Snus and moist snuff	41.7	40.5	41.7	39.4	40.7
Other tobacco products	41.2	42.2	40.7	41.7	40.6
Lights	17.0	11.4	15.5	14.3	14.7
<b>Operating margin from product areas<sup>2)</sup></b>	<b>25.7</b>	<b>25.7</b>	<b>26.0</b>	<b>25.7</b>	<b>25.5</b>
<b>Operating margin<sup>3)</sup></b>	<b>27.1</b>	<b>29.2</b>	<b>27.7</b>	<b>29.6</b>	<b>28.0</b>

1) Excluding larger one-time items.

2) Excluding share of net profit in STG.

3) Including share of net profit in STG.

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

MSEK	April-June		Chg %	January-June		Full year 2015	
	2016	2015		2016	2015		
Snus and moist snuff	603	559	8	1,166	1,059	10	2,247
Other tobacco products	440	429	3	855	828	3	1,613
Lights	64	46	39	115	112	3	228
Other operations	-16	-17		-28	-36		-81
<b>EBITDA from product areas</b>	<b>1,091</b>	<b>1,017</b>	<b>7</b>	<b>2,109</b>	<b>1,963</b>	<b>7</b>	<b>4,008</b>
Share of net profit in STG <sup>2)</sup>	53	126	-58	121	274	-56	360
<b>EBITDA</b>	<b>1,144</b>	<b>1,143</b>	<b>0</b>	<b>2,230</b>	<b>2,236</b>	<b>0</b>	<b>4,368</b>

1) Excluding larger one-time items.

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

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

Percent	April-June		January-June		Full year 2015
	2016	2015	2016	2015	
Snus and moist snuff	45.1	44.0	45.1	43.0	44.1
Other tobacco products	42.6	43.7	42.2	43.2	42.1
Lights	20.1	14.5	18.5	17.3	17.6
<b>EBITDA margin from product areas<sup>2)</sup></b>	<b>27.8</b>	<b>27.9</b>	<b>28.2</b>	<b>28.0</b>	<b>27.7</b>
<b>EBITDA margin<sup>3)</sup></b>	<b>29.2</b>	<b>31.4</b>	<b>29.8</b>	<b>31.9</b>	<b>30.2</b>

1) Excluding larger one-time items.

2) Excluding share of net profit in STG.

3) Including share of net profit in STG.

### Key ratios

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

	2016	January-June	12 months	Full year 2015
		2015	ended June 30, 2016	
Operating margin, %	27.7	29.6	27.0	28.0
Operating capital, MSEK	6,634	8,519	6,634	8,030
Return on operating capital, %			53.3	49.6
EBITDA, MSEK <sup>1)</sup>	2,230	2,236	4,361	4,368
EBITA, MSEK <sup>2)</sup>	2,093	2,099	4,089	4,094
Net debt, MSEK	8,757	8,412	8,757	7,922
Investments in property, plant and equipment, MSEK <sup>3)</sup>	225	139	577	491
EBITA interest cover	11.1	9.2	9.7	8.9
<i>Excluding share of net profit in STG</i>				
EBITA, MSEK <sup>2)</sup>	1,972	1,825	3,881	3,734
Net debt/EBITA <sup>2)</sup>			2.3	2.1
<i>Share data</i>				
Number of shares outstanding at end of period	187,309,868	193,788,416	187,309,868	188,915,791
Average number of shares outstanding, basic	188,236,948	195,224,450	190,012,795	193,506,546
Average number of shares outstanding, diluted	188,236,948	195,269,242	190,012,795	193,530,266

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

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

3) Including investments in forest plantations of 7 MSEK (9).

## Financial statements

### Consolidated income statement in summary

MSEK	April-June		Chg %	January-June		Chg %	12 months ended		Full year	Chg %
	2016	2015		2016	2015		June 30, 2016	2015		
Sales, including tobacco tax	7,308	6,907		13,760	13,097		28,101	27,438		
Less tobacco tax	-3,388	-3,263		-6,283	-6,086		-13,150	-12,952		
<b>Sales</b>	<b>3,920</b>	<b>3,644</b>	<b>8</b>	<b>7,477</b>	<b>7,011</b>	<b>7</b>	<b>14,951</b>	<b>14,486</b>		<b>3</b>
Cost of goods sold	-2,115	-1,929		-3,987	-3,681		-8,004	-7,697		
<b>Gross profit</b>	<b>1,804</b>	<b>1,715</b>	<b>5</b>	<b>3,489</b>	<b>3,330</b>	<b>5</b>	<b>6,947</b>	<b>6,789</b>		<b>2</b>
Selling and admin. expenses	-798	-771		-1,543	-1,512		-3,096	-3,065		
Share of profit/loss in associated companies and joint ventures <sup>1)</sup>	55	119		122	259		190	327		
Sale of STG shares	-	-		560	-		560	-		
Sale of distribution facility	-	-		145	-		145	-		
Relocation of distribution facilities	-	-42		-	-42		-	-42		
<b>Operating profit<sup>1)</sup></b>	<b>1,061</b>	<b>1,021</b>	<b>4</b>	<b>2,772</b>	<b>2,035</b>	<b>36</b>	<b>4,746</b>	<b>4,008</b>		<b>18</b>
Finance income	10	4		18	8		32	22		
Finance costs	-100	-119		-215	-238		-463	-486		
Net finance cost	-90	-115		-197	-230		-431	-463		
<b>Profit before income tax</b>	<b>971</b>	<b>906</b>	<b>7</b>	<b>2,575</b>	<b>1,805</b>	<b>43</b>	<b>4,315</b>	<b>3,545</b>		<b>22</b>
Income tax expense	-220	-200		-420	-379		-783	-742		
<b>Profit for the period<sup>1)</sup></b>	<b>752</b>	<b>705</b>	<b>7</b>	<b>2,155</b>	<b>1,426</b>	<b>51</b>	<b>3,532</b>	<b>2,803</b>		<b>26</b>
<i>Attributable to:</i>										
Equity holders of the Parent	751	705		2,155	1,426		3,532	2,803		
Non-controlling interests	0	0		0	0		0	0		
<b>Profit for the period<sup>1)</sup></b>	<b>752</b>	<b>705</b>	<b>7</b>	<b>2,155</b>	<b>1,426</b>	<b>51</b>	<b>3,532</b>	<b>2,803</b>		<b>26</b>
Earnings per share, basic, SEK	4.01	3.62		11.45	7.31		18.59	14.48		
Earnings per share, adjusted, basic, SEK <sup>2)</sup>	4.01	3.79		7.71	7.19		14.88	14.36		

- 1) Swedish Match's share of net profit in STG for 2016 is reported on a one quarter lag. For the first half of 2015, Swedish Match's reported share of net profit in STG included an adjustment of 56 MSEK relating to 2014 due to a reassessment of useful lives of certain intangible and tangible assets. Swedish Match's share of net profit in STG for the full year 2015 includes only the first nine months of net profit in STG due to transition to a one quarter lag reporting. See Note 3.
- 2) Adjusted for Swedish Match's larger one-time items and the above mentioned reassessment of useful lives reported by Swedish Match in the first half of 2015.

## Consolidated statement of comprehensive income

MSEK	April-June		January-June		12 months	Full year
	2016	2015	2016	2015	ended June 30, 2016	2015
<b>Profit for the period</b>	<b>752</b>	<b>705</b>	<b>2,155</b>	<b>1,426</b>	<b>3,532</b>	<b>2,803</b>
<i>Other comprehensive income that may be reclassified to the income statement</i>						
Translation differences related to foreign operations	344	-185	80	-107	50	-137
Translation differences included in profit and loss	-	44	-6	44	-6	44
Effective portion of changes in fair value of cash flow hedges	19	41	22	41	67	86
Reclassification for gains/losses on cash flow hedges included in profit and loss	-	-	0	-	8	8
Share of other comprehensive income in associated companies and joint ventures <sup>1)</sup>	-99	-136	-44	293	-77	260
Income tax relating to reclassifiable components of other comprehensive income	-4	-9	-5	-9	-17	-21
<b>Subtotal, net of tax for the period</b>	<b>260</b>	<b>-246</b>	<b>47</b>	<b>263</b>	<b>25</b>	<b>241</b>
<i>Other comprehensive income that will not be reclassified to the income statement</i>						
Actuarial gains/losses attributable to pensions, incl. payroll tax	-153	316	-364	220	-189	395
Share of other comprehensive income in associated companies and joint ventures <sup>1)</sup>	0	-	-2	-	5	7
Income tax relating to non-reclassifiable components of other comprehensive income	49	-112	124	-87	56	-155
<b>Subtotal, net of tax for the period</b>	<b>-104</b>	<b>204</b>	<b>-243</b>	<b>133</b>	<b>-128</b>	<b>248</b>
<b>Total comprehensive income for the period</b>	<b>907</b>	<b>664</b>	<b>1,960</b>	<b>1,822</b>	<b>3,429</b>	<b>3,292</b>
<i>Attributable to:</i>						
Equity holders of the Parent	907	664	1,960	1,823	3,429	3,292
Non-controlling interests	0	0	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>907</b>	<b>664</b>	<b>1,960</b>	<b>1,822</b>	<b>3,429</b>	<b>3,292</b>

1) 2016 includes other comprehensive income in STG on a one quarter lag and the full year 2015 includes only the first nine months of other comprehensive income in STG due to transition to a one quarter lag reporting.

## Consolidated balance sheet in summary

MSEK	June 30, 2016	December 31, 2015
Intangible assets	1,176	1,048
Property, plant and equipment	2,365	2,240
Investments in associated companies and joint ventures	3,148	4,845
Other non-current financial receivables <sup>1)</sup>	1,967	1,739
Current operating assets	3,659	3,220
Cash and cash equivalents	1,475	1,732
<b>Total assets</b>	<b>13,791</b>	<b>14,824</b>
Equity attributable to equity holders of the Parent	-2,002	251
Non-controlling interests	1	1
<b>Total equity</b>	<b>-2,001</b>	<b>252</b>
Non-current provisions	1,334	1,223
Non-current loans	8,214	7,613
Other non-current financial liabilities <sup>2)</sup>	2,266	1,882
Current provisions	122	147
Current loans	315	653
Other current liabilities	3,542	3,054
<b>Total equity and liabilities</b>	<b>13,791</b>	<b>14,824</b>

1) Includes pension assets of 87 MSEK (91) and currency component of derivatives of 390 MSEK (297) used to hedge the Parent Company's bond loans denominated in currencies other than Swedish kronor.

2) Includes pension liabilities of 2,121 MSEK (1,682) and currency component of derivatives of 60 MSEK (94) used to hedge the Parent Company's bond loans denominated in currencies other than Swedish kronor.

## Consolidated cash flow statement in summary

MSEK	January-June	
	2016	2015
<i>Operating activities</i>		
<b>Profit before income taxes</b>	<b>2,575</b>	<b>1,805</b>
Share of profit/loss in associated companies and joint ventures	-122	-259
Dividend received from associated companies	192	264
Adjustments for other non-cash items and other	-452	333
Income tax paid	-309	-299
<b>Cash flow from operating activities before changes in working capital</b>	<b>1,884</b>	<b>1,844</b>
Cash flow from changes in working capital	-12	-103
<b>Net cash from operating activities</b>	<b>1,872</b>	<b>1,741</b>
<i>Investing activities</i>		
Purchase of property, plant and equipment <sup>1)</sup>	-225	-139
Proceeds from sale of property, plant and equipment	145	1
Purchase of intangible assets	-122	-7
Divestments in associated companies and joint ventures <sup>2)</sup>	2,172	-
Investments in associated companies and joint ventures <sup>3)</sup>	-5	-10
Changes in financial receivables etc.	0	0
<b>Net cash from investing activities</b>	<b>1,965</b>	<b>-155</b>
<i>Financing activities</i>		
Changes in loans	135	360
Dividend paid to equity holders of the Parent	-3,764	-1,464
Repurchase of own shares	-449	-659
Stock options exercised	-	141
Other	-28	-21
<b>Net cash used in financing activities</b>	<b>-4,106</b>	<b>-1,644</b>
<b>Net decrease in cash and cash equivalents</b>	<b>-269</b>	<b>-57</b>
Cash and cash equivalents at the beginning of the period	1,732	2,312
Effect of exchange rate fluctuations on cash and cash equivalents	12	89
<b>Cash and cash equivalents at the end of the period</b>	<b>1,475</b>	<b>2,343</b>

1) Including investments in forest plantations of 7 MSEK (9).

2) Divestments in associated companies and joint ventures pertain to sale of shares in STG.

3) Investments in associated companies and joint ventures pertain to additional investments in EB Road Cargo AB of 5 MSEK in 2016 and in SMPM International of 10 MSEK in 2015.

## Change in shareholders' equity

MSEK	Equity		
	attributable to holders of the Parent	Non-controlling interests	Total equity
<b>Equity at January 1, 2015</b>	<b>277</b>	<b>1</b>	<b>279</b>
Profit for the period	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>
<b>Equity at January 1, 2016</b>	<b>251</b>	<b>1</b>	<b>252</b>
Profit for the period	2,155	0	2,155
Other comprehensive income, net of tax for the period	-196	0	-196
<b>Total comprehensive income for the period</b>	<b>1,960</b>	<b>0</b>	<b>1,960</b>
Dividend	-3,764	0	-3,764
Repurchase of own shares	-449	-	-449
Cancellation of shares	-15	-	-15
Bonus issue	15	-	15
<b>Equity at June 30, 2016</b>	<b>-2,002</b>	<b>1</b>	<b>-2,001</b>



## Parent Company income statement in summary

MSEK	2016	January-June 2015
Sales	26	18
Administrative expenses	-146	-104
<b>Operating loss</b>	<b>-120</b>	<b>-86</b>
Result from participation in Group companies	856	687
Net finance cost	-325	-416
<b>Profit before income tax</b>	<b>411</b>	<b>184</b>
Income tax	86	108
<b>Profit for the period</b>	<b>497</b>	<b>292</b>

## Parent Company statement of comprehensive income

MSEK	2016	January-June 2015
<b>Profit for the period</b>	<b>497</b>	<b>292</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	22	41
Reclassification for gains/losses on cash flow hedges included in profit and loss	0	-
Income tax relating to components of other comprehensive income	-5	-9
<b>Subtotal, net of tax for the period</b>	<b>18</b>	<b>32</b>
<b>Total comprehensive income for the period</b>	<b>515</b>	<b>324</b>

## Parent Company balance sheet in summary

MSEK	June 30, 2016	June 30, 2015	December 31, 2015
Intangible and tangible assets	2	3	3
Non-current financial assets	49,826	51,347	48,883
Current assets	209	230	2,227
<b>Total assets</b>	<b>50,038</b>	<b>51,580</b>	<b>51,113</b>
<b>Equity</b>	<b>17,517</b>	<b>19,188</b>	<b>21,215</b>
<b>Untaxed reserves</b>	<b>675</b>	<b>415</b>	<b>675</b>
Provisions	92	53	48
Non-current liabilities	26,457	26,386	25,911
Current liabilities	5,295	5,537	3,263
<b>Total liabilities</b>	<b>31,845</b>	<b>31,976</b>	<b>29,222</b>
<b>Total equity and liabilities</b>	<b>50,038</b>	<b>51,580</b>	<b>51,113</b>

### Note 1 – Accounting principles

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

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

In the reporting period beginning January 1, 2016, Swedish Match has changed the method used to estimate the service and interest components of income and expenses related to the post-employment benefit plans in the US. This change compared to the previous method results in a decrease in the service and interest cost components in 2016. Historically, these service and interest cost components were estimated using a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation as of the beginning of the period. We have elected to use the full yield curve approach in estimating these

components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. This change was made to provide a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows to corresponding spot rate along the yield curve. This change will not affect the measurement of benefit obligations related to the US plans as the change in the service and interest cost components will be offset by an increase in the actuarial gains and losses reported in experience assumptions. We view this change as a change in accounting estimate and accordingly will account for it prospectively.

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

### Note 2 – Related parties transactions

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

In the normal course of business, Swedish Match conducts various transactions with associated companies and joint ventures. Transactions are conducted at an arms-length basis. At the end of the first half of 2016, receivables from these companies amounted to 35 MSEK (39) and total payables to these companies amounted to 9 MSEK (11). During the first six months 2016, total sales to associated companies and joint ventures amounted to 90 MSEK (100) and total purchases from associated companies and joint ventures amounted to 41 MSEK (48).

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

### Note 3 – Scandinavian Tobacco Group

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

	January-June 2016	2015	Chg %	Full year 2015
<i>MDKK</i>				
<b>Net profit</b>	<b>312</b>	<b>354</b>	<b>-12</b>	<b>493</b>
<i>MSEK</i>				
<b>Swedish Match's share of net profit</b>	<b>121</b>	<b>217</b>	<b>-44</b>	<b>304</b>
Change in estimate of useful lives	-	56		56
<b>Swedish Match's reported share of net profit</b>	<b>121</b>	<b>274</b>	<b>-56</b>	<b>360</b>

1) Swedish Match's share of STG's net profit for 2016 is reported on a one quarter lag, as a consequence of STG becoming a publicly listed company.

2) Swedish Match's share of STG net profit for the full year 2015 includes only the first nine months of 2015, due to STG's full year report being released after Swedish Match released its 2015 full year report. Due to transition of reporting of Swedish Match's share of STG's net profit to a one quarter lag, no net profit from STG was recognized for the fourth quarter of 2015.

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

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

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

Swedish Match reported, up until September 2015, its share of STG's net profit and equity based on STG's reporting for the same financial period. STG's result, on which Swedish Match has based its reporting, has for some reporting periods been partly based on estimates awaiting finalization. Any differences between such estimates and the actual result of STG for that period have been adjusted in the following reporting period.

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

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

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

##### Carrying value and fair value

MSEK	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	-	1,578	-	-	1,578	1,578
Non-current receivables	-	-	-	420	420	420
Current financial receivables	63	-	-	-	63	63
Cash and cash equivalents	-	1,475	-	-	1,475	1,475
<b>Total assets</b>	<b>63</b>	<b>3,053</b>	-	<b>420</b>	<b>3,536</b>	<b>3,536</b>
Loans and borrowings	-	-	8,529	-	8,529	9,069
Non-current financial liabilities	-	-	-	143	143	143
Trade payables	-	-	739	-	739	739
<b>Total liabilities</b>	-	-	<b>9,268</b>	<b>143</b>	<b>9,411</b>	<b>9,951</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 2016.

The recognized amounts are regarded as reasonable estimates for all items measured at carrying value in the balance sheet, except for loans and borrowings, since these amounts have a long time to maturity. The fair value of loans and borrowings has been calculated by discounting future cash flow. Total nominal amount of outstanding derivatives (cross currency and interest rate swaps) is 5,148 MSEK, all in cash flow hedges.

## Quarterly data

### Consolidated income statement in summary

MSEK	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14
Sales, including tobacco tax	7,308	6,452	7,067	7,275	6,907	6,190	6,840	6,768	6,603
Less tobacco tax	-3,388	-2,895	-3,348	-3,519	-3,263	-2,822	-3,304	-3,351	-3,264
<b>Sales</b>	<b>3,920</b>	<b>3,557</b>	<b>3,719</b>	<b>3,756</b>	<b>3,644</b>	<b>3,368</b>	<b>3,536</b>	<b>3,416</b>	<b>3,339</b>
Cost of goods sold	-2,115	-1,872	-2,005	-2,011	-1,929	-1,752	-1,910	-1,853	-1,784
<b>Gross profit</b>	<b>1,804</b>	<b>1,685</b>	<b>1,714</b>	<b>1,745</b>	<b>1,715</b>	<b>1,615</b>	<b>1,627</b>	<b>1,563</b>	<b>1,555</b>
Selling and administrative expenses	-798	-745	-808	-745	-771	-741	-710	-675	-681
Share of net profit/loss in associated companies and joint ventures <sup>1)</sup>	55	66	2	66	119	140	75	101	67
	<b>1,061</b>	<b>1,007</b>	<b>908</b>	<b>1,065</b>	<b>1,063</b>	<b>1,014</b>	<b>992</b>	<b>989</b>	<b>941</b>
<i>Larger one-time items</i>									
Sale of STG shares	-	560	-	-	-	-	-	-	-
Sale of distribution facility	-	145	-	-	-	-	-	-	-
Relocation of distribution facilities	-	-	-	-	-42	-	-	-	-
<b>Operating profit</b>	<b>1,061</b>	<b>1,711</b>	<b>908</b>	<b>1,065</b>	<b>1,021</b>	<b>1,014</b>	<b>992</b>	<b>989</b>	<b>941</b>
Finance income	10	9	9	6	4	4	5	7	8
Finance costs	-100	-116	-137	-111	-119	-118	-137	-134	-133
Net finance cost	-90	-107	-128	-106	-115	-114	-132	-127	-125
<b>Profit before income tax</b>	<b>971</b>	<b>1,604</b>	<b>780</b>	<b>960</b>	<b>906</b>	<b>900</b>	<b>861</b>	<b>862</b>	<b>816</b>
Income tax expense	-220	-200	-145	-219	-200	-179	-161	-167	-165
<b>Profit for the period</b>	<b>752</b>	<b>1,404</b>	<b>636</b>	<b>741</b>	<b>705</b>	<b>721</b>	<b>700</b>	<b>695</b>	<b>651</b>
<i>Attributable to:</i>									
Equity holders of the Parent	751	1,404	636	741	705	721	700	695	651
Non-controlling interests	0	0	0	0	0	0	0	0	0
<b>Profit for the period</b>	<b>752</b>	<b>1,404</b>	<b>636</b>	<b>741</b>	<b>705</b>	<b>721</b>	<b>700</b>	<b>695</b>	<b>651</b>

1) The fourth quarter 2015 does not include any net profit in STG due to transition to a one quarter lag reporting. Swedish Match's share of net profit in STG for the first quarter 2015 includes an adjustment of 56 MSEK relating to 2014 due to STG's reassessment of useful lives of certain intangible and tangible assets. See Note 3.

### Sales by product area

MSEK	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14
Snus and moist snuff	1,338	1,245	1,318	1,311	1,271	1,191	1,323	1,257	1,267
Other tobacco products	1,031	994	955	958	982	933	723	724	699
Lights	318	303	334	312	318	331	362	319	299
Other operations	1,231	1,014	1,112	1,174	1,073	912	1,129	1,117	1,074
<b>Sales</b>	<b>3,920</b>	<b>3,557</b>	<b>3,719</b>	<b>3,756</b>	<b>3,644</b>	<b>3,368</b>	<b>3,536</b>	<b>3,416</b>	<b>3,339</b>

### Operating profit by product area

MSEK	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14
Snus and moist snuff	557	521	545	556	514	455	577	562	562
Other tobacco products	425	400	366	390	414	384	288	276	279
Lights	54	42	50	47	36	57	63	51	49
Other operations	-29	-24	-53	-14	-28	-29	-27	-15	-28
<b>Operating profit from product areas</b>	<b>1,008</b>	<b>939</b>	<b>908</b>	<b>979</b>	<b>937</b>	<b>866</b>	<b>900</b>	<b>874</b>	<b>862</b>
Share of net profit in STG <sup>1)</sup>	53	68	-	87	126	148	92	115	78
<b>Subtotal</b>	<b>1,061</b>	<b>1,007</b>	<b>908</b>	<b>1,065</b>	<b>1,063</b>	<b>1,014</b>	<b>992</b>	<b>989</b>	<b>941</b>
Sale of STG shares	-	560	-	-	-	-	-	-	-
Sale of distribution facility	-	145	-	-	-	-	-	-	-
Relocation of distribution facilities	-	-	-	-	-42	-	-	-	-
<b>Total larger one-time items</b>	<b>-</b>	<b>704</b>	<b>-</b>	<b>-</b>	<b>-42</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Operating profit</b>	<b>1,061</b>	<b>1,711</b>	<b>908</b>	<b>1,065</b>	<b>1,021</b>	<b>1,014</b>	<b>992</b>	<b>989</b>	<b>941</b>

1) In the fourth quarter 2015, Swedish Match did not report any share of net profit in STG due to transition to a one quarter lag reporting. Swedish Match's share of net profit in STG for the first quarter 2015 includes an adjustment of 56 MSEK relating to 2014 due to STG's reassessment of useful lives of certain intangible and tangible assets. See Note 3.

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

Percent	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14
Snus and moist snuff	41.7	41.8	41.4	42.4	40.5	38.2	43.6	44.8	44.4
Other tobacco products	41.2	40.2	38.3	40.7	42.2	41.1	39.8	38.1	39.9
Lights	17.0	13.8	14.9	15.2	11.4	17.1	17.3	16.0	16.4
<b>Operating margin from product areas<sup>2)</sup></b>	<b>25.7</b>	<b>26.4</b>	<b>24.4</b>	<b>26.1</b>	<b>25.7</b>	<b>25.7</b>	<b>25.5</b>	<b>25.6</b>	<b>25.8</b>
<b>Operating margin<sup>3)</sup></b>	<b>27.1</b>	<b>28.3</b>	<b>24.4</b>	<b>28.4</b>	<b>29.2</b>	<b>30.1</b>	<b>28.1</b>	<b>29.0</b>	<b>28.2</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	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14
Snus and moist snuff	603	563	588	600	559	500	623	608	604
Other tobacco products	440	415	382	404	429	399	302	289	291
Lights	64	51	59	57	46	66	72	59	57
Other operations	-16	-12	-42	-3	-17	-19	-16	-5	-17
<b>EBITDA from product areas</b>	<b>1,091</b>	<b>1,018</b>	<b>987</b>	<b>1,058</b>	<b>1,017</b>	<b>946</b>	<b>982</b>	<b>952</b>	<b>935</b>
Share of net profit in STG <sup>2)</sup>	53	68	-	87	126	148	92	115	78
<b>EBITDA</b>	<b>1,144</b>	<b>1,085</b>	<b>987</b>	<b>1,144</b>	<b>1,143</b>	<b>1,093</b>	<b>1,074</b>	<b>1,067</b>	<b>1,013</b>

- 1) Excluding larger one-time items.  
 2) In the fourth quarter 2015, Swedish Match did not report any share of net profit in STG due to transition to a one quarter lag reporting. Swedish Match's share of net profit in STG for the first quarter 2015 includes an adjustment of 56 MSEK relating to 2014 due to STG's reassessment of useful lives of certain intangible and tangible assets. See Note 3.

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

Percent	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14
Snus and moist snuff	45.1	45.2	44.6	45.7	44.0	42.0	47.1	48.3	47.6
Other tobacco products	42.6	41.8	39.9	42.2	43.7	42.7	41.8	40.0	41.6
Lights	20.1	16.9	17.8	18.2	14.5	20.0	19.8	18.6	19.2
<b>EBITDA margin from product areas<sup>2)</sup></b>	<b>27.8</b>	<b>28.6</b>	<b>26.5</b>	<b>28.2</b>	<b>27.9</b>	<b>28.1</b>	<b>27.8</b>	<b>27.9</b>	<b>28.0</b>
<b>EBITDA margin<sup>3)</sup></b>	<b>29.2</b>	<b>30.5</b>	<b>26.5</b>	<b>30.5</b>	<b>31.4</b>	<b>32.5</b>	<b>30.4</b>	<b>31.2</b>	<b>30.3</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	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14
Property, plant and equipment	69	68	68	68	69	68	71	67	62
Intangible assets	14	11	11	11	11	11	10	10	10
<b>Total</b>	<b>83</b>	<b>79</b>	<b>79</b>	<b>79</b>	<b>80</b>	<b>79</b>	<b>81</b>	<b>78</b>	<b>72</b>

### Financial definitions

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



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This information is information that Swedish Match AB (publ) is obliged to make public pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the agency of the contact persons set out above, at 08.15 a.m. CET on July 22, 2016.

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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, Garcia y Vega, Red Man, Fiat Lux, and Cricket.*

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