

# Q4 2012

# Investor Kit

JANUARY-DECEMBER 2012



# Swedish Match reporting segments

## ■ 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

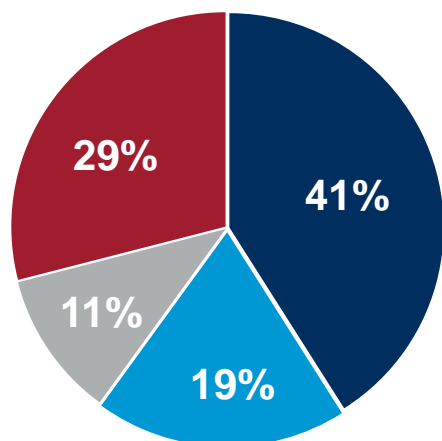


# Sales and operating profit

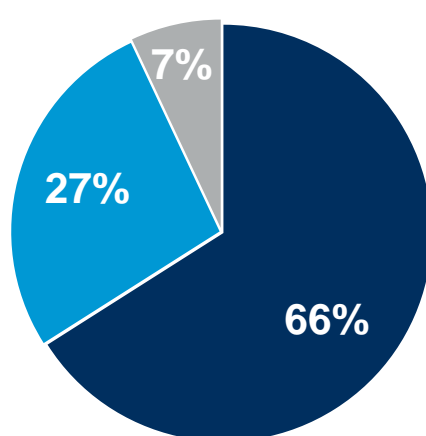
## Sales and operating profit by product area

Q4 2012

Sales, SEK



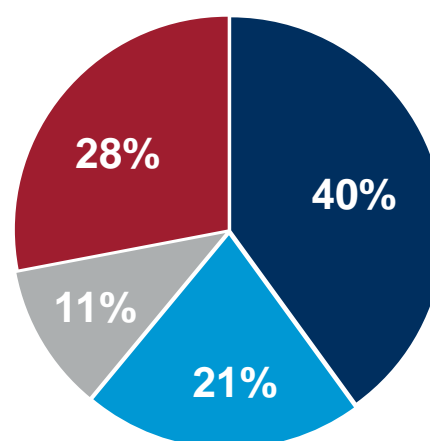
Operating profit\*, SEK



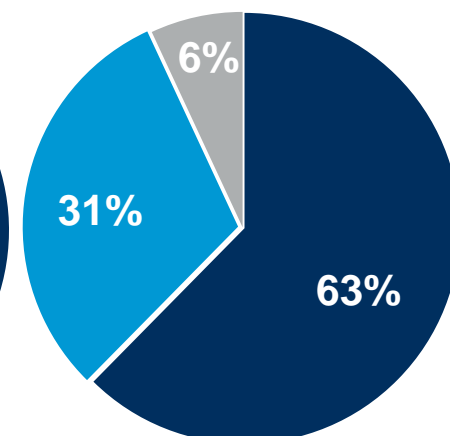
- Snus and snuff
- Other tobacco products
- Lights
- Other operations

Full year 2012

Sales, SEK



Operating profit\*, SEK



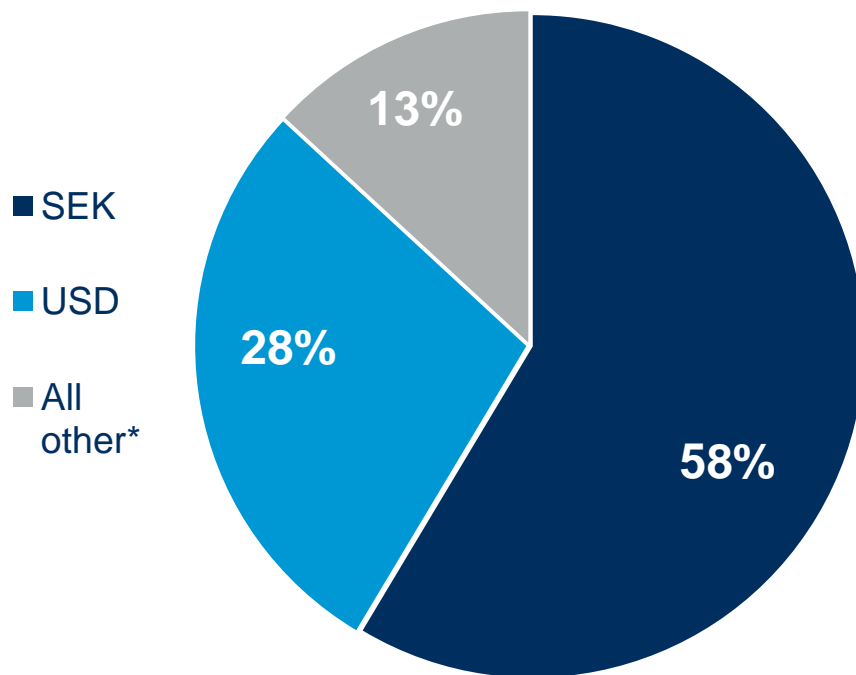
- Snus and snuff
- Other tobacco products
- Lights
- Other operations

\* Excluding Other operations and share of net profit and larger one time items.  
Totals may not add to 100% due to rounding.

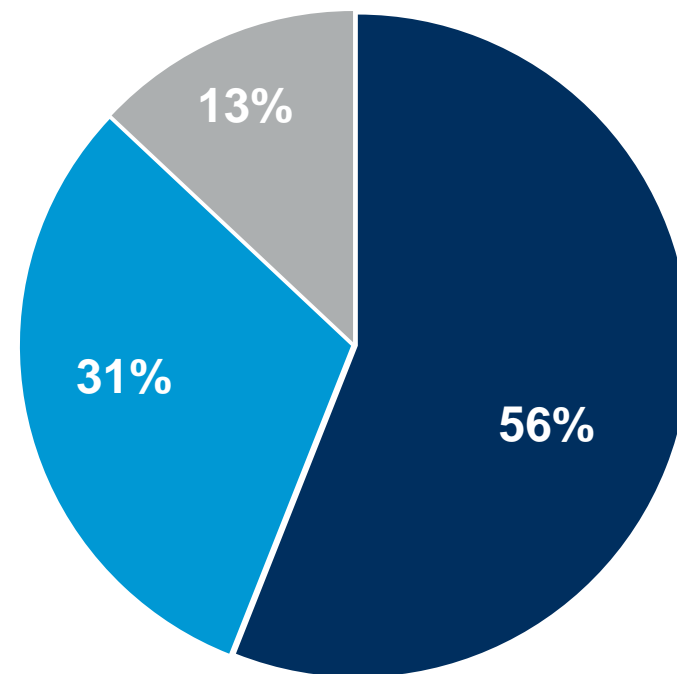
# Sales by currency block

## Percent of sales, MSEK

Q4 2012



Full year 2012



\* Primarily NOK and BRL. Totals may not add to 100% due to rounding.

# Group results – fourth quarter 2012

- **Sales amounted to 3,148 MSEK (3,064)**
  - In local currencies, sales increased by 4%
- **Operating profit from product areas amounted to 883 MSEK (898)**
  - In local currencies, operating profit from product areas was flat
  - Operating profit, including share of net profit in STG and larger one time items, was 986 MSEK (1,022)
- **Profit before income tax amounted to 850 MSEK (888)**
- **Profit for the period increased to 787 MSEK (705)**
  - Lower taxes due to one time items
  - Favorable impact on deferred tax liabilities from the reduction in the Swedish corporate tax rate (from 26.3% in 2012 to 22% in 2013)
  - Positive resolutions of tax matters in jurisdictions outside of Sweden
- **EPS (basic) was 3.93 SEK (3.42)**



# Conclusions, fourth quarter – sales

- **Sales up 4% in local currencies, up 3% in SEK**
- **Scandinavian snus sales up 2%**
  - Shipment volumes for Scandinavia down 3% year on year
  - Volume growth in Norway and Travel Retail partially offset declines in Sweden
- **US moist snuff sales down 3% in USD, on approx. 3% lower volumes**
- **US cigar sales up 8% in local currency**
  - US (mass market) cigar volumes up 16%, led by new launches
- **US chewing tobacco sales up 3% in USD**
  - Shipment volumes were flat, with somewhat higher contract manufacturing volumes offsetting a slight decline for own brands
- **Lights sales flat in local currencies**
  - Sales growth for lighters
  - Matches sales declined in local currencies



# Conclusions, fourth quarter – operating profit

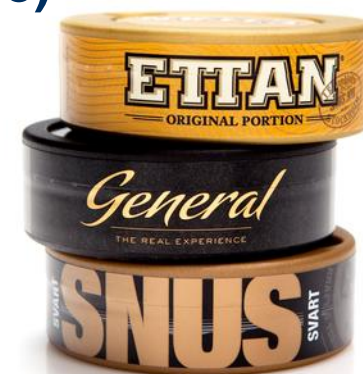
- **Operating profit from product areas\* was flat in local currencies, 2% in SEK**
- **Snus and snuff: operating profit up 2%**
  - Higher spending behind *General* snus in the US
  - Higher operating profit in Scandinavia and US moist snuff more than offset increased spending behind snus internationally
  - Higher operating margin for both Scandinavian snus and US moist snuff
  - Operating margin 46.3%, vs. 45.9% previous year
- **Other tobacco products: operating profit flat in local currency, down 3% in SEK**
  - Cigar operating profit declined in local currency on 16% higher volumes
    - Unusually favorable cigar mix in the fourth quarter of 2011
  - Operating profit for chewing tobacco increased in local currency, and operating margin was higher than prior year
- **Lights: operating profit down 23%, down 19% in local currencies**
  - Declines due to currency and country mix, as well as higher costs
  - Unusually strong result in Q4 prior year

\* Excluding share of net profit in STG.



# Group results – full year 2012

- **Sales amounted to 12,486 MSEK (11,666)**
  - In local currencies, sales increased by 6%
- **Operating profit from product areas increased to 3,666 MSEK (3,365)**
  - In local currencies, operating profit from product areas increased by 8%
  - Operating profit, including share of net profit in STG and larger one time items, was 4,062 MSEK (3,702). Larger one time item of +30 MSEK in Q2 2012
- **Profit before income tax increased to 3,511 MSEK (3,180)**
- **Profit for the period increased to 2,907 MSEK (2,538)**
- **EPS (basic) was 14.33 SEK (12.14)**





# Other items

- **Tax rate for the Group was 17.2% for the full year**
  - Includes profit and loss impact from associated companies
  - The reported tax rate, excluding one time tax items and associated companies, was 22%
  - Underlying tax rate in 2013 estimated to be 22-23%
- **Solid cash position, higher cash flow from operations**
  - Cash and cash equivalents were 2,824 MSEK on December 31, 2012 vs. 2,533 MSEK as of December 31, 2011
  - Cash flow from operating activities for the full year amounted to 2,805 MSEK (2,608)
  - Higher on improved EBITDA, dividends from associated companies, partly offset by higher tobacco tax payments in the beginning of the year relating to hoarding in Sweden at the end of 2011
- **Share repurchases during the year amounted to 7.4 million (1,946 MSEK)**
  - During the year the Company sold 2.7 million treasury shares at an average price of 154.80 SEK, totaling 414 MSEK, as a result of option holders exercising options
- **The total number of registered shares in the Company is 206.0 million**
- **Board will propose 7.30 SEK/share dividend at the Annual General Meeting**

# Other events

- **In October, a Nominating Committee was appointed**
  - Conny Karlsson (Chairman of the Board), Andy Brown (Cedar Rock Capital), Björn Lind (AMF & AMF Funds), William Lock (Morgan Stanley Investment Management), and William von Mueffling (Cantillon Capital Management)
- **The European Commission issued a press release on October 16 providing information on OLAF investigations**
  - The European Anti-Fraud Office, OLAF, had concluded its investigations on the notification by Swedish Match of having received a proposal to influence the outcome of the ongoing review by the European Commission of the Tobacco Products Directive, in exchange for financial compensation
  - The Tobacco Products Directive regulates the sales ban on Swedish snus within the EU, to which Sweden has an exemption
  - OLAF concluded that a proposal to Swedish Match had been made by a Maltese entrepreneur, and that while no direct involvement by the EU Health Commissioner, John Dalli, was found, it was considered that Dalli had been aware of the proposal
  - The press release stated that Dalli had decided to resign
  - ***Swedish Match takes the incident seriously, and expects that proven scientific facts regarding snus, including the well documented significantly lower health risks compared to cigarettes which are allowed in the EU, will be considered in a continued fair legal process for the proposal of a new Tobacco Products Directive***
- **New Tobacco Products Directive proposed, currently in review**

# Nielsen snus consumption data, Sweden\*

- **Swedish Match total value market share 4 weeks to January 27, 2013 was 79.8%**
  - 84.7% 4 weeks to January 29, 2012
- **Swedish Match total volume market share 4 weeks to January 27, 2013 was 73.7%**
  - 80.4% 4 weeks to January 29, 2012
- **Value segment was 37.5% of Swedish market 4 weeks to January 27, 2013**
  - 31.3% 4 weeks to January 29, 2012
- **Swedish Match share of value segment 4 weeks to January 27, 2013 was 37.0%**
  - 45.7% 4 weeks to January 29, 2012
- **Swedish Match share of premium segment 4 weeks to January 27, 2013 was 95.8%**
  - 96.3% 4 weeks to January 29, 2012

\* Source: Nielsen (excluding tobaccoconists). Volume basis, unless stated otherwise.

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

## ■ Moist snuff

- **US snuff market up 5.3% for the YTD to January 19**
  - Category growth continues to be driven by the value segment
- **Swedish Match market share in the US**
  - YTD to January 19 was 7.2% vs. 7.8% YTD 2012
  - Swedish Match estimates its market share based on industry shipments to be approximately 10% of the market (SM estimates, not Nielsen)



## ■ Cigars (mass market, excluding littles)

- **US market for cigars up 3.5% for the YTD to January 19**
  - Swedish Match consumption volume up 9.4% YTD to January 19
- **Swedish Match market shares in the US**
  - YTD to January 19 was 17.8% vs. 16.9% YTD 2012
  - Based on reported factory shipments and shipments from distributors to retailers, Swedish Match estimates that its actual market share exceeds 20%



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

# Financial policy and financing needs

## ■ Financial policy

- Dividend policy: 40 - 60% of earnings per share
- Proposed 2012 dividend 7.30 SEK per share (6.50)
- Net debt not to exceed 3 times EBITA\*

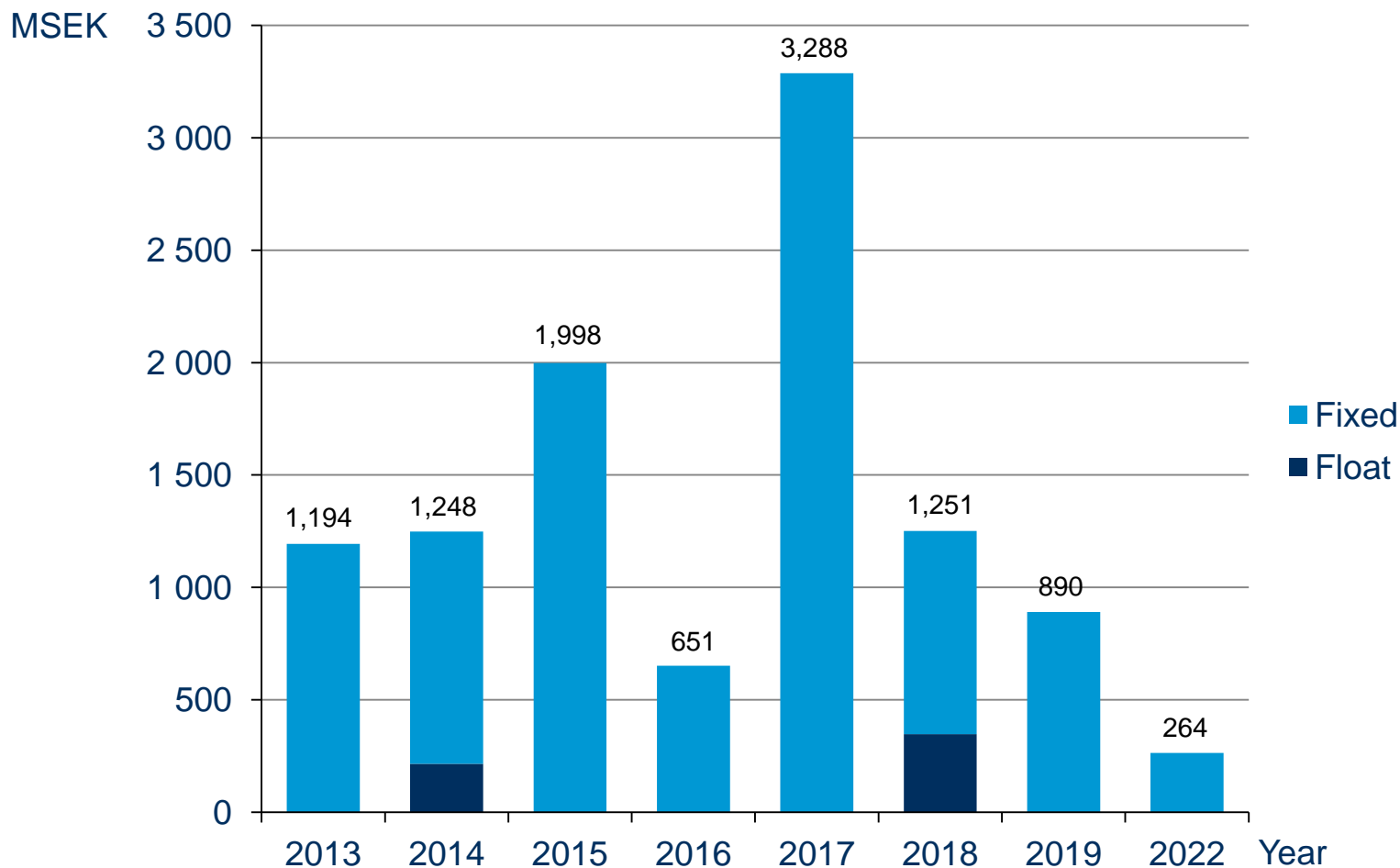
## ■ Financing and cash flow

- Cash flow from operating activities for the year amounted to 2,805 MSEK (2,608)
- Improved EBITDA, higher dividends from associates
- Higher tobacco tax payments relating to hoarding in Sweden at the end of prior year
- Net finance cost for the year was 551 MSEK (523), mainly due to increased debt
- Net debt/EBITA\* was 2.5 for the year

\* Excluding share of net profit in STG. Operating profit adjusted for amortization and writedowns of intangible assets.

# Maturity profile of interest bearing liabilities\*

## As of December 31, 2012



\* 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 the US





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

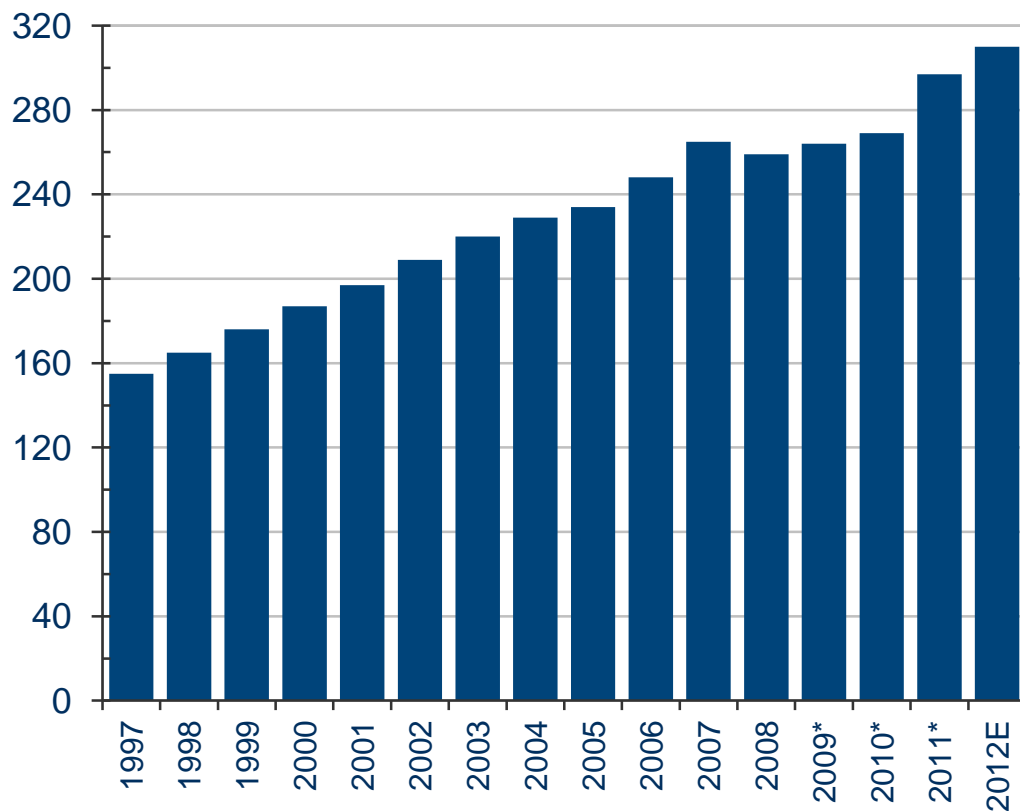
- **Scandinavia snus sales up 2% in Q4**
  - Scandinavian shipment volumes down 3% in Q4
  - Swedish Match volumes in Scandinavia down 2% in Q4 (underlying basis, excl. hoarding)
  - Volume growth in Norway and Travel Retail partially offset declines in Sweden
  - Higher prices in Sweden were partially offset by downtrading
  - Price increase for *Kaliber* in January 2013, no similar increase by competition
    - At least one competitor has increased discounts since the SM price change
  
- **US snus and moist snuff sales down 2% in USD in Q4**
  - US moist snuff volumes down less than 3% versus prior year in Q4
  - Lower operating profit, due to significantly higher spend behind US snus, despite a stronger result from moist snuff
  - Launch of two new SKUs of *Longhorn* tubs in September
  - Price increase in December (\$0.05)
  - Price rollback on *Longhorn/Timber Wolf* pouches in Jan. 2013
  
- **Continued investment behind snus internationally**
  - Expansion of *General* snus in US
  - St. Petersburg test of *Parliament* snus and Canada test of *General* snus
  - Tel Aviv, Israel test market for *Marlboro* snus



MSEK	Q4-2012	Q4-2011	chg	Full year 2012	Full year 2011	chg
Sales	1,280	1,266	1	5,049	4,726	7
Operating profit	593	581	2	2,349	2,181	8
Operating margin, %	46.3	45.9		46.5	46.1	

# Estimated Scandinavian snus consumption

## Cans/millions

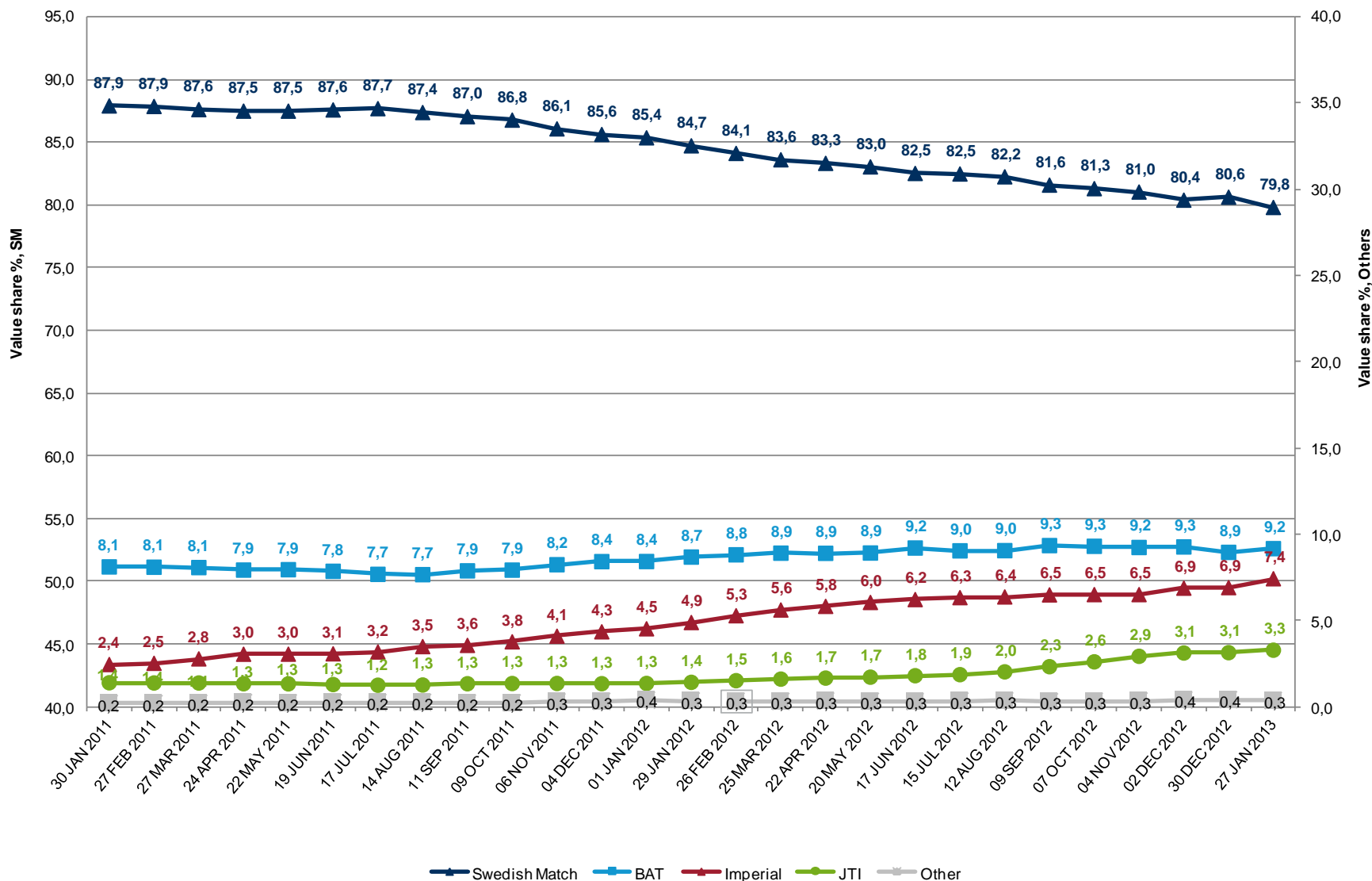


Source: Swedish Match estimates, adjusted for hoarding in Sweden (estimated hoarding volumes Q4 2006 and Q4 2007 moved to 2007 and 2008 to more accurately reflect consumption).

\* 2009 to 2011 figures rebased.

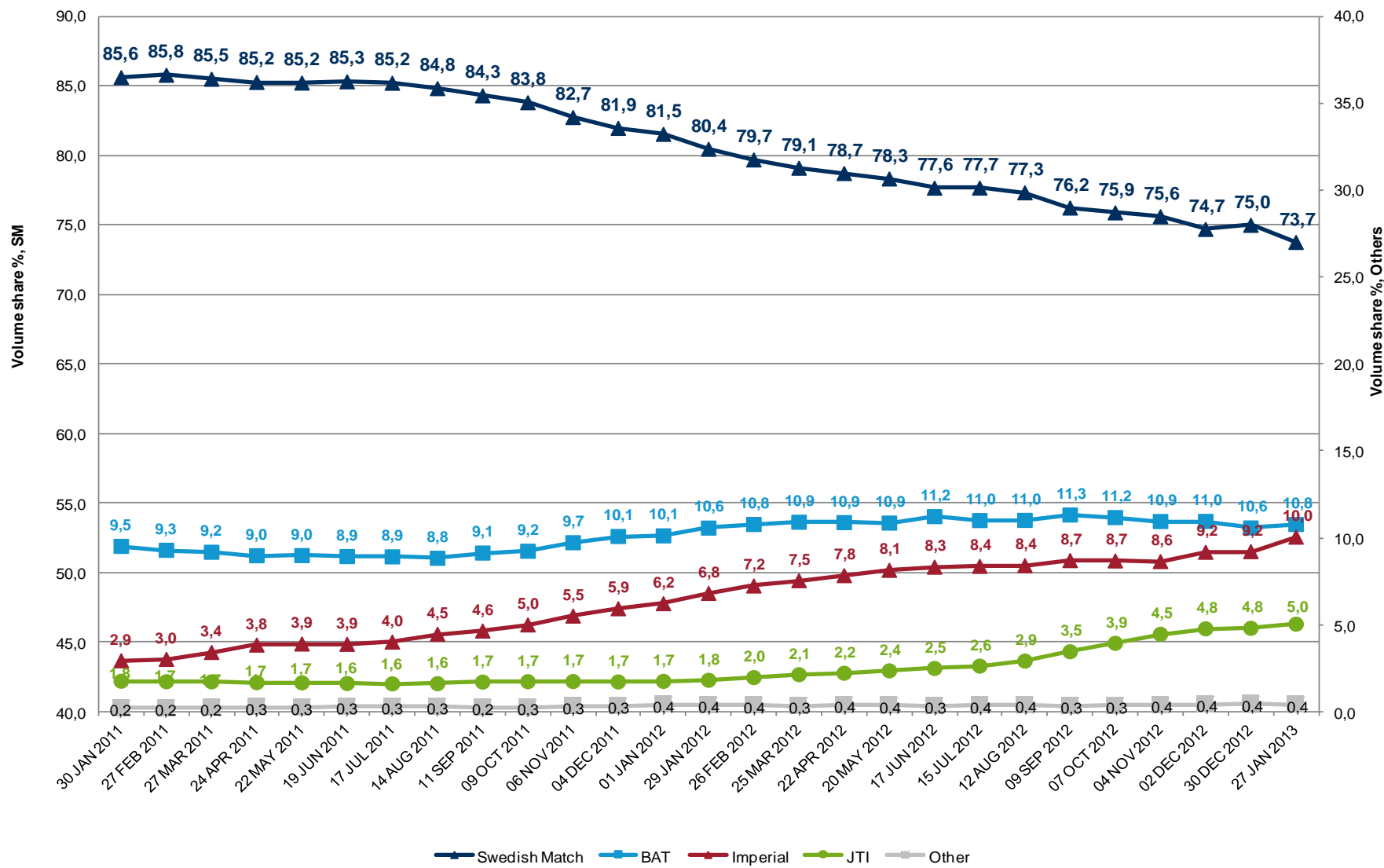


# Value shares, snus, Sweden



Source: Nielsen (excluding tobacconists).

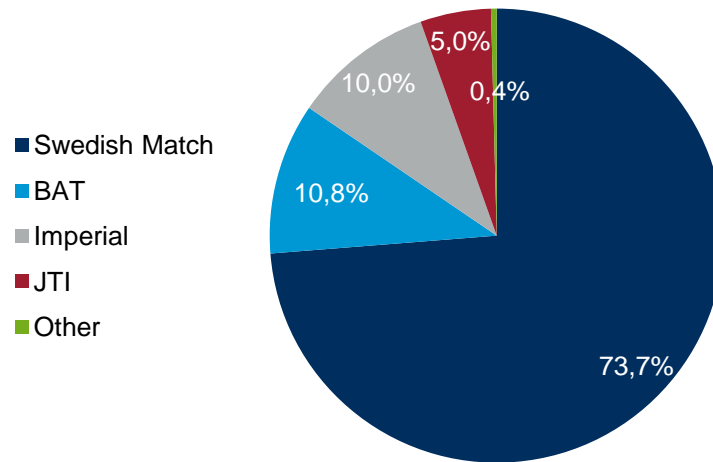
# Volume shares, snus, Sweden



Source: Nielsen (excluding tobacconists).

# Manufacturer share by price segment, Sweden

## Total volume shares



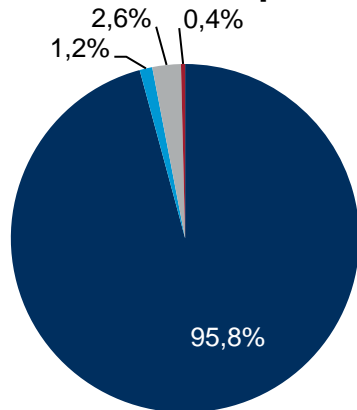
January 27, Swedish Match share of:

Full price segment was: 95.8%

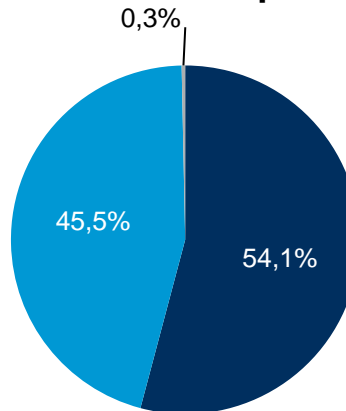
Mid price segment was: 54.1%

Low price segment was: 26.6%

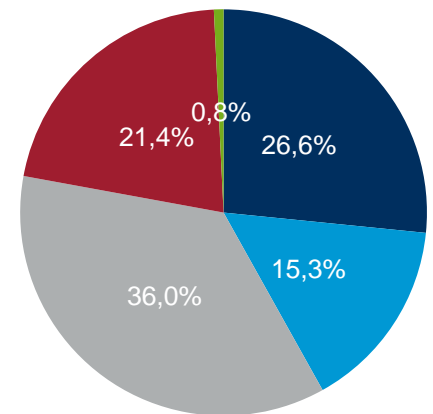
### Share of Full price



### Share of Mid price



### Share of Low price

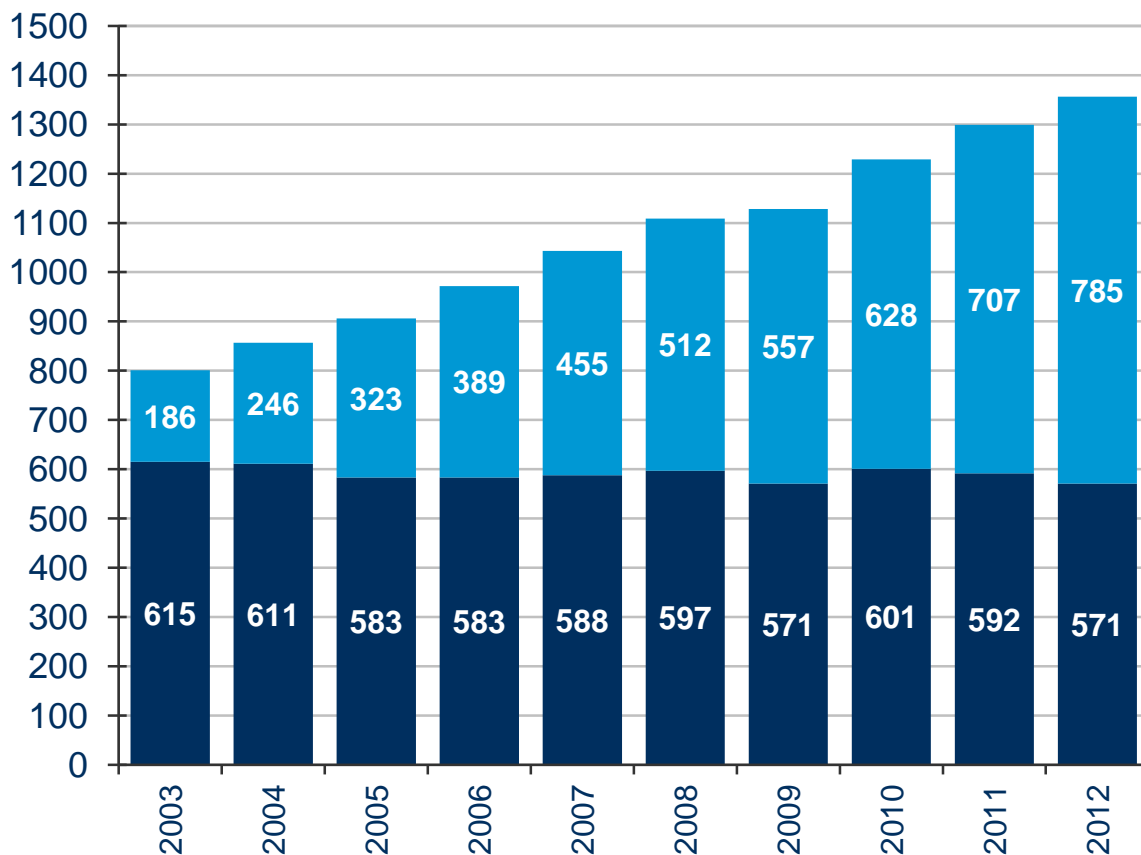


Source: Nielsen (excluding tobacconists) January 27, 2013.

# Volume growth of moist snuff in the US

## US snuff market by segment

Million cans



- Price value
- Premium



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.

# Snus expansion

## Snus in the US

- **General snus currently in more than 11,000 stores in the US**
  - Good sell-through/rotation in stores
  - Distribution expansion continues



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

- **Test launch under the *Parliament* brand in St. Petersburg, Russia, started in December 2011, in more than 400 stores**
- **Test launch of *General* in Canada started in December 2010, now in more than 1,500 stores**
- **Test launch of *Marlboro* in Tel Aviv, Israel in July 2012, in more than 200 stores**



# Other tobacco products

## US 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 6-8% per year in volume



# Other tobacco products

## Fourth quarter sales up 6% in local currency vs. previous year

- Sales growth in local currency for both cigars and chewing tobacco
- Volume growth of 16% for cigars in Q4, sales up 8% in local currency
  - Continued growth of *White Owl* and *Garcia y Vega* small cigars
  - Successful launch of *White Owl Black*, and *Game by Garcia y Vega Black*
- Operating profit for cigars declined vs. prior year
  - Unusually strong cigar mix in Q4 2011
- Chewing tobacco sales up 3% in USD and operating profit was higher vs. year ago in Q4, on flat volume
- Chewing tobacco volume of own brands down only slightly in Q4



MSEK	Q4-2012	Q4-2011	chg	Full year 2012	Full year 2011	chg
Sales	601	578	4	2,661	2,388	11
Operating profit	248	255	-3	1,161	1,049	11
Operating margin, %	41.2	44.1		43.6	44.0	

# Other tobacco products

## US cigars

- **US mass market sales show continued growth**
  - Q4 sales increased 8% in local currency compared to previous year
  - Excluding little cigars, market share is 17.8% YTD, vs. 16.9% year ago (Nielsen, January 19, 2013)
  - Based on reported factory shipments and shipments from distributors to retailers, Swedish Match estimates that its actual market share exceeds 20%
- **Continued success for FoilFresh® cigars with particularly strong growth for *small cigars***
- **Launch of *Game by Garcia y Vega Black* and *White Owl Black* in Q3, distribution expansion in Q4**

## Chewing tobacco

- **Continued market volume decline**
  - Estimated to be down by more than 5 percent in 2012
- **Price increase of 5% in December 2012**



## Q4 sales flat, operating profit down 19% 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 EU, Brazil, Asia and East Europe
- Production in Brazil, the Netherlands, the Philippines and Sweden

- Q4 operating profit down slightly for lighters
- Q4 sales and operating profit down for matches, impacted by higher costs, country mix and currency movements
- Lights distribution by STG in several markets



MSEK	Q4-2012	Q4-2011	chg	Full year 2012	Full year 2011	chg
Sales	341	364	-6	1,339	1,346	-1
Operating profit	61	80	-23	222	240	-8
Operating margin, %	17.9	21.9		16.6	17.9	

# Scandinavian Tobacco Group (STG)

- **Swedish Match share of STG net profit after interest and tax for the year amounted to 366 MSEK (337)**
- **Total STG net finance cost for the full year amounted to 98 MDKK (47)**
  - Net finance cost in the prior year was positively impacted by significant currency gains
- **Net profit for the period for STG amounted to 622 MDKK (578)**
- **Reported full year EBITDA amounted to 1,307 MDKK (1,178 including restructuring costs of 98 MDKK)**
  - On a comparable basis, EBITDA increased by 1% for total STG
    - Excluding Lane effects and EBITDA on divested cigar brands in Australia (in 2011), and adjusted for currency translation
  - Premium cigar profits up on higher shipment volumes
  - For mass market cigars, excluding Lane, sales and EBITDA increased
    - Lower volumes in part due to delivery issues tied to implementation of new ERP system
  - Pipe tobacco/fine cut sales slightly down and EBITDA increased
  - For Lane, during the March-September period (Lane was acquired in March 2011) sales and EBITDA declined, primarily as a result of country mix and higher operating expenses in the US market
- **204 MSEK dividend from STG received April 27**



# P & L summary

MSEK	Q4- 2012	Q4-2011	chg	Full year 2012	Full year 2011	chg
<b>Sales</b>	<b>3,148</b>	<b>3,064</b>	<b>3</b>	<b>12,486</b>	<b>11,666</b>	<b>7</b>
Cost of goods sold	-1,586	-1,515		-6,138	-5,774	
<b>Gross profit</b>	<b>1,562</b>	<b>1,549</b>	<b>1</b>	<b>6,349</b>	<b>5,892</b>	<b>8</b>
Selling and adm. expenses	-667	-648		-2,653	-2,516	
Share of profit/loss in assoc. companies and joint ventures	91	120		337	327	
Adjustment to capital gain from transfer of businesses to STG	-	-		30	-	
<b>Operating profit</b>	<b>986</b>	<b>1,022</b>	<b>-4</b>	<b>4,062</b>	<b>3,702</b>	<b>10</b>
Finance income	10	8		38	37	
Finance costs	-146	-142		-589	-560	
Net finance cost	-137	-134		-551	-523	
<b>Profit before income tax</b>	<b>850</b>	<b>888</b>	<b>-4</b>	<b>3,511</b>	<b>3,180</b>	<b>10</b>
Income tax expense	-63	-183		-604	-642	
<b>Profit for the period</b>	<b>787</b>	<b>705</b>	<b>12</b>	<b>2,907</b>	<b>2,538</b>	<b>15</b>
EPS, basic, SEK	3.93	3.42		14.33	12.14	
EPS, diluted, SEK	3.91	3.40		14.25	12.07	



# Balance sheet in summary

MSEK	December 31, 2012	December 31, 2011
Intangible assets	962	992
Property, plant and equipment	2,010	2,076
Investments in associated companies and joint ventures	4,354	4,481
Other non-current financial receivables*	1,140	1,395
Current operating assets	3,080	3,031
Other current investments and current financial assets	-	0
Cash and cash equivalents	2,824	2,533
<b>Total assets</b>	<b>14,371</b>	<b>14,507</b>
Equity attributable to equity holders of the Parent	-2,053	-1,602
Non-controlling interests	2	2
<b>Total equity</b>	<b>-2,051</b>	<b>-1,599</b>
Non-current provisions	1,009	1,070
Non-current loans	9,238	8,535
Other non-current financial liabilities*	1,870	1,787
Current provisions	102	84
Current loans	1,119	1,283
Other current liabilities*	3,084	3,347
<b>Total equity and liabilities</b>	<b>14,371</b>	<b>14,507</b>

\* For full detail, please refer to notes in the full year 2012 report.



# Cash flow in summary

MSEK	Jan-Dec 2012	Jan-Dec 2011
<b>Cash flow from operating activities before changes in working capital</b>	<b>3,093</b>	<b>2,445</b>
Cash flow from changes in working capital	-288	163
<b>Net cash from operating activities</b>	<b>2,805</b>	<b>2,608</b>
Purchase of property, plant and equipment	-251	-245
Proceeds from sale of property, plant and equipment	6	3
Purchase of intangible assets	-48	-22
Investments in associated companies and joint ventures*	-40	-28
Investments in other companies*	-	-4
Proceeds from sale of subsidiaries, net of cash disposed of*	9	143
Changes in financial receivables etc.	-	1
Changes in other current investments	-	1
<b>Net cash used in investing activities</b>	<b>-323</b>	<b>-151</b>
Changes in loans	740	149
Dividend paid to equity holders of the Parent	-1,334	-1,152
Repurchase of own shares	-1,946	-2,371
Stock options exercised	414	67
Other	14	88
<b>Net cash used in financing activities</b>	<b>-2,112</b>	<b>-3,219</b>
<b>Net decrease in cash and cash equivalents</b>	<b>371</b>	<b>-763</b>
Cash and cash equivalents at the beginning of the period	2,533	3,275
Effect of exchange rate fluctuations on cash and cash equivalents	-79	21
<b>Cash and cash equivalents at the end of the period</b>	<b>2,824</b>	<b>2,533</b>

\* For full detail, please refer to notes in the full year 2012 report.

# Key data\*

MSEK	Jan-Dec 2012	Jan-Dec 2011
Operating margin, %	32.3	31.7
Operating capital, MSEK	7,253	7,224
Return on operating capital, %	55.7	51.7
EBITDA, MSEK**	4,328	3,992
EBITA, MSEK**	4,082	3,759
Net debt, MSEK	9,289	8,886
Net debt/EBITA**	2.3	2.4
Investments in property, plant and equipment, MSEK**	251	245
EBITA interest cover	7.6	7.4
<i>Excluding share of net profit in STG</i>		
EBITA, MSEK**	3,716	3,422
Net debt/EBITA**	2.5	2.6
<b>Share data</b>		
Earnings per share, basic, SEK	14.33	12.14
Earnings per share, diluted, SEK	14.25	12.07
Average number of shares outstanding, basic (Mio)	202.9	209.0
Shares outstanding, end of period (Mio)	199.4	204.2

\* All key data, with the exception of share data, have been calculated excluding larger one time items.

\*\* For full detail, please refer to notes in the full year 2012 report.

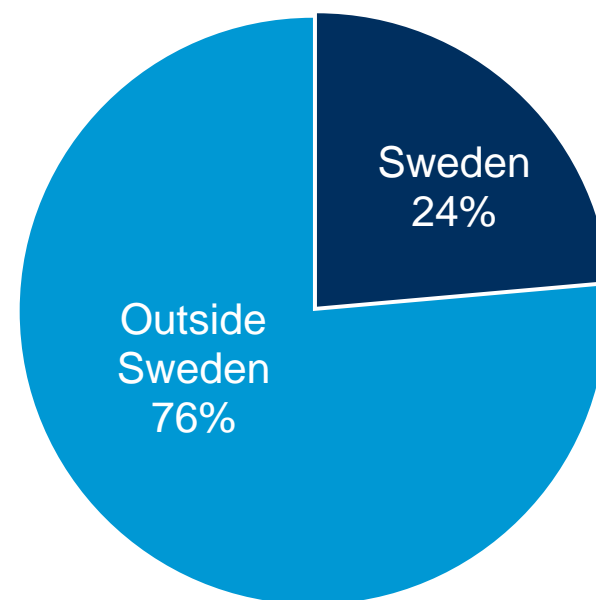
# Largest shareholders\*

As per December 31, 2012

## Largest shareholders

Morgan Stanley Investment Management	6.6%
AMF Insurance & Funds	2.9%
Fidelity Funds	2.9%
Swedbank Robur Funds	2.4%
Standard Life Investment Funds	2.2%
Capital Group Funds	1.6%
SHB Funds	1.4%
Fourth Swedish National Pension Fund	1.2%
Second Swedish National Pension Fund	1.0%
Parvus Asset Management	1.0%
	<hr/>
	23.2%

51,244 shareholders



Source: Euroclear, official registry and SIS Ägaranalys.

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

# Group strategy

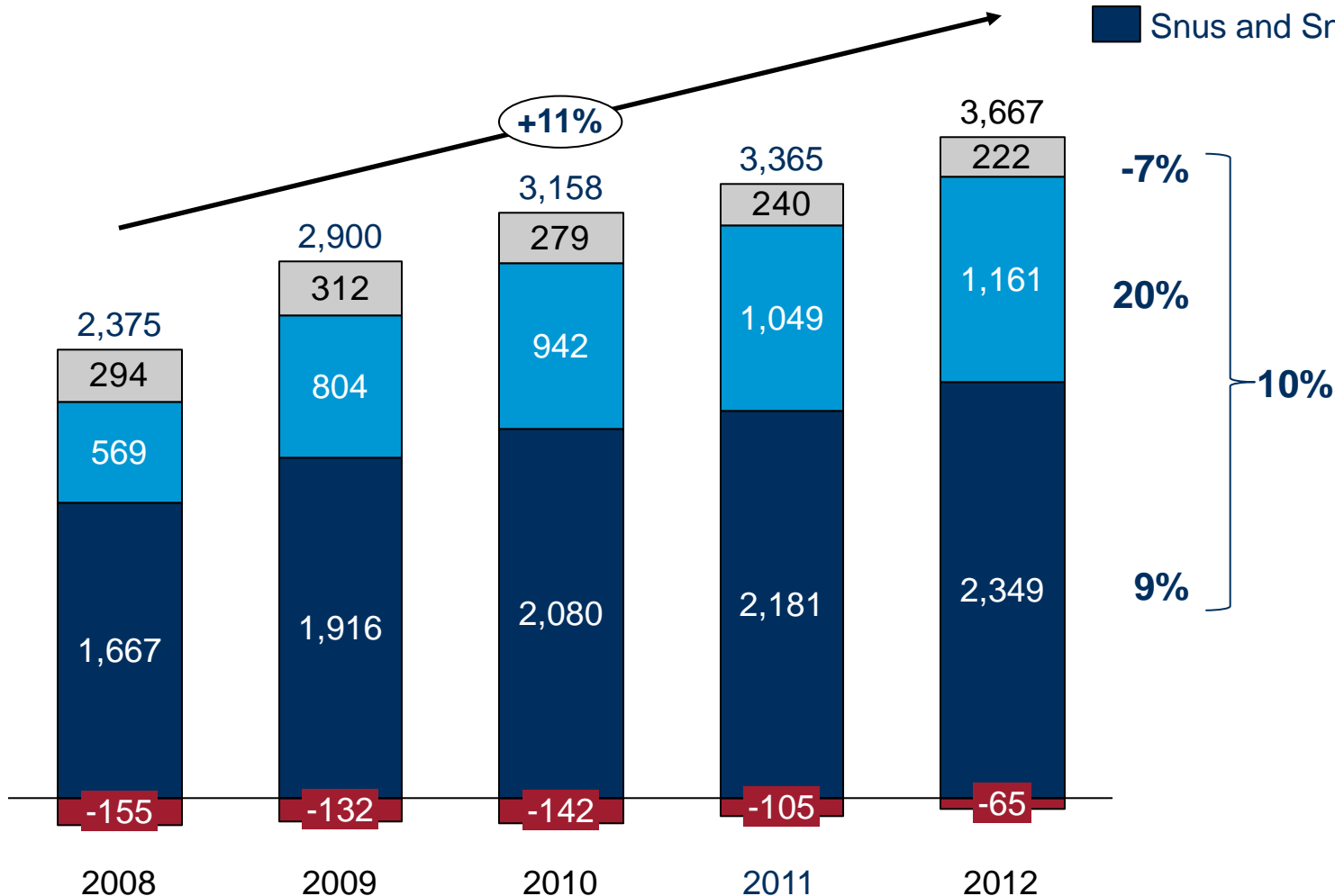
- **Position the Company as the global smokefree leader**
- **Leverage strong platforms to maximize long term profitability in Other tobacco products**
- **Continue to focus on operational excellence and profitability in Lights**
- **Realize the potential of STG through active ownership**



# Comparable operating profit

Excluding businesses transferred to STG (MSEK)  
CAGR 08-12

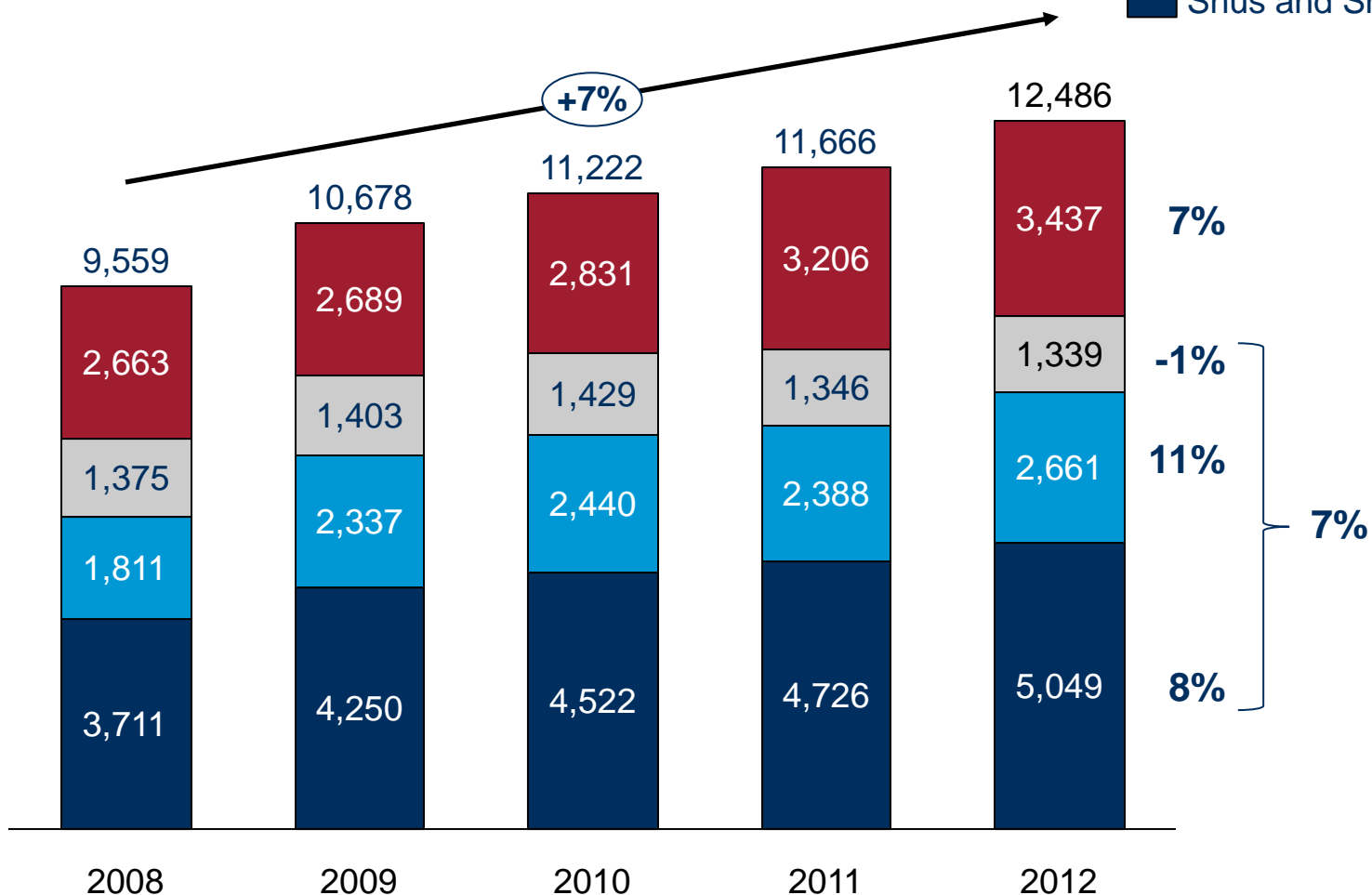
- Other operations
- Lights
- Other tobacco products
- Snus and Snuff



# Comparable sales

## Excluding businesses transferred to STG (MSEK) CAGR 08-12

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

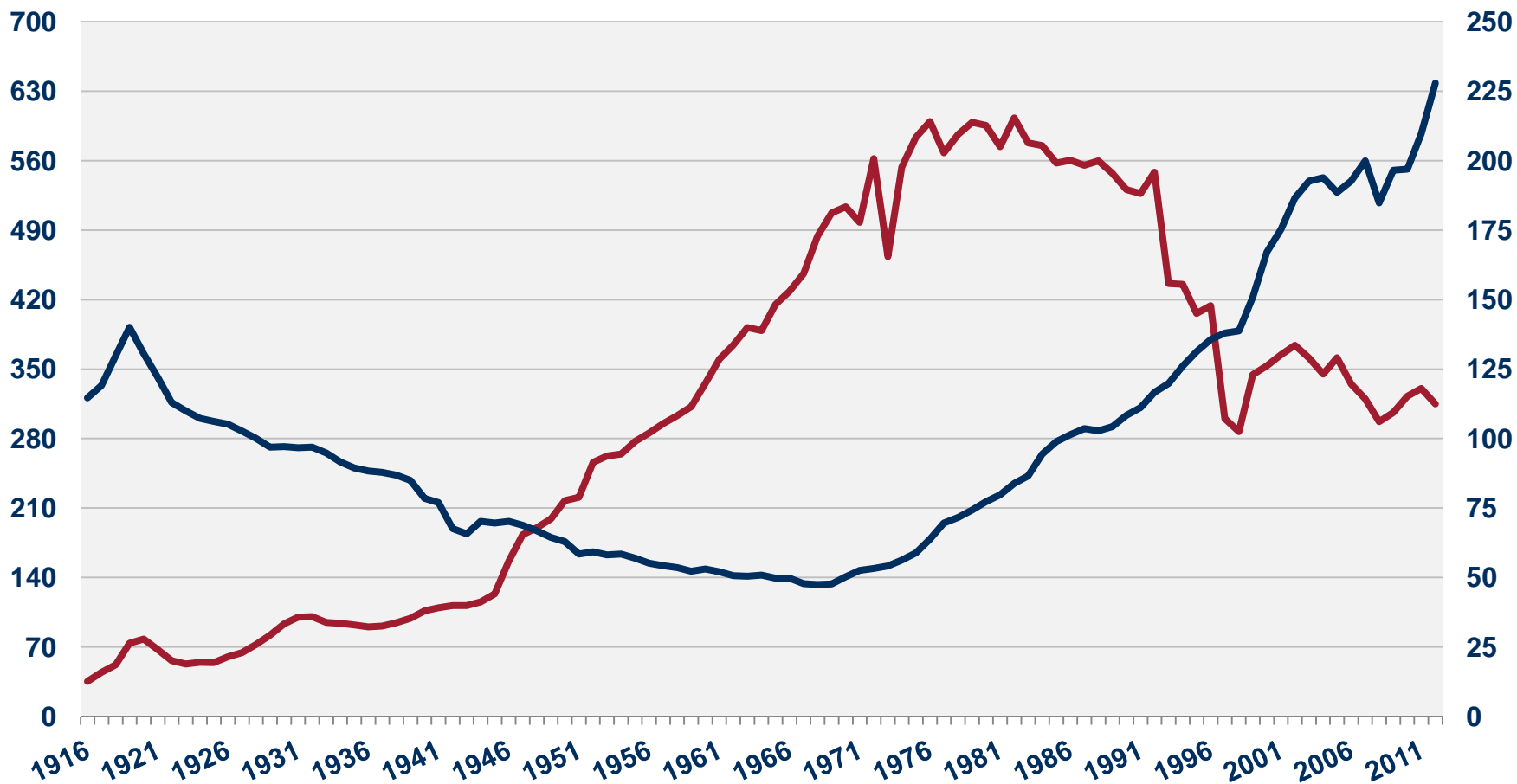


# Snus vs. cigarettes in Sweden

## Volume of snus and cigarettes in Sweden 1916-2012

**Cigarettes**  
(million packs)

**Snus**  
(million cans)



Adjusted for estimated snus hoarding 1996, 1997, 2006, 2007, 2008, 2011 and 2012.

Source: Swedish Match Distribution AB and Swedish Match estimates.