

MACKMYRA SVENSK WHISKY AB (PUBL)

Q4 **YEAR-END REPORT**
OCTOBER – DECEMBER 2018



MACKMYRA
SWEDISH SINGLE MALT WHISKY

RESULTS IN BRIEF

	2018 Oct.-Dec.	2017 Oct.-Dec.	2018 Full year	2017 Full year
Net sales (excluding alcohol tax), SEK million	28.4	27.3	86.2	80.9
<i>Growth in sales (excluding alcohol tax)</i>	4%	4%	6%	10%
Sales of Bottled Products, SEK million	18.8	16.6	53.3	50.3
Sales of Casks and Experiences, SEK million	9.6	10.7	32.9	30.6
Gross profit/loss, SEK million	15.2	16.5	43.9	43.4
<i>Gross profit margin, per cent</i>	53%	61%	51%	54%
EBITDA, SEK million	0.2	4.6	-6.8	2.1
Operating profit/loss, SEK million	-0.2	4.3	-8.4	0.5
Net financial items, SEK million	-2.4	-2.4	-10.6	-11.4
Taxes, SEK million	-0.2	-0.1	-0.2	-0.1
Profit/loss after tax, SEK million	-2.8	1.8	-19.2	-11.0
Cash flow after investments, SEK million	1.1	-4.2	-19.2	-14.2
Earnings per share, basic, SEK	SEK -0.20	SEK 0.15	SEK -1.49	SEK -0.95

CONTINUED SALES GROWTH IN THE FOURTH QUARTER, BUT CHALLENGES IN EARNINGS AND CASH FLOW

The fourth quarter of 2018 was Mackmyra's sixteenth consecutive quarter of sales growth. Both October and December were substantially strong months from a sales perspective, but a weak November reduced growth for the quarter and in total it registered at 4 per cent (4). Sales of bottled products increased by approximately 13 per cent (-1) whereas sales of Casks and Experiences were down by 10 per cent (13) against the fourth quarter of the previous year.

- Growth in sales of bottled products was driven by Mackmyra's priority export markets, Germany, France and the UK, which experienced 16 per cent (18) growth during the quarter.
- Sales via our German subsidiary grew by 6 per cent during the quarter and by 25 per cent for the full year. The sales force was strengthened by one salesperson for the Berlin area during the year, to cover the large and previously largely unutilised sales potential.
- We established a wholly-owned subsidiary in the UK, replacing the previous importer with our own sales force of three regional salespeople, and this has started to show results in the fourth quarter as sales have gathered momentum. Growth in the UK is from very low levels but has improved by nearly 200 per cent for the quarter compared with the fourth quarter of the previous year.
- Sales for the full year to our distributor in France were significantly lower than the previous year, but fourth quarter sales were considerably higher than the low levels for the second and third quarters.
- Mackmyra's sales to the company's biggest customer, Systembolaget, fell by approximately 1 per cent in the fourth quarter. Systembolaget's total sales of malt whisky (to end customers) rose by approximately 1 per cent in the same period. When viewed over the whole year, Systembolaget's total sales of Swedish malt whisky to end customers fell by approximately 3 per cent. Systembolaget's sales of Mackmyra's whisky to end customers are unchanged from 2017 and are approximately three times as high as those of the second-best-selling Swedish producer. It should be noted that both Sweden's second- and third-largest whisky producers posted lower sales to Systembolaget's end customers in 2018.
- The Private Brand segment, in which Mackmyra produces whisky-based products under other companies' brands, has almost doubled during the year. The launch of Scorpion's whisky in October is behind most of the sales successes and contributed to strong sales growth in the segment during the fourth quarter.
- Sales of Casks and Experiences fell by 10 per cent in the fourth quarter compared with the previous year's very strong casks finish. The big casks campaign for the year in collaboration with Vallado in Portugal involved port-saturated whisky casks and was launched at the time of the Stockholm Beer & Whisky Festival at the end of September and beginning of October. Sales started at an excellent pace but slowed during November before taking off again in December.

Growth was at 6 per cent (10) for the full year 2018, mostly driven by our export markets in bottled products where total sales for the year grew by approximately 6 per cent (7). Casks and Experiences grew at a similar rate, around 7 per cent (17). The growth in casks originates in the MASI campaign that was started as early as the autumn of 2017, the very successful campaign establishing a new cask warehouse in Hällsnäs in the spring, and the Hällsnäs port casks campaign in the autumn.

Mackmyra experienced weaker earnings in the fourth quarter of 2018. Profit/loss after tax for the quarter was SEK -2.8 million (1.8), a deterioration in performance compared with the SEK 4.6 million profit of the previous year. Gross profit was SEK 15.2 million (16.5), EBITDA amounted to SEK 0.2 million (4.6) and operating profit/loss amounted to SEK -0.2 million (4.3). The focus on growth in Casks and Experiences during the year involved higher costs in the business area and did not produce a comparable increase in turnover as planned. Investments in our own sales organisation structure in the UK also contributed to the poorer results for 2018 and in the fourth quarter owing to the start-up being delayed and the operation not yet having reached a level of sales to cover its own overheads.

Mackmyra's 2018 results for the full year are down. Profit/loss after tax amounted to SEK -19.2 million (-11.0), a deterioration of SEK 8.2 million. The deterioration is mostly due to lower sales during the summer and a weaker November than forecast, plus the fact that the export initiative in the UK and the catering sector in Casks and Experiences did not produce the breakthrough in turnover and gross profit we had planned for. Gross profit in absolute terms was basically unchanged against 2017, the total for the year being SEK 43.8 million (43.4). Improving our gross profit further is an area of strong focus for us going forward. EBITDA amounted to SEK -6.8 million (2.1) and operating profit/loss amounted to SEK -8.4 million (0.5).

Cash flow after investments amounted to SEK 1.1 million (-4.2) for the fourth quarter. The improvement is mainly due to savings that have been implemented and other measures taken.

Cash flow for the full year after investments totalled SEK -19.2 million (-14.2). There are two primary explanations for the deterioration in the year's cash flow. Operations had been planned expecting a significantly higher level of growth and sales than what was achieved during the year. This meant that the value of goods ready to deliver rose substantially during the year as a result of our not having disposed of the volumes we produced, while operations had been planned organisationally on the basis of the higher planned sales levels – the consequence was a rise in expenditure. After the long, hot summer with its weaker sales, we applied the brakes on the cost side, which produced a breakthrough from the fourth quarter and going forward.

SIGNIFICANT EVENTS IN THE FOURTH QUARTER

- October saw the launch of Mackmyra Vinterglöd, which was a huge success – Systembolaget's order quota was sold out in two months. However, new purchasing procedures meant that the stores' follow-up orders were closed as early as the first week in December when Christmas sales were getting under way, despite a continued high demand from customers and the fact that the product was still available in our warehouses.

Vinterglöd is a warming and spicy single malt whisky, inspired by the Swedish winter tradition of keeping warm by drinking mulled wine during the colder months. Vinterglöd is finished in oak casks, some of which have been saturated with Swedish mulled wine and others with Pedro Ximénez sherry.

- In November we announced the launch of Moment Karibien – continuing the collaboration that was started between Mackmyra and Plantation Rum – in Systembolaget's order assortment. Moment Karibien is partly finished in rum casks from Barbados and Jamaica. The result is a spicy and fruity whisky that leads thoughts towards warmer climes.

The different casks used to age Moment Karibien are between eight and twelve years old.

- LAB Distillery Organic Gin is a modern, artisan-produced gin with a classic taste incorporating Swedish flavours and carefully selected KRAV-labelled ingredients distilled in the traditional copper pot-still at Mackmyra Bruk. Organic Gin is our second gin product, complementing the first Kreatör Jin with a product that is slightly fruitier, and comes in a larger bottle and at a lower price level. Organic Gin was

fully developed and introduced into Systembolaget's order assortment at the end of October. This is a product that can compete with the best-sellers in Systembolaget's premium segment commanding prices up to SEK 300, such as Bombay Sapphire, Tanqueray and Beefeaters. The product is also of strategic importance to reach the on-trade (bar & restaurant) market in Germany and the UK, and has now been introduced into those markets. LAB Distillery Organic Gin was developed for blending into classic gin cocktails or Dry Martinis and has flavours such as juniper, coriander, lemon, elderberry, lingonberry and mango.



SIGNIFICANT EVENTS AFTER THE END OF THE FOURTH QUARTER

- In February we announced that, despite sales growth, Mackmyra had not achieved the sales level the company had planned and based its business activities on for 2018. We explained that the rise in the year's expenditure weighed more heavily on the profit/loss and cash flow for the year than planned. We also announced that a new operational and financial plan was being completed and that a further infusion of capital would be required to enable and reinforce its implementation, for instance by reducing the burden of amortisation and interest payments on cash flow. The form and size of the forthcoming raising of capital will be established and communicated during the first quarter of 2019 and the plan is to implement it from the second quarter of 2019.
- There was a further announcement that in order to cover Mackmyra's short-term capital requirements, a bridging loan of SEK 2.5 million was taken out in September 2018 (as we reported in the interim report for the third quarter of 2018), and the company took out further bridging loans of SEK 2.0 million in October 2018 and SEK 6.5 million in February 2019. The loans were taken out in line with market conditions and the lenders are a number of Board members and/or majority shareholders in the company.
- Mackmyra is celebrating its 20th anniversary in 2019, both as a company and Sweden's first ever single malt whisky distillery. "The Swedish Original since 1999" is the company's tagline, and our vision to be at the cutting edge and produce world-class, innovative climate-smart malt whisky is the same today as it was when we started.
- Our anniversary year will be filled with surprises and will feature activities, campaigns and exciting product launches and events. The year will kick off with the opening of the whisky warehouse facility in Hällsnäs on 9 March.
- In 2018, Mackmyra carried out a project in collaboration with Hällsnäs Holding AB to establish a whisky warehouse facility for customers' own 30-litre casks (Mackmyra Reserve) on the shores of the Landvetter Lake in Mölnlycke between Gothenburg and Landvetter. Hällsnäs covered the investment and construction while Mackmyra provided the skills and competence in whisky warehousing and Reserve operations, and rental of the warehousing premises from Hällsnäs. The project strengthens Mackmyra's and Hällsnäs's positions in the Gothenburg region considerably, especially as regards companies and organisations with an interest in enjoying life, wanting to confer in a glorious environment, and willing to bring their team together for a period of time around a whisky cask. The project is a big success: 280 of 330 cask warehouse places have already been reserved ahead of the opening in March 2019. The building and all necessary permits are ready. The customer casks were brought into the warehouse at the end of February. What is particularly good about the project is that it also serves as a model for a concept that can easily be reproduced elsewhere, both within the country and abroad.
- Mackmyra announced in February that the company would be changing Certified Advisers to FNCA Sweden AB from 1 March 2019.

CEO'S REPORT**Mackmyra celebrates its 20th anniversary in 2019**

Starting a whisky distillery is a daunting task. The primary product is matured for at least five if not fifteen years before it is sold and produces any earnings. But how far has Mackmyra actually come in these 20 years? The fact is that we have come further than most distilleries that didn't have access to unlimited capital.

We spent the first ten years starting and building up our operations in Sweden. We were financially successful and reached break-even by the end of the ten-year period including cash flow, but only had capacity for the Nordic market. Between 2010 and 2013 we developed capacity to be able to expand further out into the world. We built a larger distillery and filled up our whisky maturing stocks. Since 2014 we have expanded our home market to Europe and complemented our product portfolio with gin from our original distillery at Mackmyra Bruk, which has plenty of capacity for gin. The scalability of the business model means that increased sales do not particularly affect fixed costs so the next breakthrough in terms of break-even will also give greater leverage to our results and cash flow.

That is my perspective on 2018 and the last 20 years, since our business idea has always been that people in Sweden, Europe and the rest of the world who enjoy the finer things in life should be offered an attractive range of whisky and related products via the strong Mackmyra brand.

We leave 2018 behind with mixed feelings. The year included a combination of important milestone achievements and several aggravating circumstances that restricted sales growth.

Some of the successes of 2018 were:

- The fourth quarter of 2018 was the 16th quarter in a row when there was growth since the Europe initiative started in 2014.
- We reached 50,000 bottled products sold in Germany, a 25 per cent increase in 2018. Since we brought sales in-house from an importer in 2014, Germany has grown eightfold and our subsidiary is both profitable and has positive cash flow. Germany is one of the world's largest markets for premium whisky and gin, approximately nine times larger than Sweden, and we are in a good position to increase our market share considerably in the future as well.
- New sales record in the UK. After ten years of using an importer (2007-2017), which involved few products, high prices to consumers and low total volumes, in 2018 we started our own subsidiary. Immediately, we made a new record for the full year even though there were no sales during the second and third quarters owing to the change. The UK is the largest market for premium whisky and gin in Europe, approximately 17 times larger than Sweden. Our objective is to pursue the same development trajectory as we did in Germany – the potential is at least as high.
- Fourth year in a row of growth in private casks in Sweden. The most important project was setting up the whisky

warehouse facility in Hällsnäs outside Gothenburg since it also involved completion of a concept that can be used again in several other places. It was built in 2018 and opens as part of the 20th anniversary celebrations in March 2019.

In 2018 the establishment of the subsidiary in the UK and the further development of the LAB Distillery with the new gin meant increased uncertainty as regards forecasting of costs and earnings. There are no such large projects planned for 2019, which means a reduction in operational risk.

Lower growth than planned in 2018 meant that we had a relatively higher level of costs in 2018 than in 2017 until we applied the brakes in the fourth quarter. We have compiled an efficiency programme, which has largely already been implemented since the middle of the first quarter, and which has a clear bearing on the business plan for 2019. For example, in 2018 we increased the value of goods ready to deliver in terms of bottled products. We can use this in 2019 instead.

Examples of measures in the efficiency programme

- Undertaking a general review of pricing – this involves, for example, a price increase for MACK at Systembolaget from 1 March 2019 and price increases on our other export markets.
- Maintaining reduced distillation at the Gravity distillery – approximately 400,000 bottles per year.
- Reducing bottling – reduced value of goods ready to deliver and higher stock turnover.
- Renewing our restaurant efforts – operation in-house from the first quarter of 2019.
- Reducing staff in the sales, administration and production areas (implemented in the first quarter of 2019).
- These measures had to a large extent already been put into effect in December 2018 and January 2019 but will be continued during the year.

Some of the reasons for the lower growth rate in 2018

- We had delayed growth in the UK due to the late start to sales by over a quarter.
- It is difficult to stave off what the weather decides to do. The extremely hot summer months – not only in Sweden, but also in the rest of Europe – made for significant changes in market conditions in 2018. These are variations we have to reckon with, but their impact can be reduced by offering refreshing drinks to a greater degree next summer. The loss of sales in the summer was at its most distinct in Sweden and France, our largest and third largest markets respectively.
- Alcohol policy in Sweden holds us back and we get to “clear the way” for our whole sector. Mackmyra was the only company to have a lawsuit filed against it by Sweden's national Consumer Ombudsman – this creates extra work, costs and uncertainty. The issue concerns six images on social media, which the Consumer Ombudsman does not consider should be permitted either in Sweden or abroad. This is not because the images stand out, particularly compared with Swedish

colleagues' posts on social media and especially not what is regular practice in the UK and Germany. We constitute a "good choice" for a test case as regards assessing exposure on the Internet by means of images on social media. The case will be decided in May 2019 and, whatever the outcome, clearer guidelines will result for all stakeholders, individuals and organisations, which will be an improvement.

- Getting going with gin has taken longer than planned. Systembolaget offers an extremely limited gin shelf compared with other retail chains in Europe. This is why it is more difficult to obtain a fixed spot on the shelf – it also takes a long time. Interest in gin continues to increase, however, and Mackmyra's Kreatör Jin was the fifth best-selling Swedish gin at Systembolaget. Our second gin, LAB Distillery Organic Gin, was delayed until the late autumn, which is not the best time for a gin launch. However, in Germany, Kreatör Jin was Mackmyra's third best-selling bottle of 2018.

Impatience and the expectation gap

What makes the market impatient at our efforts so that the share price falls? My totally personal guess is that first and foremost it is about an expectation gap as many believe that progress should happen more rapidly. However, starting a whisky distillery is a marathon run rather than a sprint. It requires staying power, patience and capital if you want to become more than just a local operator. Ask the founders of Macallan, Bushmill or Jack Daniels, or more recent starters like Nikka (Japan), Connemara (Ireland), Lark Distillery in Australia or Balcones in Texas.

We recently issued a press release announcing that we plan to raise some capital during the first half of 2019. I sometimes get asked the question why new capital needs to be added "so often". Mackmyra's heavy financial burden dates back to the years between 2010 and 2012 when we built the Gravity Distillery and distilled hard for two years so as to fill up our maturing stocks in Bodås. We invested approximately SEK 130 million in our production facility and almost as much in distillation in those years – those investments were made to create capacity for continued

expansion out into the world.

Now, with the benefit of hindsight, it is clear that the loan part of the financing of this initiative was too large relative to the time it takes to establish overseas markets. Interest and amortisation payments are a heavy burden for us. We have budgeted SEK 17 million for interest and amortisation payments in 2019. Our financing costs seem very high in relation to current turnover (SEK 86 million for 2018). The share issues we made after 2012 have largely been used to pay off loans to banks and credit institutions (from approximately SEK 180 million in 2013 to

approximately SEK 130 million in 2018), pay interest, distillation and a small amount to growth initiatives such as Germany, the UK and the LAB Distillery. In one scenario where all fixed and financial costs are unchanged, Mackmyra needs a turnover of approximately SEK 120 million to achieve the cash flow break-even point. Without current interest and amortisation, the company's cash flow would largely already be positive today and would be showing a considerably higher level of profit.

Thank you, Sweden!

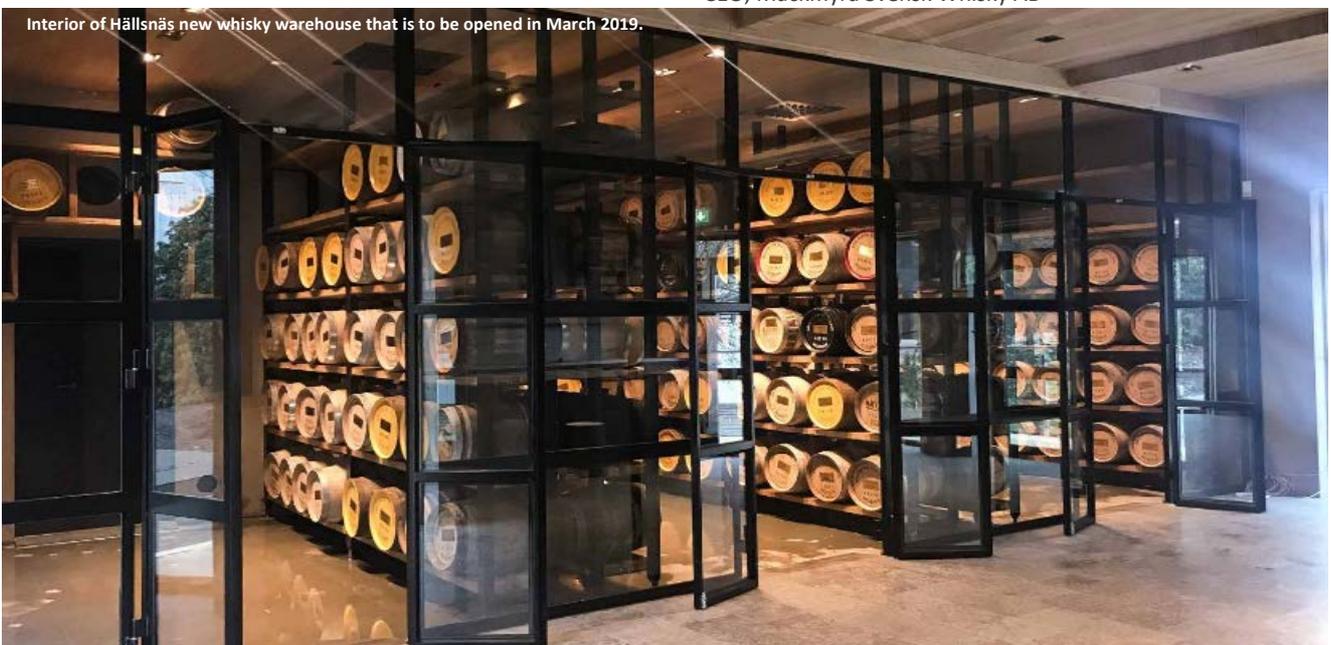
Over the years since it was founded, Mackmyra has released no fewer than 76 exciting editions, winning 117 accolades – 43 gold medals included. The popularity of the Swedish whisky flavour has led to 18,000 casks being sold to approximately 45,000 cask owners. These people have become affiliated to the company, forming an important part of the vibrant spirit of enterprise embraced by Mackmyra and of the company's strong and well-known brand. Our vision to be at the cutting edge and produce world-class, innovative climate-smart malt whisky is the same as it was 20 years ago. Working alongside our fantastic employees, customers, shareholders, partners and suppliers, we've been successful. This doesn't mean, of course, that we don't have any new objectives for the company in the future. We're now taking the next step, and looking ahead to the next 20 years. For a start, we are delighted to invite you all to Mackmyra's 20th anniversary Sweden roadshow in 2019.

Looking forward to 2019!



Magnus Dandanell
CEO, Mackmyra Svensk Whisky AB

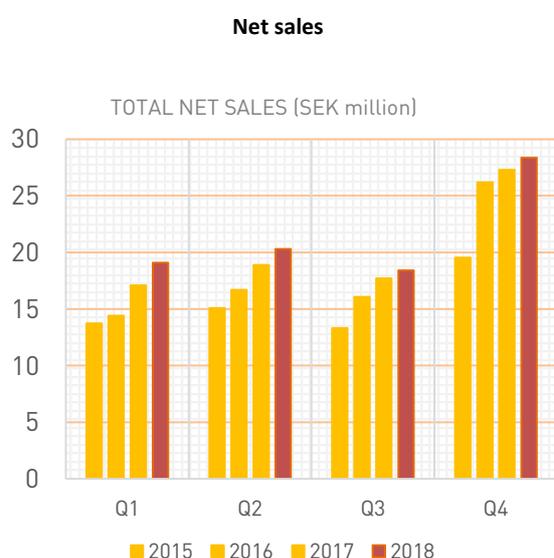
Interior of Hällsnäs new whisky warehouse that is to be opened in March 2019.



MACKMYRA SVENSK WHISKY AB

Mackmyra Svensk Whisky AB (publ) was founded in 1999 and is Sweden's first producer of malt whisky. The Company has successfully launched the first Swedish single malt whisky in the form of personal 30-litre casks and single malt whisky sold in bottles. Since the autumn of 2017, the company also produces and markets gin. Operations are conducted in the Mackmyra Whisky Village outside Gävle, with the marketing arm located in Stockholm, and through the subsidiaries Mat och Upplevelser i Kungsbäck AB and Mackmyra Swedish Whisky GmbH, which is based in Hamburg, and Mackmyra Swedish Whisky Ltd, which is based in London.

Mackmyra has approximately 7,000 shareholders and its Class B shares are listed on Nasdaq First North Stockholm.

NET SALES AND FINANCIAL PERFORMANCE

Net sales excluding alcohol tax for the fourth quarter totalled SEK 28.4 million (27.3), up 4 per cent (4) over the previous year. This quarter was therefore the 16th consecutive quarter with growth compared with the corresponding quarter in the previous year.

During this quarter, Bottled Products comprised 66 per cent (61) of net sales excluding alcohol tax, while Casks and Experiences accounted for the remaining 34 per cent (39).

Looking at the full year 2018, Bottled Products comprised 62 per cent (62) of net sales excluding alcohol tax, while Casks and Experiences accounted for the remaining 38 per cent (38).

Financial Performance in the Fourth Quarter

Gross profit for the quarter amounted to SEK 15.2 million (16.5) with a gross profit margin of 53 per cent (61). The gross margin for the full year, 51 per cent (54), is slightly lower than the level of the previous year.

EBITDA for the quarter amounted to SEK 0.2 million (4.6) and operating profit/loss amounted to SEK -0.2 million (4.3), deteriorations in performance of approximately SEK -4.5

million. The deterioration is largely due to increases in costs in one or two areas.

Approximately SEK 1.5 million of the deterioration in results this quarter is due to a lower gross margin than the previous year.

- The margin is partly governed by cask sales, which have a very high gross margin – these were very strong in the fourth quarter of 2017. Cask sales fall in the last quarter of the year and are replaced by growth in sales of bottled products, which have a substantially lower gross margin.
- Additionally, this quarter has had the burden of relatively high production costs linked to the start-up and continuing running-in process at the LAB Distillery.

The rest of the deterioration in results, approximately SEK 3 million, is due to increased costs compared to the previous year,

- partly for the development of the operation in the UK
- partly for expansion in Germany (sales representatives in Berlin)
- partly for investment in marketing and sales staff in Sweden
- partly in connection with the restaurant in the Whisky Village where we saw many positive developments but at a cost that was all too high.

The profit/loss after tax for the fourth quarter was SEK -2.8 million (1.8), thereby representing a deterioration in earnings of approximately SEK 4.6 million.

Financial Performance full year 2018

Mackmyra's performance for the full year 2018 has deteriorated. Profit/loss after tax amounted to SEK -19.2 million (-11.0), a deterioration of SEK 8.2 million. Gross profit was basically unchanged against 2017, the total for the year being SEK 43.8 million (43.4). EBITDA amounted to SEK -6.8 million (2.1) and operating profit/loss amounted to SEK -8.4 million (0.5).

In 2018 the company's gross margin went down by approximately 3 percentage points from 54 per cent in 2017 to 51 per cent in 2018. The reduction in gross margin can be explained primarily under the following items.

- Start-up and continuing running-in costs at the LAB Distillery.
- A marginal structure change in the experiences area where sales of experiences have risen in sections where we have a lower gross margin, such as the restaurant operation, and fallen in other areas with a substantially higher gross margin at the same time.
- Higher distillation costs owing to issues such as higher electricity prices and costs relating to the changeover to much reduced distillation in the second half of the year.
- A lower gross margin in Germany as a result of a change of product mix between the years.

We undertook a careful review of our pricing in 2018, which we expect to lead to improved gross margins in 2019.

On an annual basis, Mackmyra's sales and marketing expenses rose considerably in 2018, by approximately SEK 7

million compared with the previous year. Administration costs also rose during the year by approximately SEK 2.5 million. The cost increases are primarily due to:

- the start of operations in the UK, which has been mentioned earlier in this report,
- expansion in Germany (Berlin)
- investment in marketing and sales in the company’s Swedish operations
- the restaurant and Mackmyra Day at Mackmyra Whisky Village
- provisions for Hällsnäs relating to cask sales
- investments in export sales and digital business development
- certain minor increases in IT and Finance, and costs in connection with the Consumer Ombudsman lawsuit.

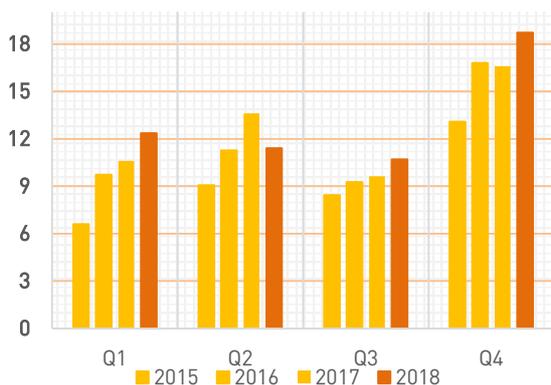
From the point of view that the planned sales growth was not achieved, the rise in costs became unsustainable, which is the reason for measures being taken in the fourth quarter of 2018 and the first quarter of 2019 to substantially reduce the increase in costs.

BOTTLED PRODUCTS

Currently about half of Mackmyra’s sales revenue comes from bottled products from Systembolaget, which is Mackmyra’s largest customer.

The priority export markets, Germany, France and the UK, account for just over one quarter of sales. Border Shops, Travel Retail and Private Brand account for almost another quarter of sales. The remainder is sold to other export markets.

SALES OF BOTTLED PRODUCTS (SEK million)



Net sales from sales of bottles for the full year totalled SEK 18.8 million (16.6), representing growth in sales of 13 per cent (-1). Sales for the full year increased by approximately 6 per cent (7), in part due to our exports. The second quarter of 2018 stands out as one of few quarters without growth, partly as a result of a very strong second quarter in 2017, but also the prolonged heat that clearly slowed down sales over the summer.

Mackmyra’s priority export markets

Sales to the priority export markets for the fourth quarter of 2018 amounted to SEK 5.7 million (4.9), representing sales growth of approximately 16 per cent.

Of the three priority export markets – Germany, France and the UK – Germany has enjoyed 6 per cent (23) growth, France lost approximately 16 per cent (9) and the UK rose by no less than 182 per cent for the new subsidiary that was set up in 2018.

Sales to the priority export markets accounted for 34 per cent (27) of total sales of bottled products.

In 2018, our export markets grew by approximately 6 per cent (19) for the full year despite large sales losses in France and the UK in the second and third quarters. Germany is once again the big engine, growing by 25 per cent.

Systembolaget

Sales to Systembolaget for the fourth quarter of 2018 decreased in value by 1 per cent. Sales of MACK by Mackmyra is at a slightly lower level than the previous year, but considerably fewer bottles were sold. The reason for this is probably largely the price increase that came into force in the spring.

For the full year, Systembolaget’s sales of Mackmyra’s single malt whisky fell by approximately 5 per cent. The fall relates broadly equally to the second and third quarters, and is largely explained by the four very hot summer months involving falling whisky sales.

Private Brand

Private Brand (including Motörhead and Scorpions) posted substantially higher volumes in the fourth quarter following the launch of Scorpions. Private Brand will continue to be an important focus area moving forward with sales close to doubling in 2018, even if this is from low levels.

LAB Distillery by Mackmyra

LAB Distillery by Mackmyra has been operating since the middle of 2017 in Mackmyra’s original distillery at Mackmyra Bruk. The restart of the distillery meant that a resource that had long been unutilised and depreciated has become an efficient means of facilitating a broadening of Mackmyra’s product portfolio with liquor categories other than single malt whisky.

In October LAB Distillery Organic Gin was launched into Systembolaget’s order assortment. Sales volumes have been modest to start with, but we are hopeful that the product could become another MACK by Mackmyra on the gin side.

Overall, in terms of the full year, the area is growing substantially compared with the previous year. However, we are not achieving our objectives for the year. The area continues to be important and continues to be a priority area for us for the future.

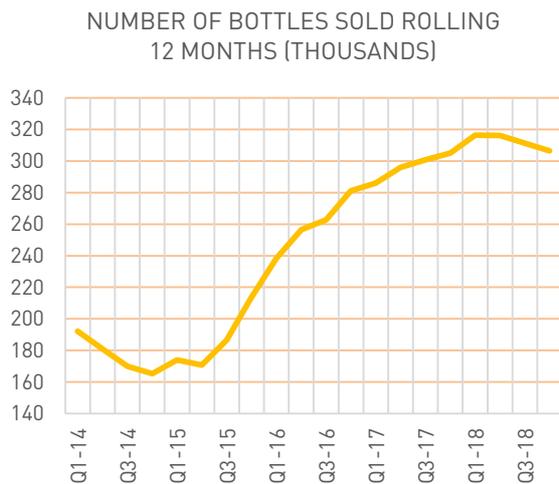
Travel Retail

Sales in the Travel Retail segment for the fourth quarter reached an equivalent level to the previous year. However, the segment depends on orders from a small number of

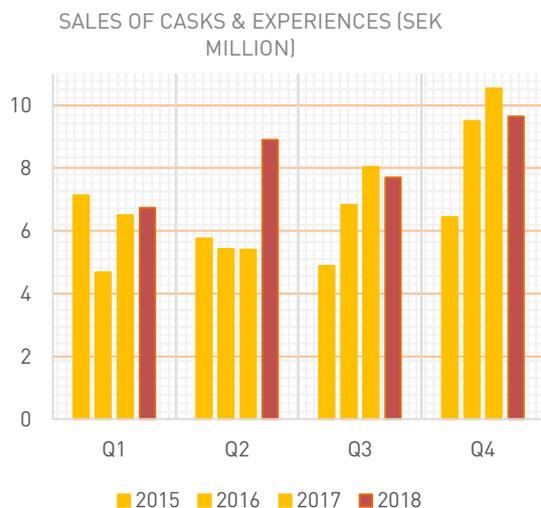
customers and varies enormously both in terms of size and between periods. In 2018, sales for the full year fell by approximately 14 per cent as a consequence of our reduced offering to these customers as regards one or two products that had been less profitable for us in the past.

Number of bottles sold

The number of bottles sold during the quarter amounted to 101,000 (106,000), which was slightly lower than the level of the previous year. The number of bottles sold, viewed over the last rolling 12-month period, was approximately 307,000 (305,000), reaching a slightly higher level than the previous year and at a higher average price per bottle sold.



CASKS AND EXPERIENCES



First quarter sales of Casks and Experiences totalled SEK 9.6 million (10.7), which was a fall of 10 per cent (13) compared with the previous year. Growth for the year amounted to 7 per cent (17). Growth in this business area was driven by sales of casks, which posted a growth of approximately 9 per cent.

Mackmyra Whisky Village & Experiences

As previously, Mackmyra’s visitor centre in Mackmyra Whisky Village offers visits to Mackmyra’s restaurant, whisky tastings,

tours of the distillery and warehouse, as well as conferences. Mackmyra Whisky Village targets both private individuals and companies.

After reopening at the beginning of 2017, the restaurant continued to show a positive trend with increased opening hours and gradually increasing occupancy. We see continued growth, largely driven this year by positive developments in and around the restaurant, as well as the result of an increased focus on activities related to the experience offering. Using a third-party supplier has meant that growth has been extremely expensive, which is the reason for the experiences operation currently being restructured to being run in-house on a more cost-effective basis.



PRODUCTION

Distillation

Approximately 63,000 bottles (128,000) were distilled in Mackmyra’s gravity distillery in the fourth quarter this year. The distillation rate was adjusted down in the fourth quarter in line with the lower cash flow. In 2018 we distilled 402,000 (410,000) bottles, a similar level to the previous year.

An even age distribution in the maturing stock is preferable in the long term. Consequently, the aim over the next few years is for the distillation rate to at least correspond to balanced distillation, where the input of newly distilled whisky in the warehouse = output of bottled whisky from the warehouse. The estimated growth of younger whisky products will also be added to that amount. In 2018 we achieved balanced distillation at around 400,000 bottles.

In addition to the above, approximately 13,000 bottles of gin were produced in the LAB Distillery compared with approximately 3,500 in the third quarter. Production for the full year 2018 amounted to approximately 30,000 bottles of gin.

Maturing stock

The carrying amount of the maturing stock during the quarter was unchanged at a total value of approximately SEK 171 million as at 31 December 2018. The maturing stock is valued at the lower of either production cost or net realisable sales value at the close of the reporting period. The production cost includes the ongoing cost of storage during the period up until when the whisky is matured for selling.

The value of goods ready to deliver (bottled products in the warehouse plus packaging materials) was SEK 23.5 million (17.6). The increase is due to preparations for increased growth. As part of the growth was delayed (e.g. start of operations in the UK and for our new gin product), stocks rose. We can use these volumes in the first half of 2019, which will reduce the burden on cash flow in this period.

The total value of stocks on hand at the close of the reporting period was SEK 194 million and for the third quarter of 2018 it was SEK 193 million. As at 31 December 2017 the value was SEK 183 million. Finished whisky at the right age and recipe mix in sufficient quantities are crucial for increasing sales in the long term. Approximately 50 per cent of Mackmyra’s total maturing stock consists of whisky that has been aged for five or more years. This means that Mackmyra currently also has a high delivery capacity of older whisky. However, the increase in sales of bottled products means that greater distillation is required, which is a challenge since there were strains on cash flow during this period. Mackmyra risks having a shortage of stocks of younger whisky around 2022. This can be balanced out, however, with older and more exclusive whisky at higher prices. An example of this is the price increase that was implemented for MACK in 2018, which reduced volumes while at the same time sales earnings remained almost the same.

The whisky that is already in the warehouse and that has not been bottled for 2022 will be five years older than it is today and will command a substantially higher retail price. It should therefore not be used for products in the lower price segment, but rather to supply the products in the more exclusive segments. It will be a major strength to have good capacity to bottle ten to fifteen-year-old whisky while hedging the supply of younger whisky with a well-balanced annual distillation.



FINANCIAL INFORMATION

INVESTMENTS

Investments for the quarter totalled SEK 0.9 million (1.3) and included casks for ageing of whisky, and IT development.

CASH FLOW

Cash flow after investments amounted to SEK 1.1 million (-4.2) for the quarter. Cash flow from financing in the fourth quarter amounted to SEK 0.0 million (4.5), which comprises the net amount of changes in bank overdraft facilities, amortisation payments and new loans during the quarter.

LIQUIDITY AND FINANCING

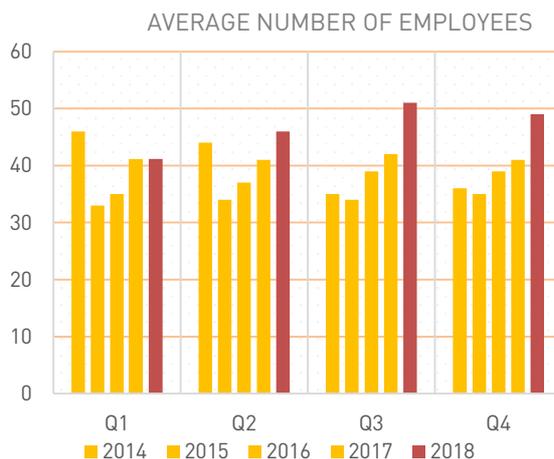
The Company raised SEK 2.0 million in October in the form short-term bridge financing from members of the Board of Directors. At the close of the reporting period, cash and cash equivalents amounted to SEK 1.7 million, compared with SEK 1.3 million as at 31 December 2017. Unutilised lines of credit at the close of the reporting period totalled SEK 1.2 million (0.7).

At the close of the reporting period, non-current liabilities amounted to SEK 144.6 million, compared with SEK 148.9 million as at 31 December 2017. At the close of the reporting period, non-current liabilities consisted of SEK 122.5 million (129.3) in loans from credit institutions, SEK 3.9 million (1.9) in convertible debentures, SEK 8.8 million (9.3) in unutilised lines of credit, and SEK 9.3 million (8.5) in non-interest-bearing liabilities attributable to loans from the Company's cask owners.

Bank overdraft facilities totalled SEK 10.0 million (10.0).

STAFF AND ORGANISATIONAL STRUCTURE

The Group had an average of 49 full-time employees (41) during the quarter. Management consists of the CEO, CFO, Nordic Sales Manager, Marketing Manager, Production Manager, Master Blender, and the Head of the International Ambassador Office. The chart below shows the average number of full-time employees by quarter. The increase in the number of employees during the year is explained by the recruitment of further sales and marketing staff; the UK (2.7), Germany (1.5), Sweden (2.5) and a degree of expansion in production staff (1). As is mentioned in the efficiency programme in the CEO’s report above, measures have already been taken to reduce staff in the first quarter of 2019 by the equivalent of approximately six full-time posts.



THE SHARE

Mackmyra Class B shares are listed on Nasdaq First North Stockholm. The closing share price on 28 December 2018 was SEK 12.40, which compares with SEK 17.10 as at 28 September 2018. A total of 242,424 shares were traded over the course of the quarter, compared with 412,288 shares during the previous quarter.

**RISKS AND UNCERTAINTIES**

For a description of risks and uncertainties, please refer to Mackmyra's 2017 Annual Report, page 28. Mackmyra's annual reports are available at: www.mackmyra.se.

SHARE CAPITAL

The number of shares at the beginning of the quarter amounted to Total 14,105,095. At the end of the quarter the number of shares amounted to 14,105,095 and the share capital was SEK 14,105,095.

DIVIDEND

The Board of Directors intends to propose that no dividend be paid.

ACCOUNTING POLICIES

This quarterly report has been prepared in accordance with the Annual Accounts Act and the Swedish Accounting Standards Board General Guidelines BFNAR 2012:1 Annual Reports and Consolidated Financial Statements (K3 rules). The same accounting policies have been applied as in the 2017 Annual Report. For a more detailed description of the accounting policies applied, please refer to the 2017 ANNUAL REPORT. All information in this report refers to the Group which consists of Mackmyra Svensk Whisky AB and the wholly owned subsidiaries Mat och Upplevelser i Kungsbäck AB, Mackmyra Swedish Whisky GmbH and Mackmyra Swedish Whisky Ltd.

OWNERSHIP Q4 2018

Owner	Total	Class A shares	Class B shares	Capital %	Votes %
Lennart Hero	2 056 130	34 940	2 021 190	14,6%	14,3%
Anette och Håkan Johansson	1 838 069	0	1 838 069	13,0%	11,1%
Fam. Rolf Klingberg	1 712 046	11 000	1 701 046	12,1%	10,9%
Grundargruppen*	1 457 535	207 860	1 249 675	10,3%	20,1%
W&L Kapitalförvaltning AB	552 010	0	552 010	3,9%	3,3%
Försäkringsaktiebol., Avanza pension	245 826	0	245 826	1,7%	1,5%
ROT-US Invest AB	206 896	0	206 896	1,5%	1,2%
Lena Lager	206 896	0	206 896	1,5%	1,2%
Östen och Eva Malmborg Holding AB	190 858	0	190 858	1,4%	1,2%
Familjen Tage Klingberg	22 904	22 200	704	0,2%	1,3%
Övriga aktieägare	5 615 925	0	5 615 925	39,8%	33,9%
Total	14 105 095	276 000	13 829 095	100,0%	100,0%

The above list of major shareholders reflects the ownership structure as at 31 december 2018.

* The founders group consists of (Annika Berg, Jonas Berg, Astrid Dandanell, Magnus Dandanell, Jennie Kastengren, Carl-Johan Kastengren, Rikard Lundborg och Malin Lövmemark), Spiritum Spritaktiebolag AB samt Gillesvik AB-koncernen.

PROFIT & LOSS STATEMENT

SEK THOUSAND	2018	2017	2018	2017
	Oct.-Dec.	Oct.-Dec.	Full year	Full year
Net sales	39 251	37 909	116 055	111 253
<i>Less: alcohol tax</i>	-10 874	-10 612	-29 892	-30 310
Net sales excluding alcohol tax	28 377	27 297	86 163	80 943
Cost of goods sold	-13 220	-10 769	-42 304	-37 549
Gross profit/loss	15 157	16 527	43 859	43 394
Other operating expenses				
Selling and marketing expenses	-11 536	-9 090	-37 236	-30 483
Administrative costs	-3 815	-3 357	-14 984	-12 389
Other operating expenses	0	230	0	-17
	-15 351	-12 217	-52 220	-42 889
Operating profit/loss	-194	4 311	-8 361	505
Net financial items	-2 419	-2 401	-10 584	-11 351
Profit/loss after financial items	-2 613	1 910	-18 945	-10 846
Taxes	-217	-147	-217	-147
Profit/loss after tax	-2 830	1 763	-19 162	-10 993

BALANCE SHEET

SEK THOUSAND	2018-12-31	2017-12-31
ASSETS		
NON-CURRENT ASSETS	94 429	101 735
CURRENT ASSETS		
Inventories	194 074	183 443
Other current assets	22 668	24 121
Cash and bank balances	1 731	1 297
	218 473	208 861
TOTAL ASSETS	312 902	310 596
EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY	119 981	104 017
NON-CURRENT LIABILITIES AND PROVISIONS	149 724	153 492
CURRENT LIABILITIES	43 198	53 087
TOTAL EQUITY AND LIABILITIES	312 903	310 596

CHANGES IN EQUITY

SEK THOUSAND	2018 Full year	2017 Full year
Eget kapital vid periodens ingång	104 017	115 007
Issuance of new shares	36 209	-
Issuance expenses	-1 156	-
Translation differences	73	3
Profit/loss for the year	-19 162	-10 993
Equity at the end of the period	119 981	104 017

CASH FLOW STATEMENT

SEK THOUSAND	2018 Oct.-Dec.	2017 Oct.-Dec.	2018 Full year	2017 Full year
Cash flow from operating activities	-15	4,107	-7,962	1,232
Change in working capital				
Change in stocks	-864	-1,766	-10,630	-9,009
Change in other working capital	2,934	-5,269	2,642	-3,557
Cash flow after changes in working capital	2,055	-2,928	-15,950	-11,334
Cash flow to investments	-909	-1,320	-3,255	-2,907
Cash flow after investments	1,146	-4,248	-19,205	-14,241
Financing				
Amortisation	-1,837	-2,103	-6,791	-7,728
New loans	2,477	2,415	6,550	5,994
Change in lines of credit	-606	4,152	-454	9,273
Issuance of new shares	0	0	20,335	0
Cash flow from financing activities	33	4,465	19,639	7,539
Cash flow for the period	1,179	217	434	-6,702
Cash and cash equivalents at the beginning of the period	552	1,081	1,297	7,999
Cash and cash equivalents at the end of the period	1,731	1,298	1,731	1,297

KEY FIGURES

	2018	2017	2018	2017
	Oct.-Dec.	Oct.-Dec.	Full year	Full year
Net sales, SEK million	39.3	37.9	116.1	111.3
Net sales (excluding alcohol tax), SEK million	28.4	27.3	86.2	80.9
<i>Growth in sales (excluding alcohol tax)</i>	<i>4%</i>	<i>4%</i>	<i>6%</i>	<i>10%</i>
Sales of Bottled Products, SEK million	18.8	16.6	53.3	50.3
Sales of Casks and Experiences, SEK million	9.6	10.7	32.9	30.6
Gross profit/loss, before under-absorption, SEK million	15.2	16.5	43.9	43.4
Gross profit/loss, before under-absorption, per cent	53%	61%	51%	54%
Gross profit/loss, SEK million	15.2	16.5	43.9	43.4
Gross profit margin, per cent	53%	61%	51%	54%
EBITDA, SEK million	0.2	4.6	-6.8	2.1
Operating profit/loss, SEK million	-0.2	4.3	-8.4	0.5
Profit/loss after tax, SEK million	-2.8	1.8	-19.2	-11.0
Cash flow after investments, SEK million	1.1	-4.2	-19.2	-14.2
Cash flow, SEK million	1.2	0.2	0.4	-6.7
Investments, SEK million	0.9	1.3	3.3	2.9
Maturing stocks, carrying amount, SEK million	170.5	165.9	170.5	165.9
Change in maturing stocks, SEK million	-0.7	2.1	4.7	4.2
Change in maturing stocks, per cent	0%	1%	3%	3%
Financial net debt excluding convertible debentures, SEK million	141.5	144.6	141.5	144.6
Liquidity ratio, per cent	59%	49%	59%	49%
Interest coverage ratio (times)	-0.1	1.8	-0.8	0.0
Equity, SEK million	120.0	104.0	120.0	104.0
Equity per share, SEK	8.51	9.00	8.51	9.00
Equity ratio, per cent	38%	33%	38%	33%
Number of shares, basic	14,105,095	11,561,008	14,105,095	11,561,008
Number of shares, diluted	14,352,102	12,636,071	14,352,102	12,636,071
Earnings per share, basic, SEK	-0.20	0.15	-1.49	-0.95
Earnings per share, diluted, SEK	-0.20	0.14	-1.49	-0.95
Average number of shares, basic	14,105,095	11,561,008	12,833,052	11,561,008
Average number of shares, diluted	14,352,102	12,636,071	13,494,087	12,582,766
Number of employees (average)	49	41	48	41

The Company's auditors did not audit this interim report.

FINANCIAL CALENDAR, GLOSSARY AND DEFINITIONS

FINANCIAL CALENDAR

17 May 2019	Interim report Q1 2019
23 May 2019	Annual report 2018
14 June 2019	Annual General Meeting, Stockholm
30 August 2019	Half-yearly report Q2 2019
15 November 2019	Interim report Q3 2019
28 February 2020	Year-End Report 2019

GLOSSARY AND DEFINITIONS

Bottle

70 cl raw spirit or whisky calculated with an alcohol content of at least 40 per cent, distributed and sold via traditional channels.

Cask

Personal whisky casks ordered and produced according to customer orders. To be delivered after maturation for an average of five years, in about 48 whisky bottles containing 50 centilitres.

Angel's share

Approximately three per cent of the whisky evaporates from the oak casks each year during storage. This is referred to as the angel's share.

Gross Profit Margin (per cent)

Gross profit/loss divided by net sales.

Operating Margin (per cent)

Operating profit divided by net sales.

Liquidity ratio

The total of current assets, cash and cash equivalents and unutilised line of credit divided by current liabilities.

EBITDA

Earnings before depreciation, interest and tax.

Financial net debt excluding convertible debentures

Interest-bearing liabilities, excluding convertible debentures – Cash and bank balances

Equity ratio (per cent)

Equity divided by the balance sheet total.

Return on equity (per cent)

Profit/loss after tax divided by average shareholders' equity.

Interest coverage ratio (times)

Earnings before interest expense divided by interest expense.

Earnings per share (SEK)

Profit/loss after tax divided by average equity during the period.

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