

# Q3

## INVESTOR KIT

JANUARY-SEPTEMBER 2011

☆☆☆  
**SWEDISH MATCH**



# Swedish Match reporting segments

Reporting segments following the transaction with STG on October 1, 2010

- **Snus and snuff**
  - Swedish snus in Scandinavia and US
  - US moist snuff
  - Income from SMPM International
- **Other tobacco products (OTP)**
  - US mass market cigars
  - Chewing tobacco
- **Lights**
  - Lighters
  - Matches
  - Fire related products
- **Other operations**
  - Distribution
  - Central costs



# Comparable sales and operating profit

## Comparable sales and operating profit by product area

Q3 2011

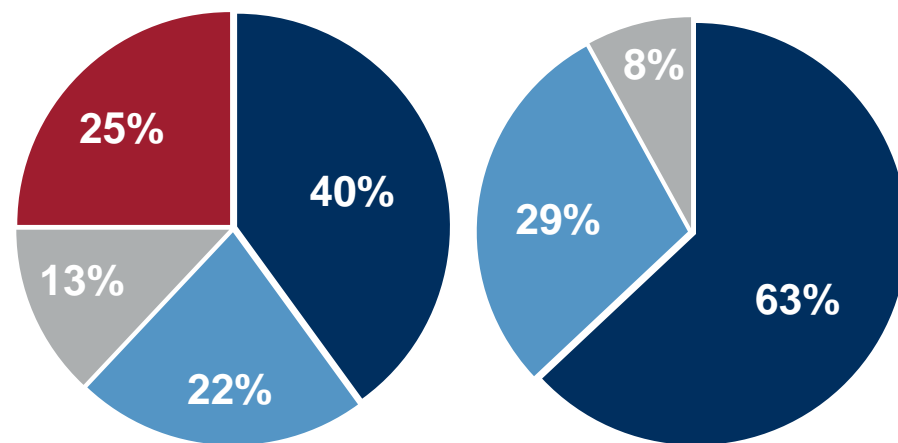
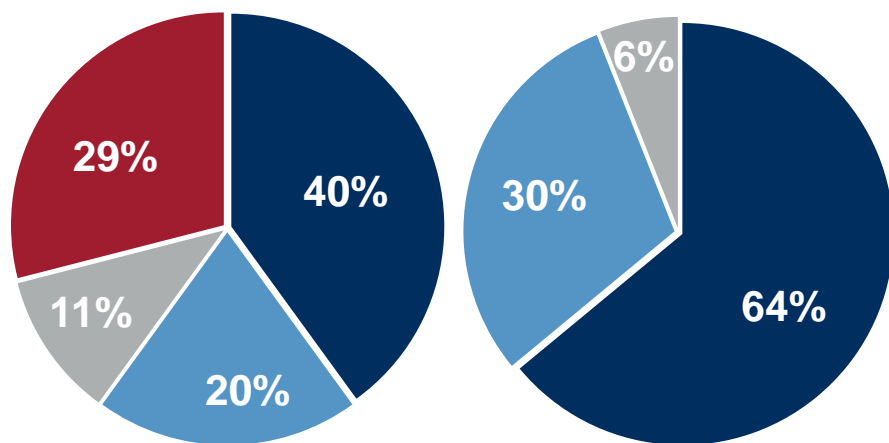
Full year 2010\*

Sales, SEK

Operating profit\*\*, SEK

Sales, SEK

Operating profit\*\*, SEK



■ Snus and snuff  
■ Other tobacco products  
■ Lights  
■ Other operations

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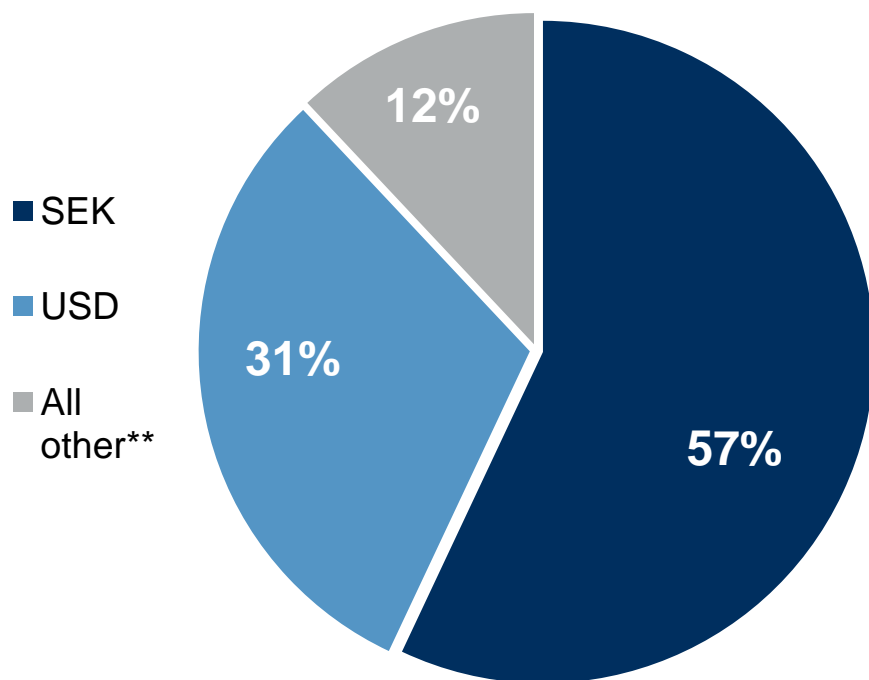
\* Excludes businesses transferred to STG, share of net loss from STG (loss of 60 MSEK in 2010) and larger one time items.

\*\* Excluding Other operations and share of net profit/loss from STG.

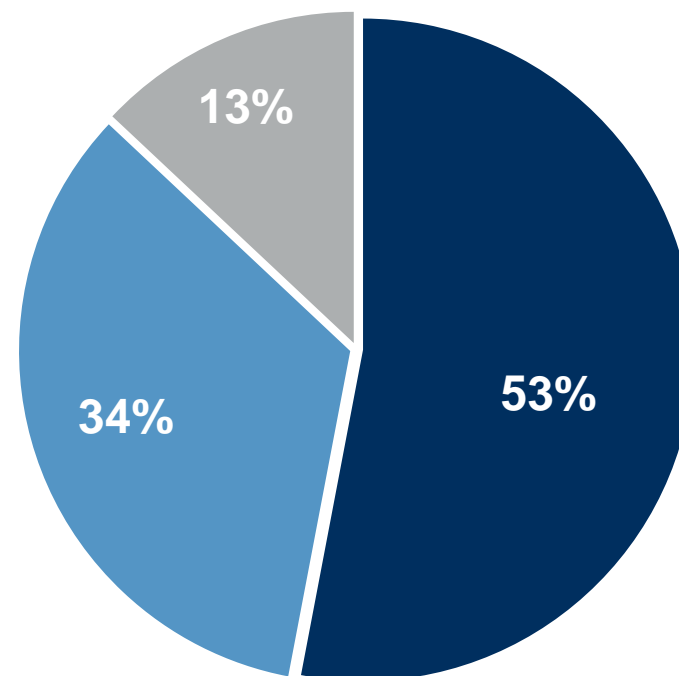
# Sales by currency block

Percent of sales, MSEK

Q3 2011



Full year 2010\*



\* Comparable sales from continuing operations, excluding businesses transferred to STG.

\*\* Primarily NOK and BRL.

# Group results – third quarter 2011

- **Comparable sales** amounted to **3,011 MSEK (2,964)**
  - ↪ In local currencies, sales increased by 6 percent
- **Comparable operating profit** amounted to **909 MSEK (874)**
  - ↪ In local currencies, comparable operating profit increased by 9 percent
  - ↪ Operating profit was 983 MSEK (1,049) including businesses transferred to STG, share of net profit from STG, and larger one time items\*
- **Profit before income tax** amounted to **853 MSEK (921)**
- **Profit for the period** amounted to **684 MSEK (729)**
- **EPS (basic)** was **3.28 SEK (3.23)**

\* Larger one time items include reversals of amortizations and depreciations relating to assets held for sale in 2010.

# Conclusions, third quarter – sales

- **Sales\*** up 6% in local currencies, up 2% in SEK
- **Scandinavian snus sales** up 8%
  - Volumes up 3%
  - Price increase June 13
- **US snus and snuff sales** down 6% in USD, on 12% lower volumes
  - Lower moist snuff volumes primarily due to timing of promotional shipments
  - Mix effects on sales from a larger proportion of *Longhorn* volume
  - Sales and volume growth from snus
  - Price increase May 25 for moist snuff
- **US mass market cigar sales** were up 26% in local currency
  - US mass market cigar volumes up 55% led by growth in smaller cigars and increased distribution of sweet cigars
- **US chewing tobacco sales** down 5% in USD, down 16% in SEK
  - Declines most notable for contract manufacturing volumes
  - Volume declines offset by improved pricing
- **Lights sales** down 1% in local currencies

\* Comparable sales from continuing operations, excluding businesses transferred to STG.

# Conclusions, third quarter – operating profit

- **Operating profit\*** up 9% in local currencies, up 4% in SEK
- **Snus and snuff:** operating profit up 1% in local currencies, flat in SEK
  - Operating margin 49.2%, vs. 50.4% previous year
  - List price increases in US for snuff (May 25), and in Sweden for snus (June 13)
  - Shifts in marketing and promotional spending in the US versus prior year for moist snuff products, and substantially higher spending behind *General* snus in US
- **Other tobacco products:** operating profit up 20% in local currency, up 7% in SEK
  - Cigar operating profit increased significantly in local currency with continued solid underlying performance for US mass market cigars
  - Operating profit for chewing tobacco was down marginally in local currency
  - Operating margins up on portfolio mix
- **Lights:** operating profit up 9% in local currencies, up 3% in SEK
  - Strong volume performance for lighters had a positive impact on profit mix
  - Negative currency effects and adverse development of raw materials prices

\* Comparable operating profit, which excludes businesses transferred to STG, share of net profit/loss from STG, and larger one time items.

# Other items

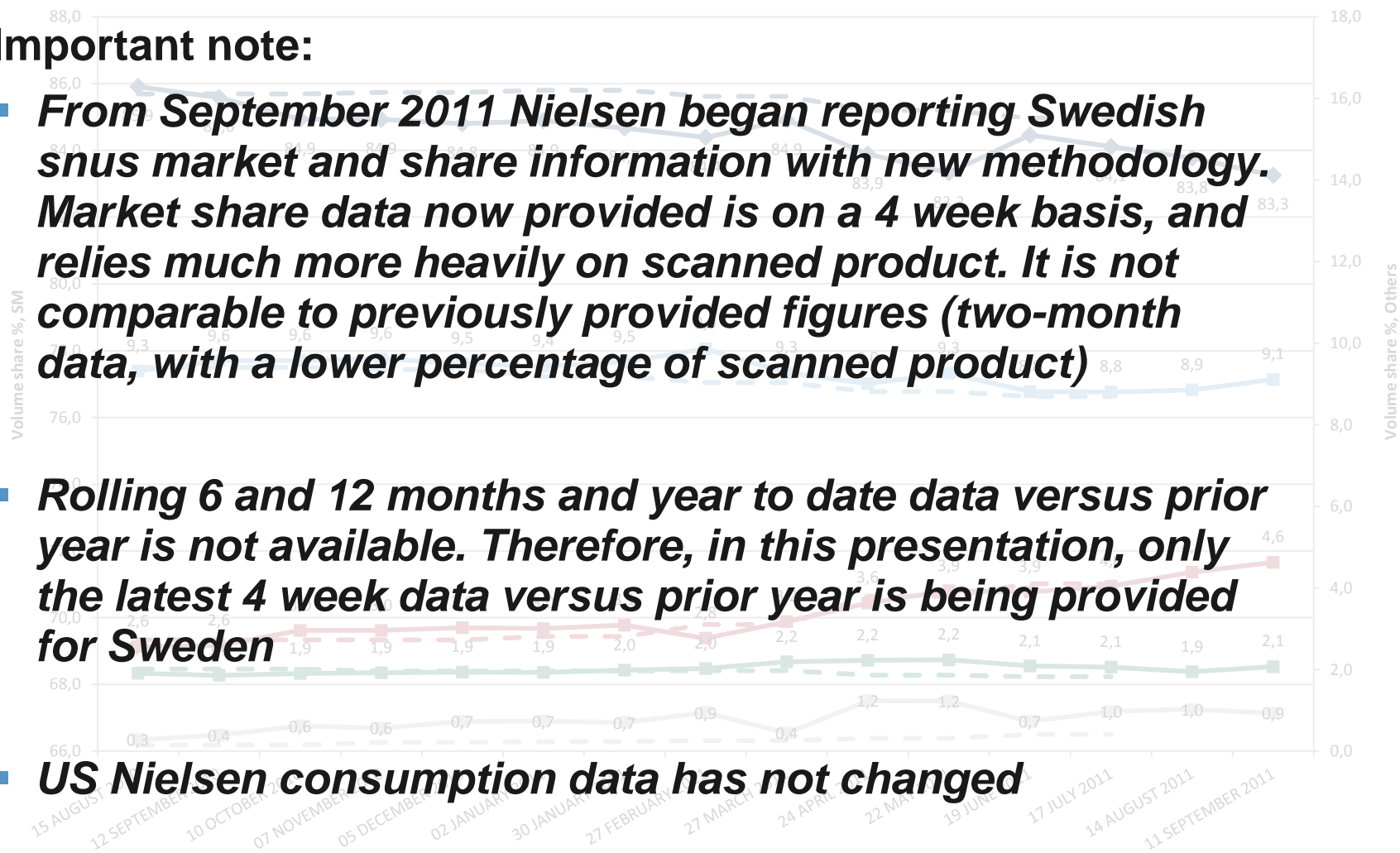
- Tax rate for the Group was 20% for the first nine months of 2011
  - Includes profit and loss impact from associated companies
  - Underlying tax rate was 22%
- Solid cash position and no further debt repayments during 2011
  - Cash and cash equivalents are 2,178 MSEK vs. 3,275 MSEK as of December 31, 2010
- Share repurchases during the third quarter amounted to 3 million shares (691 MSEK), bringing YTD repurchases to 9 million (1,872 MSEK)
- Total number of registered shares is 213.0 million
- New Nominating Committee:  
AMF, Cantillon, Cedar Rock, Morgan Stanley



# Nielsen snus/moist snuff consumption data

## Important note:

- From September 2011 Nielsen began reporting Swedish snus market and share information with new methodology. Market share data now provided is on a 4 week basis, and relies much more heavily on scanned product. It is not comparable to previously provided figures (two-month data, with a lower percentage of scanned product)**
- Rolling 6 and 12 months and year to date data versus prior year is not available. Therefore, in this presentation, only the latest 4 week data versus prior year is being provided for Sweden**
- US Nielsen consumption data has not changed**



# Nielsen snus consumption data, Sweden\*

- **Total Swedish market volume up 3.2% latest four weeks vs. year ago**
- **Swedish Match total value market share 4 weeks to September 11 in Sweden was 86.1%**
  - 87.9% 4 weeks ending September 12, 2010
- **Swedish Match total volume market share 4 weeks to September 11 in Sweden was 83.3%**
  - 85.6% 4 weeks ending September 12, 2010
- **Value segment is 27.5% of Swedish market (4 weeks to September 11)**
  - 25.0% 4 weeks ending September 12, 2010
- **Swedish Match share of value segment in Sweden was 48.6%**
  - 51.7% 4 weeks ending September 12, 2010
- **Swedish Match share of premium segment in Sweden was 96.4%**
  - 96.9% 4 weeks ending September 12, 2010



\* Source: Nielsen. Volume basis, unless stated otherwise.

# Nielsen moist snuff/cigar consumption data, US\*

## ■ Moist snuff

- **US snuff market up 6.2% for the YTD to October 1, 2011**
  - Nielsen 4 weeks consumption up 4.3% to October 1
  - Swedish Match reported volume down 2.5% YTD to October 1
- **Swedish Match market share in the US**
  - YTD to October 1 was 11.1% vs. 12.1% YTD 2010
  - 4 weeks to October 1 Swedish Match share was 10.4%

## ■ Cigars (excluding littles)

- **US mass market for cigars down 3.5% for the YTD to October 1, 2011**
  - Nielsen 4 weeks consumption down 3.9% to October 1
  - Swedish Match consumption volume up 21.5% YTD to October 1
- **Swedish Match market shares in the US**
  - YTD to October 1 was 14.3% vs. 11.3% YTD 2010
  - 4 weeks to October 1 Swedish Match share was 15.2%

\* Source: Nielsen. Volume basis, unless stated otherwise.

# Financial policy and financing needs

## ■ Financial policy

- Dividend policy: 40 - 60% of earnings per share
  - 2010 dividend of 5.50 SEK per share, an increase of 16% from the 2009 level of 4.75 SEK/share
- Net debt not to exceed 3 times EBITA

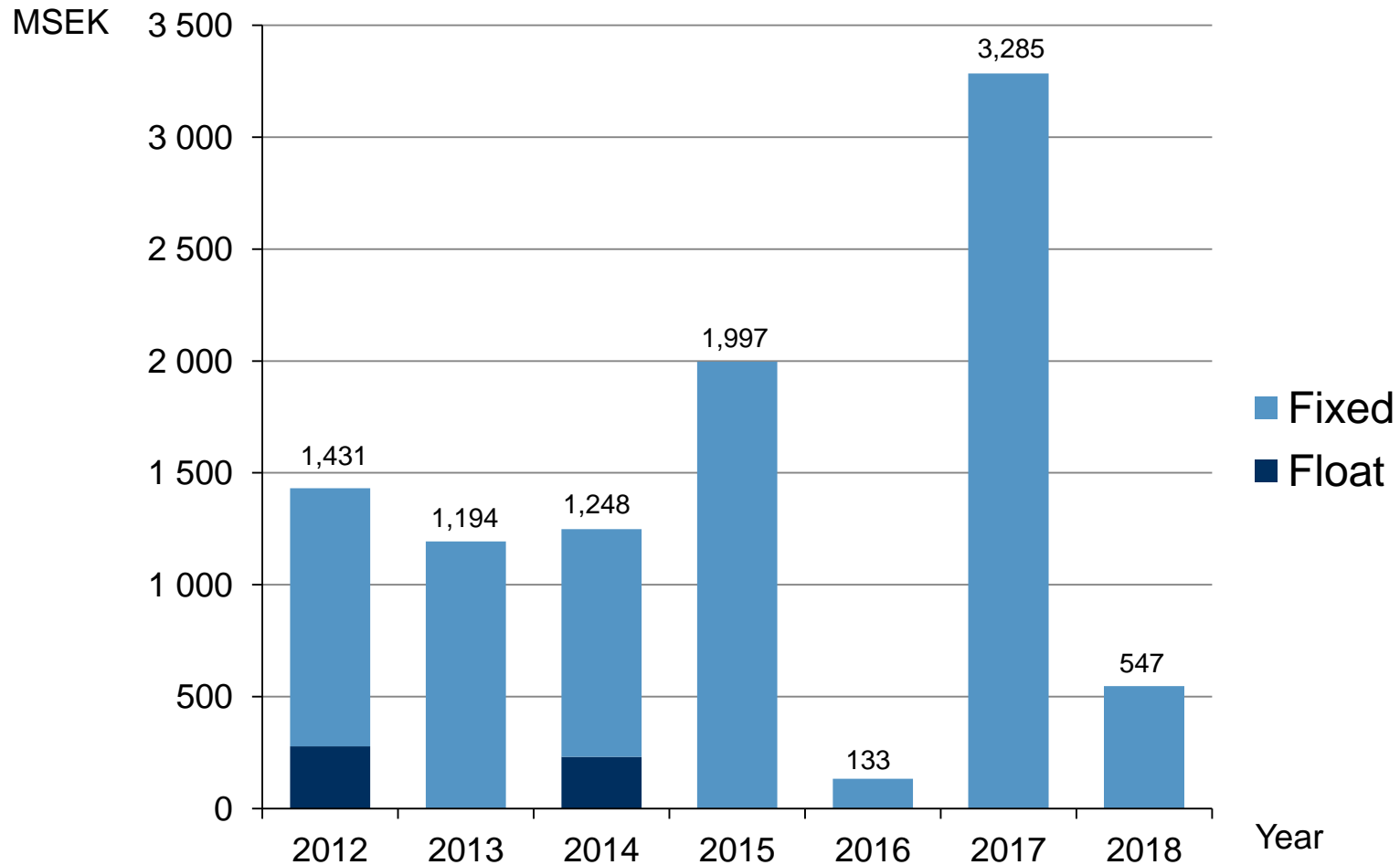
## ■ Financing and cash flow

- Cash flow from operating activities for the first nine months amounted to 1,863 MSEK (1,997, including cash flow from businesses transferred to STG)
- Net finance cost for the third quarter was 130 MSEK (128), with the higher finance cost due to a higher net debt and higher interest rates on longer maturity of the bond portfolio, partially offset by higher interest earned on cash
- Net debt/EBITA\* was 2.7 for the 12 months ended September 30

\* Excluding share of net profit from STG. Operating profit adjusted for amortization and write-downs of intangible assets.

# Maturity profile of interest bearing liabilities\*

As of September 30, 2011



\* Includes Swedish (SEK) and Global (EUR) MTN programs.

# Snus and snuff

- Leading position in **Scandinavia**
- The third largest producer of moist snuff in **the US**
- Production in **Sweden** and **the US**
- **Joint venture with Philip Morris International** for markets outside Scandinavia and US



# Snus and snuff

## Sales, profits and volumes up. US invests in snus

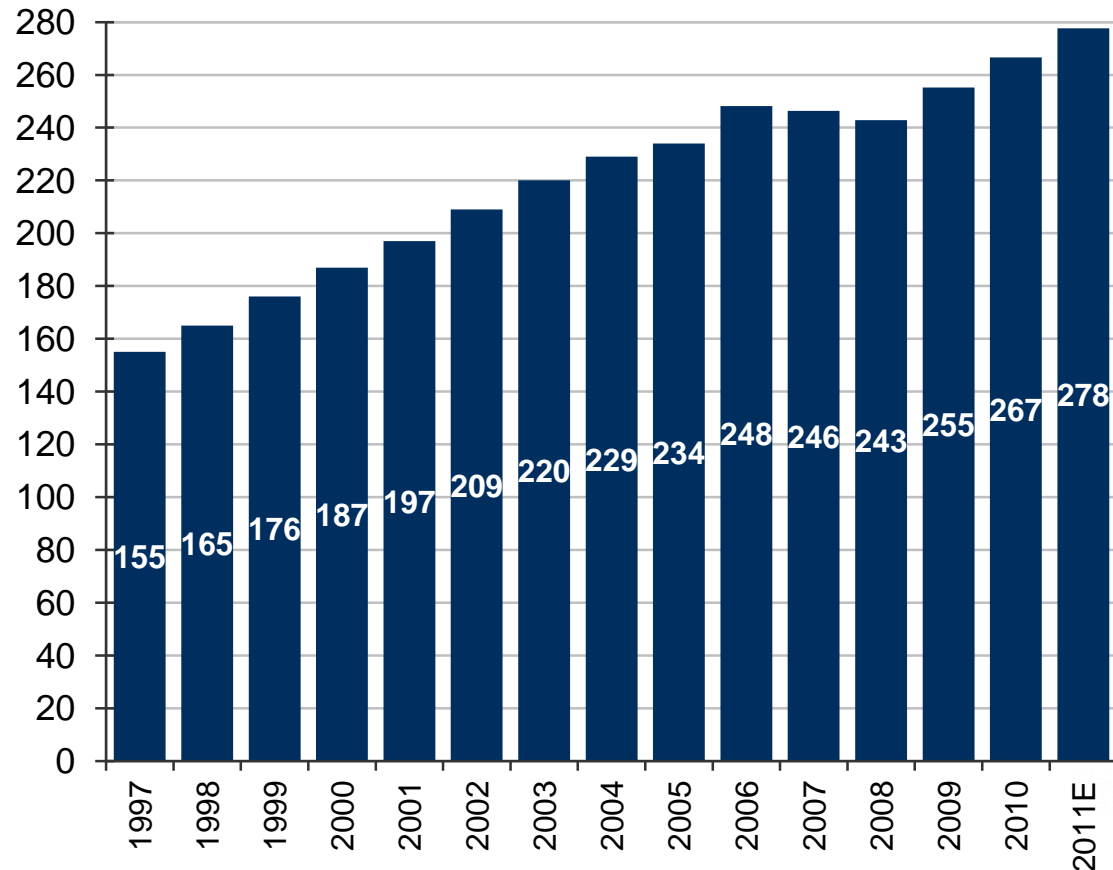
- Scandinavia snus sales up 8% in Q3
  - Scandinavian volumes up 3% in Q3
  - Volumes up 4% year to date
- US snus and moist snuff sales down 6% in USD
  - US moist snuff volumes below prior year due to phased timing of promotions (heavy Q3 promotions in 2010)
  - Sales and volumes up somewhat for the year to date
  - Swedish Match Nielsen reported volume down 2.5% YTD October 1
  - Continued investments in Swedish snus with positive trends
- Q3 margins impacted by higher spending behind US snus
  - Price increases in the US (May 25 of 6.8%) offset by mix shift toward *Longhorn*
  - Sweden price increase on June 13 of approx. 4% list



MSEK	Q3-2011	Q3-2010	chg	9m-2011	9m-2010	chg	Oct 2010 - Sep 2011	Full year 2010
Sales	1,199	1,174	2	3,460	3,344	3	4,638	4,522
Operating profit	590	592	0	1,599	1,513	6	2,166	2,080
Operating margin, %	49.2	50.4		46.2	45.2		46.7	46.0

# Estimated Scandinavian snus consumption

Cans/millions

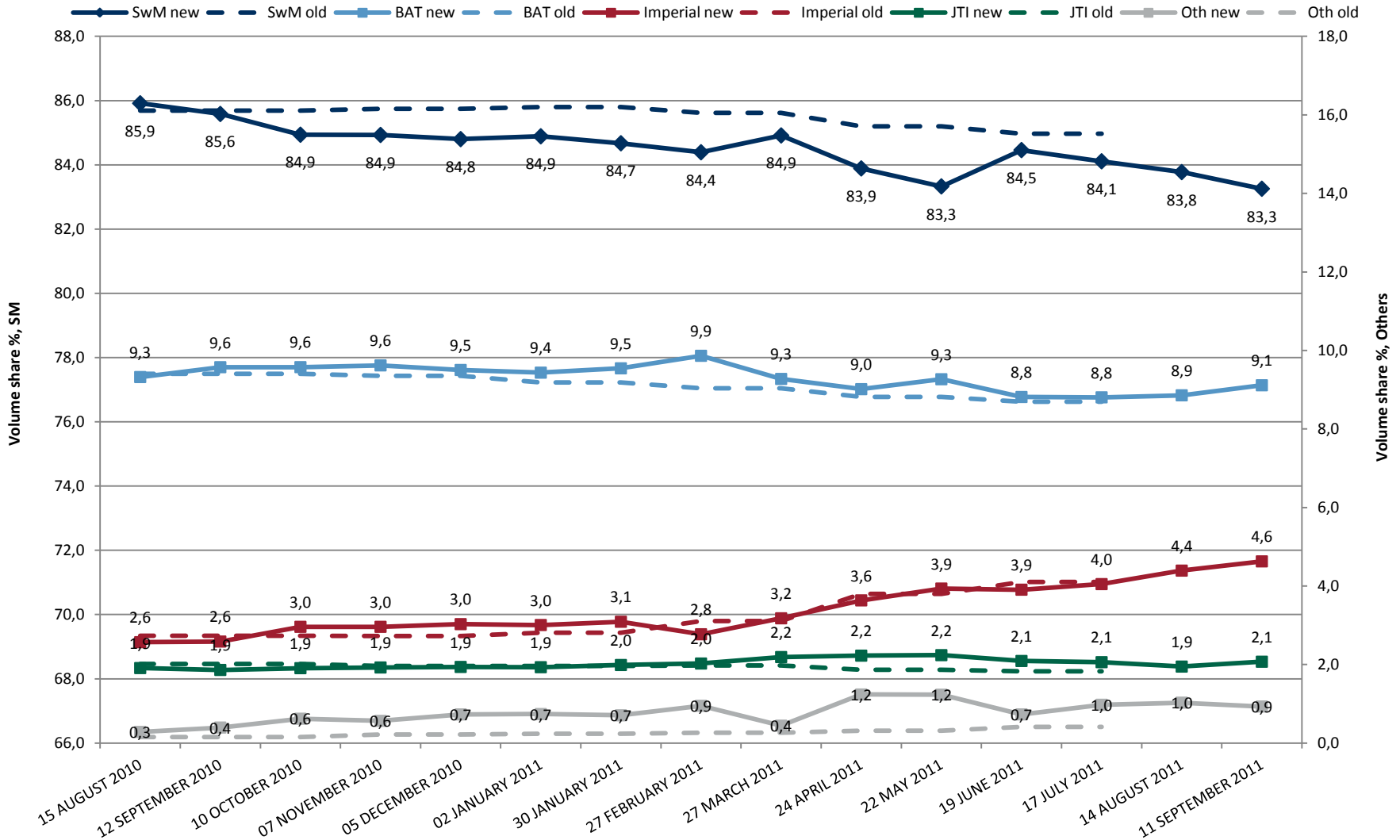


Source: Swedish Match estimates, adjusted for hoarding in Sweden (estimated hoarding volumes Q4 2006 and Q4 2007 moved to 2007 and 2008 to more accurately reflect consumption).



# Volume shares, snus, Sweden

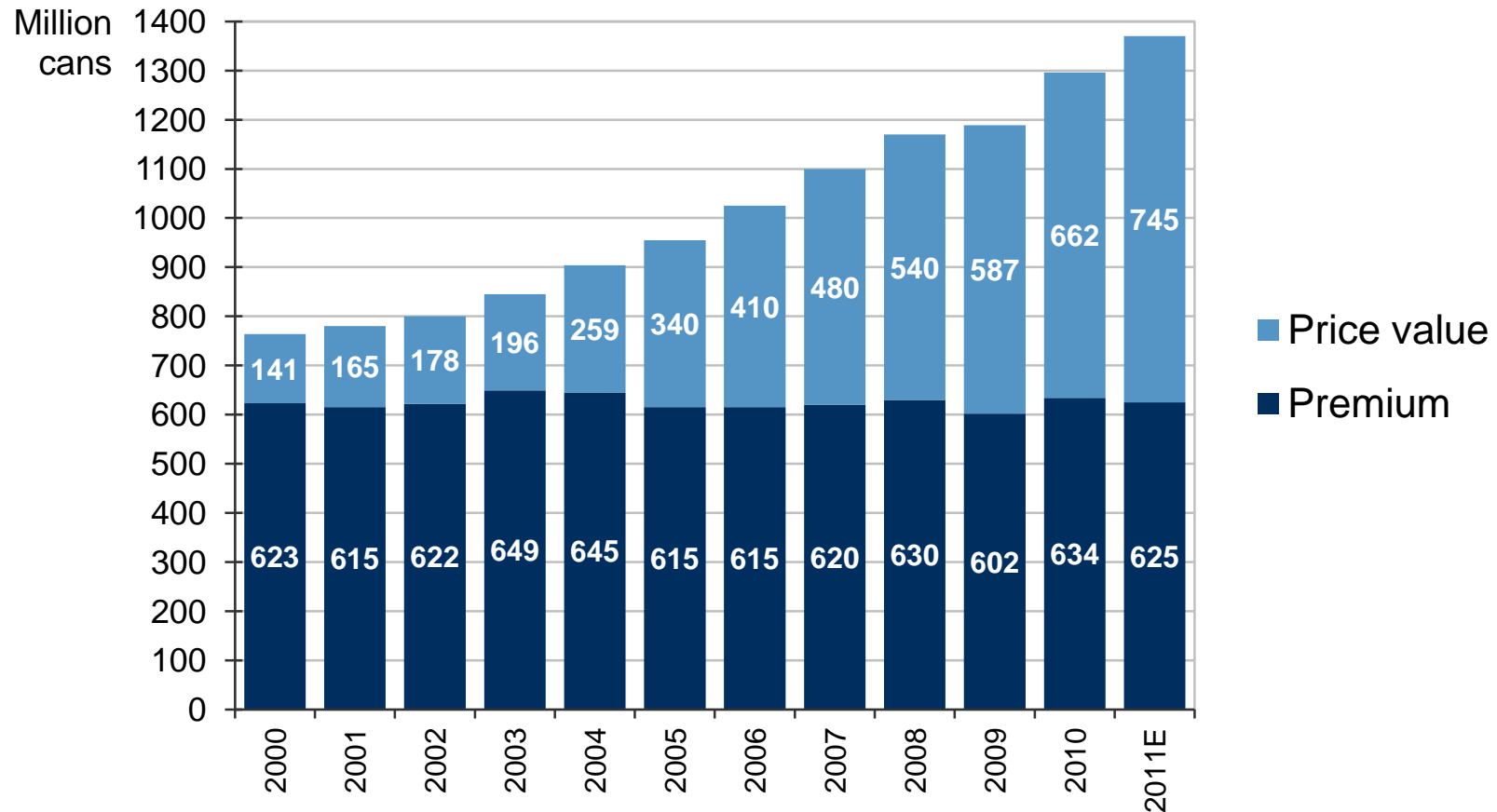
Solid lines refer to the new 4 week Nielsen data. Dotted lines refer to the former bimonthly Nielsen data



Source: Nielsen

# Volume growth of moist snuff in the US

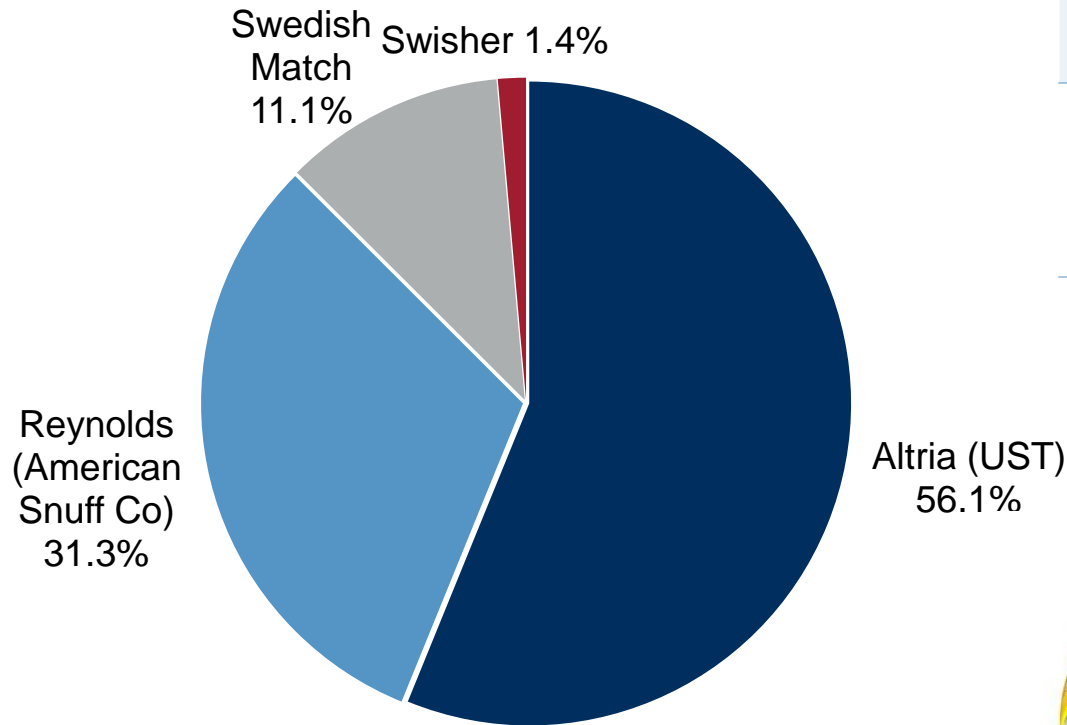
## US snuff market by segment



Market size estimated by Swedish Match using Nielsen estimates as well as industry data and estimates. Note that the value segment includes competitive “premium brand” line extensions launched at price value level.

# US moist snuff market shares

Volume share US, YTD October 1



4 weeks to October 1	volume share
Altria	56.5
Reynolds	31.8
<b>Swedish Match</b>	<b>10.4</b>
Swisher	1.3



Source: Nielsen. Totals may not add to 100% due to rounding.

# Snus expansion

## Snus in the US

- *General* snus round cans now in approximately 1,600 stores in the US
  - Good sell-through/rotation in stores
  - Distribution expansion continues
- New format also available in Classic Blend and Nordic Mint (15/10 pack)
  - Distribution now in approximately 1,600 stores
  - Most stores began selling products in Sept/Oct
  - Distribution expansion continues



## SMPM International (the 50/50 joint venture)

- New test launch in Russia scheduled prior to the end of 2011
- Test launch of *General* in Canada started in December 2010
  - Feedback positive, doubled store count in test launch, adding Alberta stores (previously only Toronto area)
- Test launch of *General* in Taiwan started in September 2010

# Other tobacco products

## US mass market cigars

- Swedish Match is a major player in the US mass market cigar market
- Production takes place in Santiago, Dominican Republic and Dothan, Alabama

## Chewing tobacco

- Nearly all chewing tobacco sales are in the US. Swedish Match is the largest producer and production takes place in Owensboro, Kentucky
- The market typically declines by 5-10% per year in volume, down 7.3% YTD to October 1, 2011 (Nielsen)



# Other tobacco products

## Third quarter sales up 9% in local currency vs. previous year

- Sales and operating profit growth in local currency driven by increased volume of US mass market cigars (volumes up 55% in Q3)
- In local currency, Q3 sales up 9% and operating profit up 20%
- Volume growth on cigars from increased consumption, added distribution of new products, as well as promotional activity
- Chewing tobacco sales down in local currency vs. year ago
- Chewing tobacco volumes down 12% YTD, due in large part to lower contract manufacturing volumes - chewing tobacco volume of own brands down <6% YTD
- Q2 2010 operating profit included 10 MSEK charge (Piccanell)



MSEK	Q3-2011	Q3-2010	chg	9m-2011	9m-2010	chg	Oct 2010 - Sep 2011	Full year 2010
Sales	613	631	-3	1,809	1,883	-4	2,366	2,440
Operating profit	278	259	7	795	733	8	1,003	942
Operating margin, %	45.3	41.0		43.9	38.9		42.4	38.6

# Other tobacco products

## US mass market cigars

- US mass market sales show strong growth
  - Q3 sales increased 26% in local currency compared to previous year. Operating profit also significantly higher, somewhat more than sales growth
  - Excluding little cigars, market share is 14.3% YTD, vs. 11.3% year ago (Nielsen, Oct 1)
- Continued success for FoilFresh™ cigars and strong growth for White Owl Sweets
  - White Owl Green Sweets launched in Q1 2011
- Mix shift since 2009 from larger cigars to smaller, less expensive cigars
- Price increase of approximately 5% at the end of 2010

## Chewing tobacco

- Continued market decline
  - 2011 category down 7.3%, in line with previous trends (Nielsen, YTD October 1)
  - Swedish Match brands down 6.8% YTD according to Nielsen
- Strong performance for Swedish Match brand portfolio
- Price increase of 5% in November/December 2010





# Lights

## Q3 sales down 1%, operating profit up 9% in local currencies

- Swedish Match is market leader in many markets. The brands are mostly local and hold a strong position in their respective markets
- Main markets: Europe/EU, Brazil and Russia
- Production in Brazil, the Netherlands, the Philippines and Sweden

- Operating profit up on higher lighter sales. Matches impacted by currency translation and transaction effects
- Bulgarian production unit sold in Q2, continue to source products from new owner
- Lights distribution by STG in several markets



MSEK	Q3-2011	Q3-2010	chg	9m-2011	9m-2010	chg	Oct 2010 - Sep 2011	Full year 2010
Sales	333	352	-5	982	1,050	-6	1,361	1,429
Operating profit	59	58	3	161	191	-16	248	279
Operating margin, %	17.7	16.3		16.4	18.2		18.2	19.5



# Scandinavian Tobacco Group (STG)

## A leading, global company – with focus on cigars

- On October 1, 2010, Swedish Match and Scandinavian Tobacco Group formed a new company. Swedish Match owns 49 percent of the new STG
- Swedish Match share of STG net profit after interests and tax\* amounted to 74 MSEK in Q3
  - Swedish Match share of net profit includes restructuring charges of 61 MSEK before taxes in Q3
- Q3 total STG EBITDA, excluding Lane and restructuring charges, increased by 34% vs. pro forma estimate of Q3 2010.
  - EBITDA for premium cigars and mass market cigars grew significantly both in local currencies and Danish kroner due to realized synergies and lower costs.
  - For pipe/fine cut tobacco, excluding Lane effects, sales and EBITDA were above the third quarter of the prior year on the back of strong volume performance. The Lane business delivered EBITDA according to the acquisition plan

\*NOTE: Prior year operating profit for businesses transferred to STG is reported at EBIT level, while quarterly reporting of STG operating profit in 2011 is net profit after finance costs and tax.



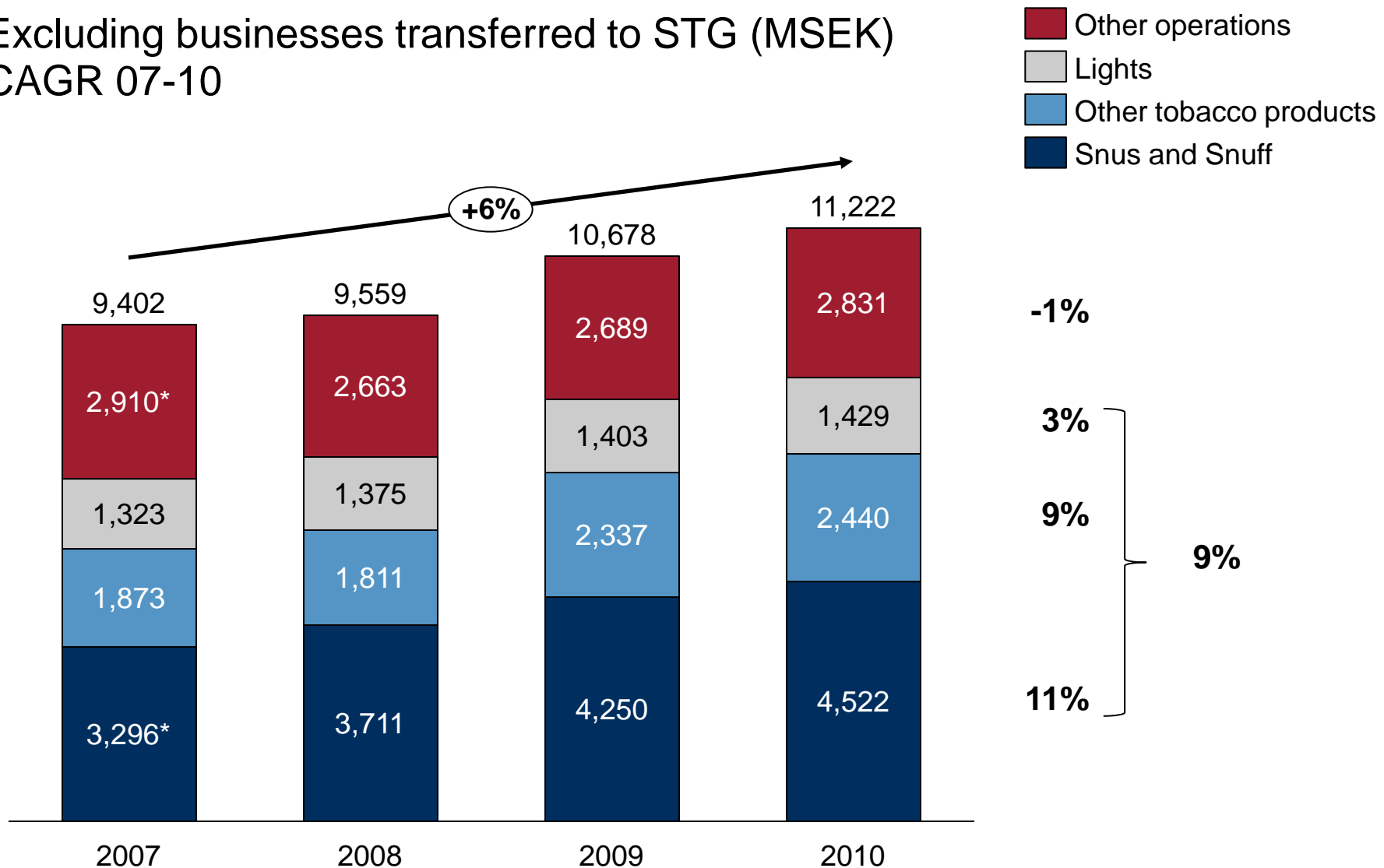
# Group strategy

- Position the Company as the global smokefree leader
- Leverage strong platforms to maximize long term profitability in Other tobacco products
- Continue to focus on operational excellence and profitability in Lights
- Realize the potential of STG through active ownership



# Comparable sales

Excluding businesses transferred to STG (MSEK)  
CAGR 07-10

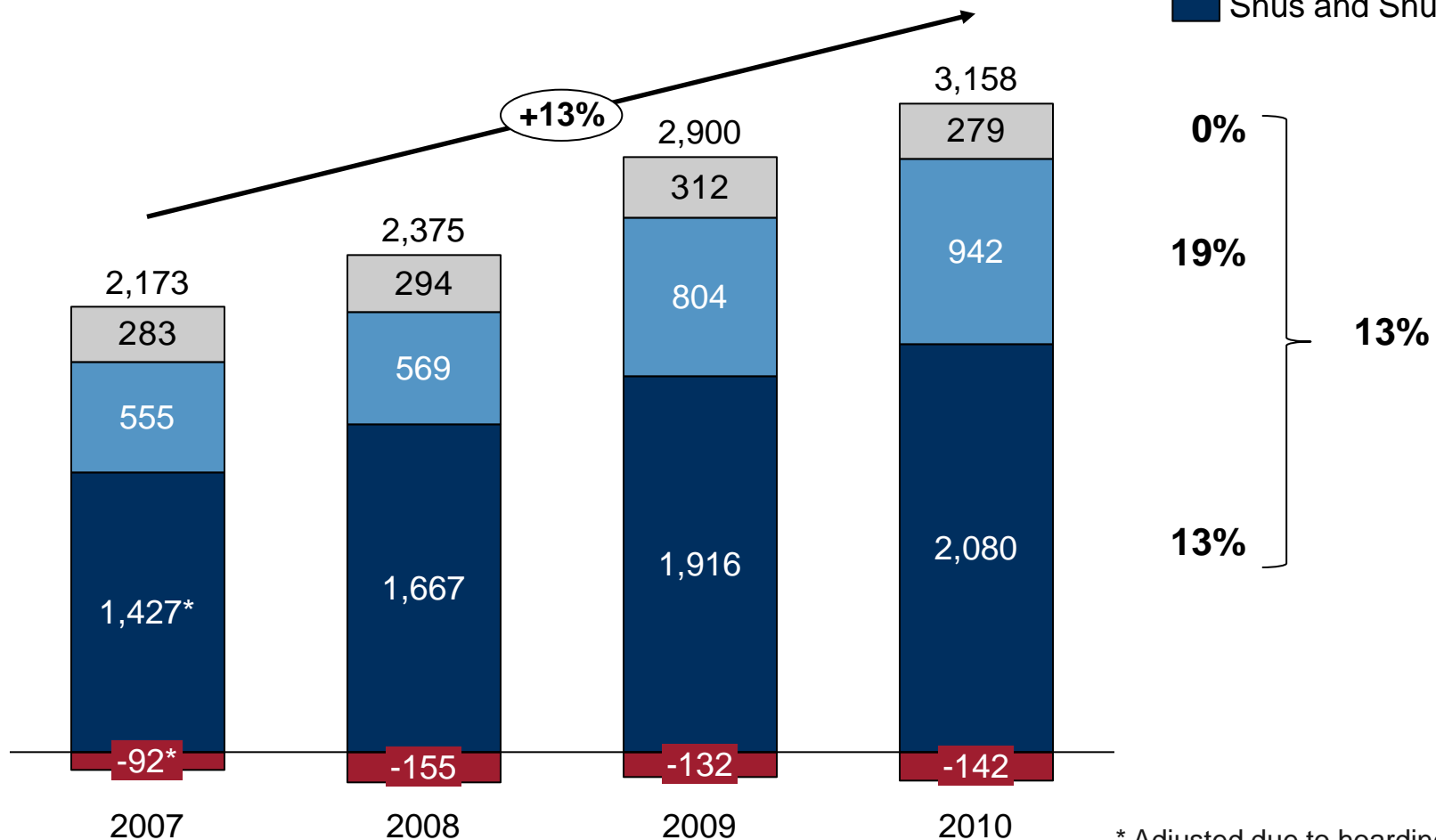


\* Adjusted due to hoarding in 2006.

# Comparable operating profit

Excluding businesses transferred to STG (MSEK)  
CAGR 07-10

- Other operations
- Lights
- Other tobacco products
- Snus and Snuff



\* Adjusted due to hoarding in 2006.

# P & L summary

MSEK	Q3-2011	Q3-2010	chg	9m-2011	9m-2010	chg	Oct 2010-Sep 2011	Full year 2010	chg
<b>Sales</b>	<b>3,011</b>	<b>3,823</b>	<b>-21</b>	<b>8,601</b>	<b>10,806</b>	<b>-20</b>	<b>11,402</b>	<b>13,606</b>	<b>-16</b>
Cost of goods sold	-1,495	-1,896		-4,259	-5,325		-5,597	-6,662	
<b>Gross profit</b>	<b>1,516</b>	<b>1,927</b>	<b>-21</b>	<b>4,342</b>	<b>5,481</b>	<b>-21</b>	<b>5,805</b>	<b>6,944</b>	<b>-16</b>
Selling and administrative expenses	-604	-878		-1,868	-2,735		-2,490	-3,356	
Share of profit/loss in associated companies and joint ventures	71	1		206	3		142	-62	
Net gain from pension settlements	-	-		-	-		59	59	
Capital gain from transfer of businesses to STG	-	-		-	-		585	585	
<b>Operating profit</b>	<b>983</b>	<b>1,049</b>	<b>-6</b>	<b>2,681</b>	<b>2,749</b>	<b>-2</b>	<b>4,101</b>	<b>4,169</b>	<b>-2</b>
Finance income	10	6		28	19		36	27	
Finance costs	-140	-134		-417	-383		-624	-590	
Net finance cost	-130	-128		-389	-363		-588	-562	
<b>Profit before income tax</b>	<b>853</b>	<b>921</b>	<b>-7</b>	<b>2,292</b>	<b>2,386</b>	<b>-4</b>	<b>3,513</b>	<b>3,607</b>	<b>-3</b>
Income tax expense	-169	-192		-459	-501		-607	-649	
<b>Profit for the period</b>	<b>684</b>	<b>729</b>	<b>-6</b>	<b>1,833</b>	<b>1,885</b>	<b>-3</b>	<b>2,906</b>	<b>2,958</b>	<b>-2</b>
EPS, basic, SEK	3.28	3.23		8.72	8.28		13.70	13.12	
EPS, diluted, SEK	3.26	3.22		8.67	8.26		13.62	13.09	

# Balance sheet in summary

MSEK	September 30, 2011	December 31, 2010
Intangible assets	993	1,027
Property, plant and equipment	2,067	2,097
Investments in associated companies and joint ventures	4,315	4,085
Other non-current financial receivables*	1,483	1,368
Current operating assets	2,680	2,886
Other current investments and current financial assets	2	1
Cash and cash equivalents	2,178	3,275
<b>Total assets</b>	<b>13,718</b>	<b>14,739</b>
Equity attributable to equity holders of the Parent	-1,850	-484
Non-controlling interests	2	2
<b>Total equity</b>	<b>-1,848</b>	<b>-482</b>
Non-current provisions	1,025	1,050
Non-current loans	8,412	9,209
Other non-current financial liabilities*	1,695	1,478
Current provisions	93	98
Current loans	1,432	525
Other current liabilities*	2,910	2,861
<b>Total equity and liabilities</b>	<b>13,718</b>	<b>14,739</b>

\* For full detail, please refer to notes in the January – September 2011 interim report.

# Cash flow in summary

MSEK	9m - 2011	9m - 2010
<b>Cash flow from operating activities before changes in working capital</b>	<b>1,851</b>	<b>1,986</b>
Cash flow from changes in working capital	13	12
<b>Net cash from operating activities</b>	<b>1,863</b>	<b>1,997</b>
Purchase of property, plant and equipment	-170	-248
Proceeds from sale of property, plant and equipment	2	5
Purchase of intangible assets	-11	-31
Investments in associated companies and joint ventures*	-15	-123
Investments in other companies*	-4	-
Proceed from sales of subsidiaries, net of cash disposed of*	143	-
Changes in financial receivables etc.	1	0
<b>Net cash used in investing activities</b>	<b>-54</b>	<b>-396</b>
Changes in loans	-54	207
Dividend paid to equity holders of the Parent	-1,152	-1,089
Repurchase of own shares	-1,872	-1,878
Stock options exercised	67	53
Other	90	63
<b>Net cash used in financing activities</b>	<b>-2,921</b>	<b>-2,644</b>
<b>Net decrease in cash and cash equivalents</b>	<b>-1,112</b>	<b>-1,043</b>
Cash and cash equivalents at the beginning of the period	3,275	2,530
Effect of exchange rate fluctuations on cash and cash equivalents	14	-111
Less cash and cash equivalents reclassified as assets held for sale	-	-103
<b>Cash and cash equivalents at the end of the period</b>	<b>2,178</b>	<b>1,273</b>

\* For full detail, please refer to notes in the January – September 2011 interim report.

# Key data

	9m - 2011	9m - 2010
Operating margin, %	31.2	24.6
Operating capital, MSEK	7,194	8,029
Return on operating capital, % (12 months to Sept 30, 2011)	45.4	
EBITDA, MSEK*	2,892	2,961
EBITA, MSEK*	2,723	2,737
Net debt, MSEK	9,015	8,622
Net debt/EBITA* (12 months to Sept 30, 2011)	2.6	
Investments in property, plant and equipment, MSEK*	170	248
EBITA interest cover	7.2	8.6
<i>Excl. businesses transferred to STG and share of net profit/loss in STG</i>		
EBITA, MSEK*	2,510	2,360
Net debt/EBITA* (12 months to Sept 30, 2011)	2.7	
<b>Share data</b>		
Earnings per share, basic, SEK	8.72	8.28
Earnings per share, diluted, SEK	8.67	8.26
Average number of shares outstanding, basic (Mio)	210.1	227.7
Shares outstanding, end of period (Mio)	206.4	220.7

\* For full detail, please refer to notes in the January – September 2011 interim report.



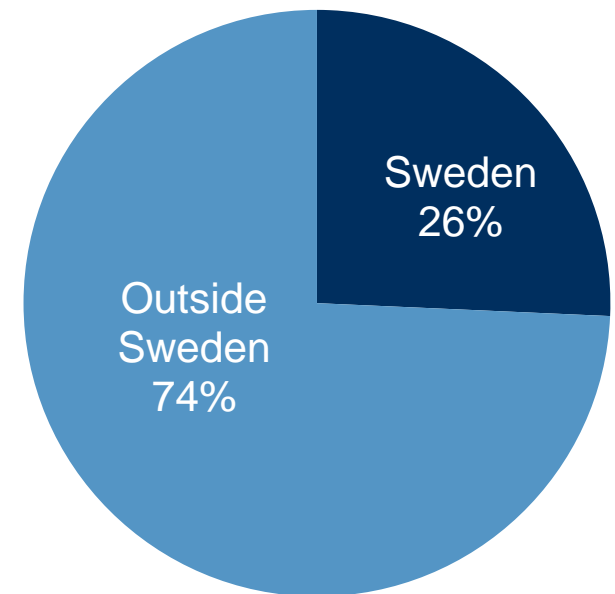
# Largest shareholders\*

As per September 30, 2011

## Largest shareholders

Morgan Stanley Investment Management	6.4%
Swedbank Robur Funds	3.2%
AMF Insurance & Funds	2.4%
Parvus Asset Management	2.0%
Standard Life Investment Funds	2.0%
SEB Funds	1.5%
Second Swedish National Pension Fund	1.4%
Fourth Swedish National Pension Fund	1.2%
Fidelity Funds	1.0%
SHB Funds	0.9%
	<hr/>
	22.0%

52,066 shareholders



Source: Euroclear, official registry and SIS Ägaranalys.

\* Percent split of share capital held, excluding Swedish Match shares held in treasury.

# Snus vs. cigarettes in Sweden

## Sales of Snus and Cigarettes in Sweden 1916 - 2010

(Source: Swedish Match)

