

Q2 2013 Investor Kit

JANUARY-JUNE 2013



Swedish Match reporting segments

■ Snus and snuff

- Swedish snus (Scandinavia and US)
- Moist snuff (US)
- SMPM International



■ Other tobacco products

- Cigars (US)
- Chewing tobacco (US)

■ Lights

- Lighters
- Matches
- Fire related products



■ Other operations

- Distribution
- Central costs

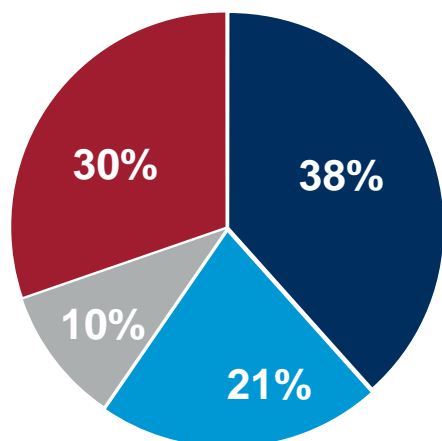


Sales and operating profit

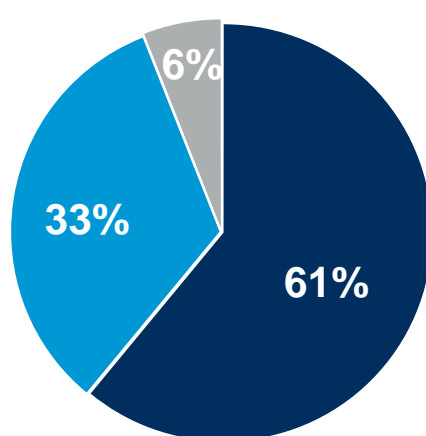
Sales and operating profit by product area

Q2 2013

Sales, SEK



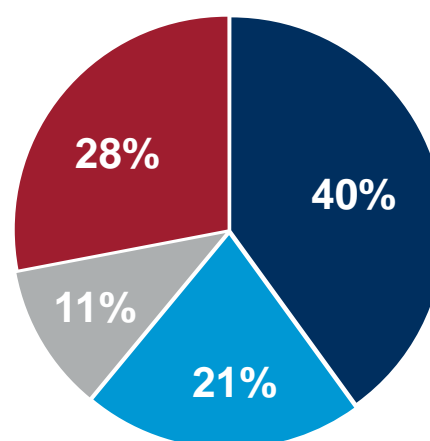
Operating profit*, SEK



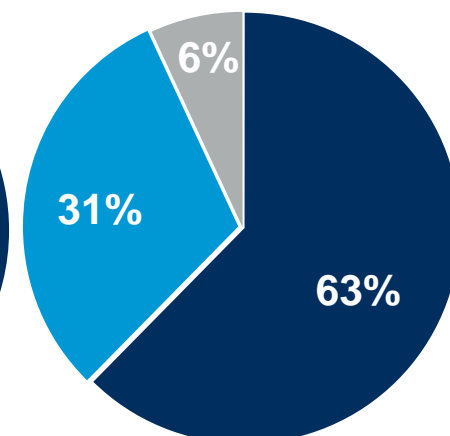
- Snus and snuff
- Other tobacco products
- Lights
- Other operations

Full year 2012

Sales, SEK



Operating profit*, SEK



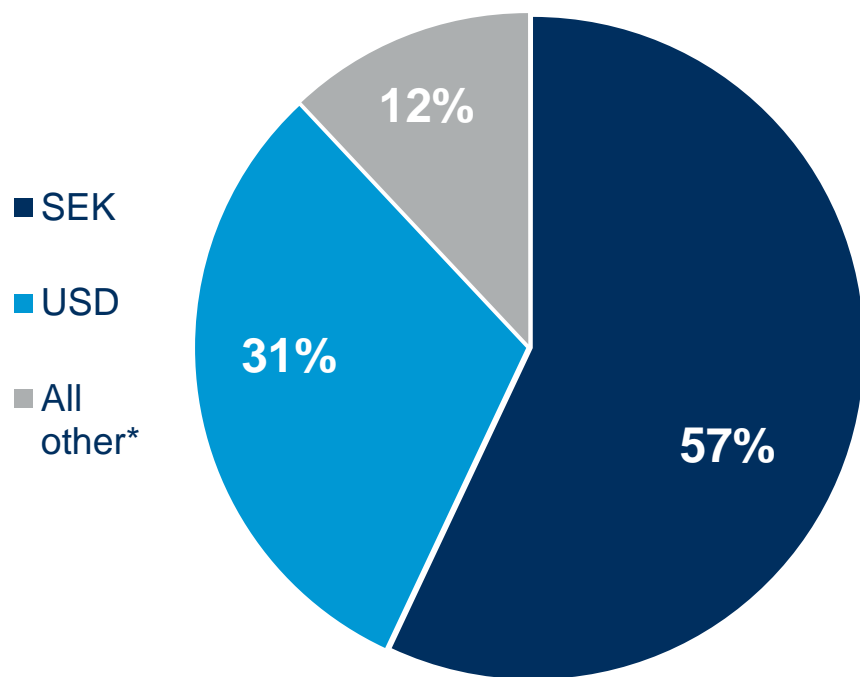
- Snus and snuff
- Other tobacco products
- Lights
- Other operations

* Excluding Other operations, share of net profit in STG and larger one-time items. Totals may not add up due to rounding.

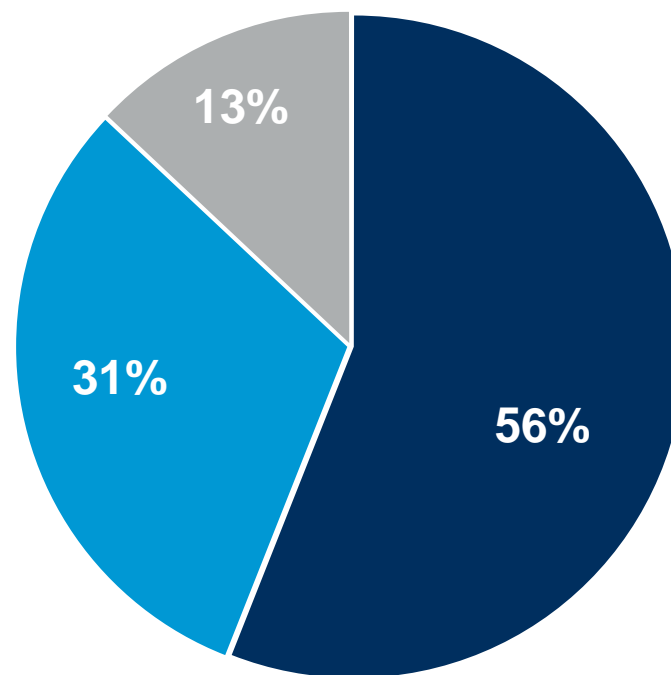
Sales by currency block

Percent of sales, MSEK

Q2 2013



Full year 2012



* Primarily NOK and BRL.

Group results – second quarter 2013

- **Sales amounted to 3,220 MSEK (3,213)**
 - In local currencies, sales increased by 3%
- **Operating profit from product areas amounted to 871 MSEK (938)**
 - In local currencies, operating profit from product areas declined by 5%
 - Factors in lower operating profit were currency translation, higher spending behind international snus, a lower result from revised pension accounting, and a small decline in operating profit in Scandinavian snus operations
 - Intensified competition for cigars in the US negatively impacted result
 - Operating profit, including share of net profit in STG and larger one-time items, declined to 968 MSEK (1,082)
- **Profit before income tax amounted to 830 MSEK (942)**
- **Profit for the period amounted to 667 MSEK (759)**
 - Underlying tax rate was 22%
- **EPS (basic) was 3.34 SEK (3.72)**
 - Excluding larger one-time items, basic EPS was 3.33 SEK (3.57)



Conclusions, second quarter – sales

- **Sales up 3% in local currencies, in line with previous year in SEK**
- **Scandinavian snus sales declined 4%**
 - Shipment volumes for Scandinavia down 3% year on year
- **US snus/moist snuff sales down 4% in USD**
 - Moist snuff volumes down 6% year on year, up 5% from Q1 in can equivalents
 - Strong growth for snus in the US, with over one million cans shipped in the quarter
- **US cigar sales up by close to 5% in USD***
 - Cigar volumes up 6%, which was below expectations
 - Sales positively impacted by changed accounting for tobacco excise taxes
- **US chewing tobacco sales up by close to 5% in USD***
 - Shipment volumes were down less than 2%
- **Lights sales up 3% in local currencies**
 - Higher sales and operating profit for lighters
 - Flat sales and lower operating profit for matches, in local currencies



* Total Other tobacco products sales increased by more than 4% in local currencies.

Conclusions, second quarter – operating profit

- **Operating profit from product areas* declined 5% in local currencies, down 7% in SEK**
- **Snus and snuff: operating profit down 6%, down 3% when backing out international snus investments (US/SMPM International)**
 - Price rollback on *Kaliber*, higher weights for some pouch products in Sweden
 - Investment behind pouch moist snuff in the US
 - Higher spending behind *General* snus in the US
 - Operating loss for international snus expansion (US, SMPM International) was 82 MSEK (67)
- **Other tobacco products: operating profit down 2% in local currency, down 7% in SEK**
 - Operating profit up in local currencies when adjusted for changed accounting principle for pensions
 - Cigar operating profit declined
 - Price mix effect from higher levels of promotions despite higher volumes
 - Operating profit for chewing tobacco grew in local currency, and operating margin was higher than prior year, on good volume performance
- **Lights: operating profit down 12%, down 6% in local currencies**
 - Operating profit up for lighters and down for matches in local currencies

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

■ **Tax rate for the Group was 18.4% for the first six months**

- Includes profit and loss impact from associated companies
- No tax on capital gain from land sale
- The reported tax rate, excl. one-time items and associated companies, was 22%
- Underlying tax rate in 2013 estimated to be around 22%

■ **Cash flow from operations**

- Cash and cash equivalents were 2,599 MSEK on June 30, 2013 vs. 3,223 MSEK as of June 30, 2012
- Cash flow from operating activities for the first six months was to 1,199 MSEK (1,323)
 - Impacted by both a lower operating profit and higher tax payments

■ **Share repurchases during the first quarter amounted to 0.6 million (138 MSEK). No share repurchases in Q2**

- During the first six months, the Company sold 1.1 million treasury shares at an average price of 156.14 SEK, totaling 165 MSEK, as a result of option holders exercising options

Financial policy and financing needs

■ Financial policy

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

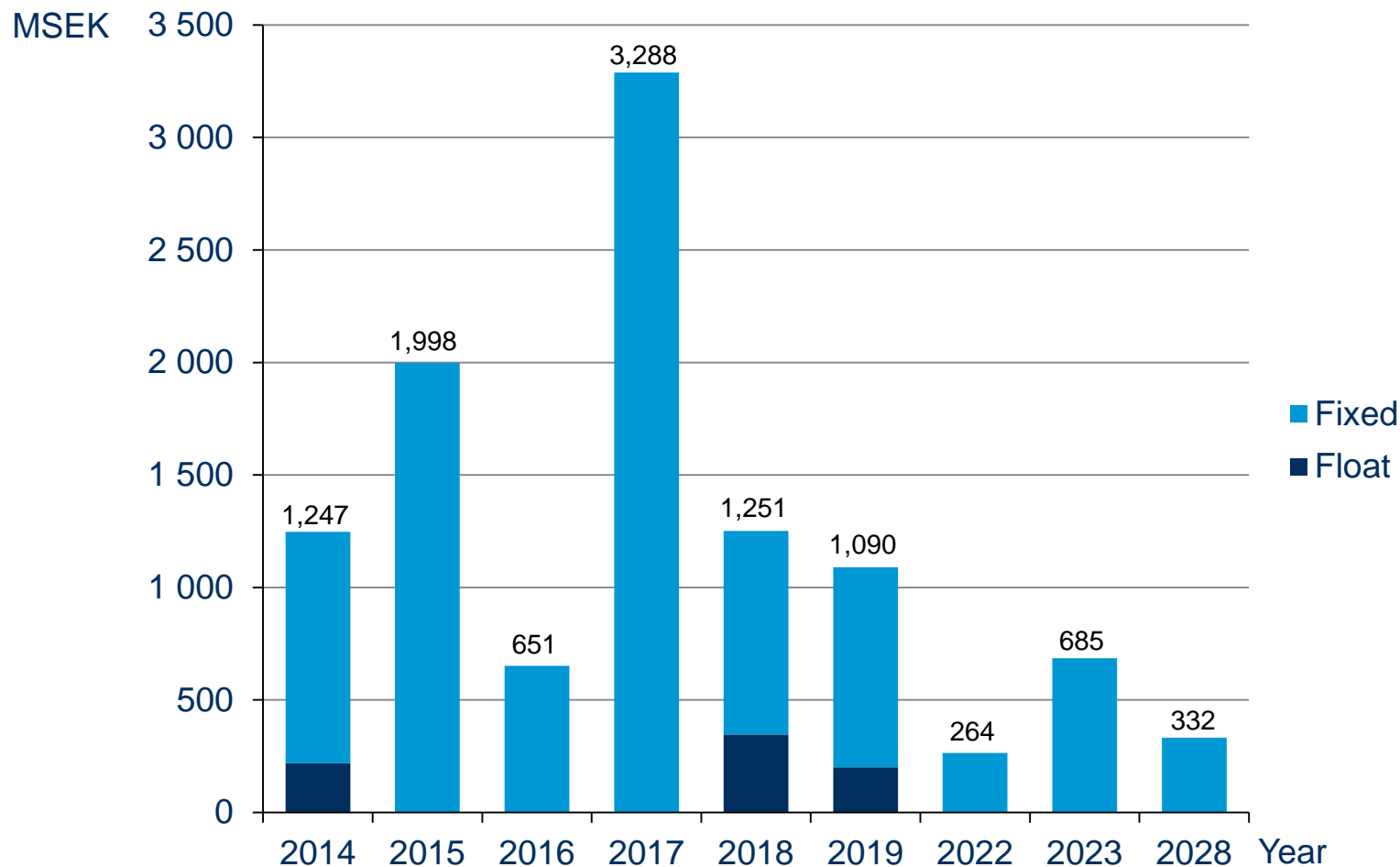
■ Financing and cash flow

- Cash flow from operating activities for the first six months amounted to 1,199 MSEK (1,323)
- Higher dividends from associates
- Net finance cost for the first six months was 274 MSEK (274)
- Net debt/EBITA* was 2.6 for the 12 months ending June 30, 2013

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

Maturity profile of interest bearing liabilities*

As of June 30, 2013



* 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**



Snus volumes up in US and Norway, down in Sweden

■ Scandinavia snus sales down 4% in Q2

- Impacted by currency translation from weaker NOK
- Scandinavian shipment volumes down 3%, down approx. 2% on an underlying basis
- Volumes up in Norway, down in Sweden and Travel Retail
- Price increase for *Kaliber* in January 2013 was rolled back in late February
- Profits down but slight improvement in the operating margin
- Solid total market growth in volume terms

■ US snus and moist snuff sales down 4% in USD in Q2

- Significantly higher sales for US snus; moist snuff sales volumes down year on year (6%) but up quarter versus Q1 (can equivalent)
- Higher spend behind US snus as part of distribution build
- Growth initiatives for pouches and tubs showed good traction in the quarter

■ Continued investment behind snus internationally

- Expansion of *General* snus in the US
- *Parliament* snus test in St. Petersburg; *General* snus test in Canada and Malaysia
- *Marlboro* snus test in Tel Aviv



MSEK	Q2-2013	Q2-2012	chg	H1-2013	H1-2012	chg	July 2012- June 2013	Full year 2012
Sales	1,230	1,300	-5	2,403	2,506	-4	4,946	5,049
Operating profit	546	581	-6	1,080	1,149	-6	2,280	2,349
Operating margin, %	44.4	44.7		44.9	45.9		46.1	46.5

Nielsen snus consumption data, Sweden*

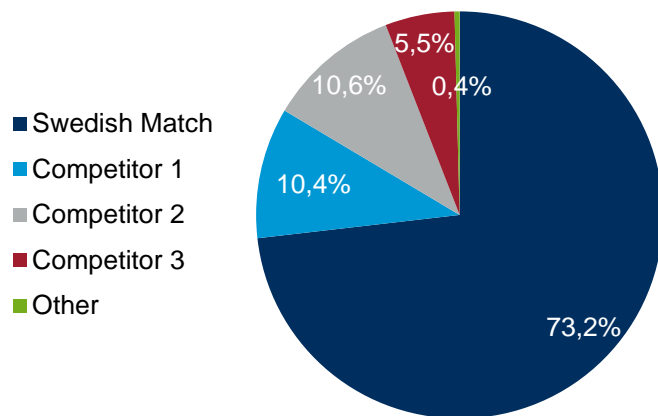
- **Swedish Match total value market share 4 weeks to Jun 16, 2013 was 78.8%; 24 week share was 79.3%**
 - 82.5% for 4 weeks to June 17, 2012; 83.5% for 24 weeks to June 17, 2012
- **Swedish Match total volume market share 4 weeks to June 16, 2013 was 72.7%; 24 week share was 73.2%**
 - 77.6% for 4 weeks to June 17, 2012; 78.9% for 24 weeks to June 17, 2012
- **Value segment** was 39.6% of Swedish market 4 weeks to June 16, 2013; 24 week share was 38.3%**
 - 34.2% for 4 weeks to June 17, 2012; 33.0% for 24 weeks to June 17, 2012
- **Swedish Match share of value segment** 4 weeks to June 16, 2013 was 38.0%; 24 week share was 37.0%**
 - 42.7% for 4 weeks to June 17, 2012; 44.2% for 24 weeks to June 17, 2012
- **Swedish Match share of premium segment** 4 weeks to June 16, 2013 was 95.5%; 24 week share was 95.6%**
 - 95.8% for 4 weeks to June 17, 2012; 96.1% for 24 weeks to June 17, 2012

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

** Segmentation by segment: premium and value (mid and low priced), made by Swedish Match, not Nielsen.

Manufacturer share by price segment, Sweden

Total volume shares



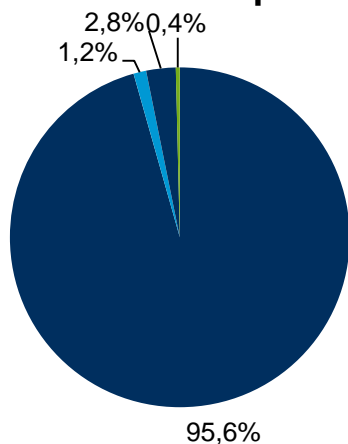
16 June 2013 (12 weeks ending),
Swedish Match share of:

Full price segment was: 95.5%

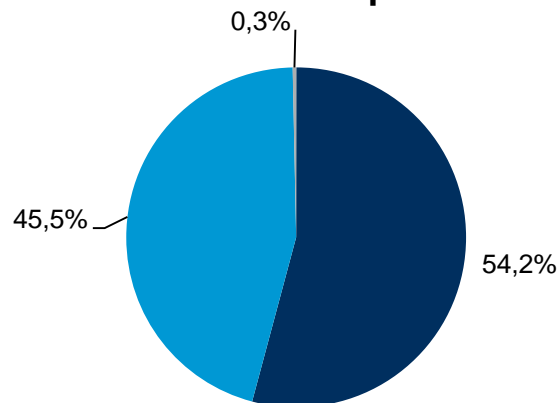
Mid price segment was: 54.3%

Low price segment was: 29.2%

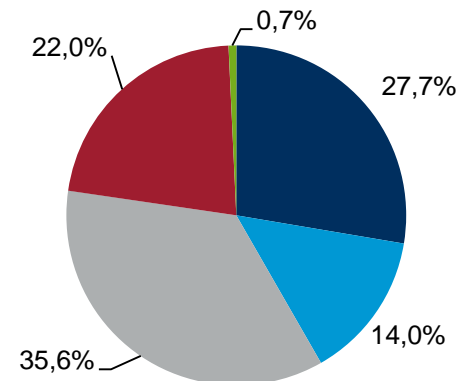
Share of Full price



Share of Mid price



Share of Low price

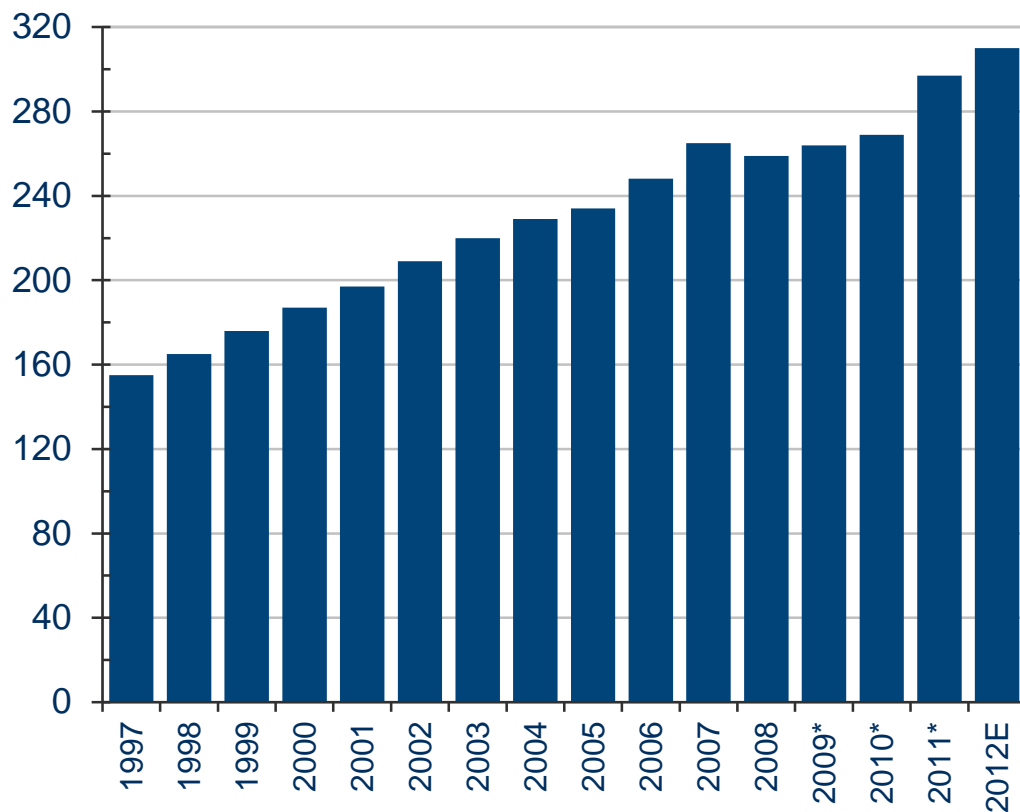


Source: Nielsen (excluding tobacconists). 24 weeks ending 16 June 2013.

** Swedish Match estimates its share of price segments using own definitions of segments then extrapolating Nielsen data.

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.



Nielsen moist snuff consumption data, US*

- **US snuff market up 5.9% for the YTD to June 8**
 - Category growth continues to be driven by the value segment
- **Swedish Match market share in the US**
 - YTD to June 8 was 7.0% vs. 7.7% YTD 2012
 - Swedish Match estimates its market share based on industry shipments to be close to 10% of the market (SM estimates, not Nielsen)

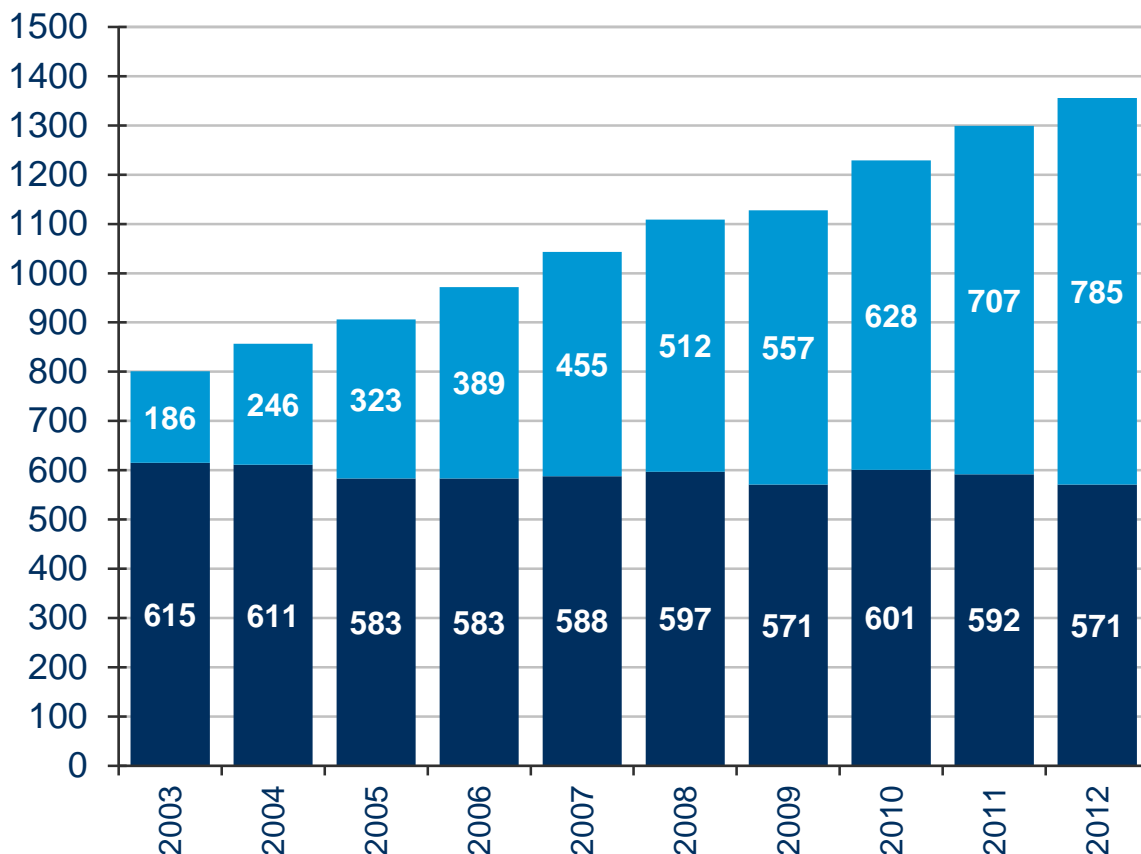


* Source: Nielsen. Volume basis, unless stated otherwise.

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 17,000 stores in the US**
 - Good sell-through/rotation in stores
 - Distribution expansion continues
 - More than 1 million cans shipped in Q2



SMPM International (the 50/50 joint venture)

- Test launch of *General* in Canada started in December 2010, in more than 1,800 stores
- Test launch under the *Parliament* brand in St. Petersburg, Russia, started in December 2011, in more than 400 stores
- Test launch of *Marlboro* in Tel Aviv, Israel in July 2012, in more than 200 stores
- Good sales of *General* snus in Malaysia, although store base is small

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

Second quarter sales up 4% in local currency vs. previous year

- **Sales growth in local currency for cigars and chewing tobacco**
 - Cigar sales positively impacted by increased volumes and also by changed accounting for excise taxes but negatively affected by promotional pricing
 - Chewing tobacco sales up on price/mix, with only slight volume decline
- **Operating profit up in local currency excluding impact from changed accounting principles for pensions**
 - Operating profit for cigars declined vs. prior year on high levels of promotional activity
 - Full year 2013 operating profit growth for cigars is now more uncertain and is expected to be modest
- **Modest volume growth for cigars**
 - Volumes up 6% in the US
 - Good sell-in of *White Owl* Gold and *Game by Garcia y Vega* Gold
 - Programs in place to respond to increasingly competitive environment
 - Volumes more evenly spread than in 2012 (strongest anticipated growth in Q4 2013)
- **Chewing tobacco sales up by close to 5% in USD**
 - Operating profit for chewing tobacco was above year ago on 2% lower volume



MSEK	Q2-2013	Q2-2012	chg	H1-2013	H1-2012	chg	July 2012- June 2013	Full year 2012
Sales	687	696	-1	1,352	1,371	-1	2,642	2,661
Operating profit	295	316	-7	555	613	-10	1,103	1,161
Operating margin, %	42.9	45.4		41.1	44.7		41.7	43.6

Other tobacco products

US cigars

- **Cigars (mass market, excluding littles)***
 - **US market for cigars up 5.7% for the YTD to June 8**
 - Swedish Match consumption volume up 9.9% YTD to June 8
 - **Swedish Match market shares in the US**
 - YTD to June 8 was 18.0% vs. 17.3% YTD 2012
 - Based on reported factory shipments and shipments from distributors to retailers, Swedish Match estimates that its actual market share exceeds 20%
- **Particularly strong growth for *small cigars***
- **Launch of Gold varieties of White Owl and Game by Garcia y Vega in Q1/Q2, new Red variety in Q3**



Chewing tobacco

- **Continued market volume decline**
 - Estimated to be down by roughly 5%, a slower decline than the historical trend of 6-8%
 - Swedish Match's share continues to grow over time
 - Price increase of 5% in December 2012

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

Q2 sales and operating profit up for lighters 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

- Q2 sales and operating profit up for lighters in local currencies
- Q2 sales flat and operating profit down for matches in local currencies
- Q1 sales and operating profit, impacted by country mix and currency movements (strong SEK, weak BRL)
- Strong lighter volume growth in Indonesia



MSEK	Q2-2013	Q2-2012	chg	H1-2013	H1-2012	chg	July 2012- June 2013	Full year 2012
Sales	326	336	-3	654	686	-5	1,307	1,339
Operating profit	53	60	-12	112	117	-5	217	222
Operating margin, %	16.2	17.9		17.1	17.0		16.6	16.6

Scandinavian Tobacco Group (STG)



- **Swedish Match share of STG net profit after interest and tax for the second quarter amounted to 95 MSEK (114)**
 - Excluding accounting adjustments, net profit was 95 MSEK (111)
- **Total STG net finance cost for the second quarter amounted to 32 MDKK (7)**
 - The increase was mainly due to positive currency effects in the prior year period
- **Net profit for the second quarter for STG amounted to 168 MDKK (190)**
- **Reported EBITDA for the second quarter amounted to 341 MDKK (349)**
 - Handmade cigar profits up, with higher volumes and positive mix effects
 - Machine made cigar sales and profits down on lower volumes
 - Prior year included some inventory build in anticipation of new ERP system in Europe
 - Difficult market situations in certain European countries
 - Pipe tobacco EBITDA up on higher volumes and good mix
 - Fine cut EBITDA up on higher volumes and better prices
- **Dividend of 224 MSEK received from STG March 7 (previous dividend of 204 MSEK received in April 2012)**

P & L summary

MSEK	Q2- 2013	Q2-2012	chg	H1-2013	H1-2012	chg	July 2012- June 2013	Full year 2012	chg
Sales	3,220	3,213	0	6,202	6,130	1	12,558	12,486	1
Cost of goods sold	-1,673	-1,558		-3,201	-2,934		-6,404	-6,138	
Gross profit	1,546	1,655	-7	3,001	3,196	-6	6,154	6,349	-3
Selling and administrative expenses	-668	-710		-1,286	-1,345		-2,593	-2,653	
Share of profit/loss in associated companies and joint ventures	87	107		122	173		285	337	
Adjustment to capital gain from transfer of businesses to STG	-	30		-	30		-	30	
Capital gain from sale of land	2	-		161	-		161	-	
Operating profit	968	1,082	-11	1,999	2,054	-3	4,007	4,062	-1
Finance income	8	12		16	17		37	38	
Finance costs	-146	-151		-290	-291		-589	-589	
Net finance cost	-138	-140		-274	-274		-551	-551	
Profit before income tax	830	942	-12	1,725	1,780	-3	3,455	3,511	-2
Income tax expense	-163	-183		-317	-353		-568	-604	
Profit for the period	667	759	-12	1,408	1,427	-1	2,888	2,907	-1
EPS, basic, SEK, incl. larger one-time items	3.34	3.72		7.05	6.99		14.40	14.33	
EPS, basic, SEK, excl. larger one-time items	3.33	3.57		6.24	6.84		13.59	14.18	
EPS, diluted, SEK, incl. larger one-time items	3.33	3.69		7.04	6.94		14.35	14.25	
EPS, diluted, SEK, excl. larger one-time items	3.32	3.55		6.23	6.79		13.55	14.10	

Balance sheet in summary

MSEK	June 30, 2013	December 31, 2012
Intangible assets	983	962
Property, plant and equipment	2,051	2,010
Investments in associated companies and joint ventures	4,370	4,354
Other non-current financial receivables*	1,160	1,140
Current operating assets	3,180	3,080
Other current investments and current financial assets	21	-
Cash and cash equivalents	2,599	2,824
Total assets	14,365	14,371
Equity attributable to equity holders of the Parent	-1,669	-2,053
Non-controlling interests	2	2
Total equity	-1,666	-2,051
Non-current provisions	1,064	1,009
Non-current loans	9,791	9,238
Other non-current financial liabilities*	1,427	1,870
Current provisions	85	102
Current loans	768	1,119
Other current liabilities*	2,896	3,084
Total equity and liabilities	14,365	14,371

* For full detail, please refer to notes in the January-June 2013 report.

Cash flow in summary

MSEK	Jan-Jun 2013	Jan-Jun 2012
Cash flow from operating activities before changes in working capital	1,550	1,683
Cash flow from changes in working capital	-351	-360
Net cash from operating activities	1,199	1,323
Purchase of property, plant and equipment	-160	-104
Proceeds from sale of property, plant and equipment	0	1
Purchase of intangible assets	-19	-19
Investments in associated companies and joint ventures*	-20	-20
Proceeds from sale of subsidiaries, net of cash disposed of*	166	9
Changes in financial receivables etc.	3	0
Net cash used in investing activities	-30	-133
Changes in loans	22	1,075
Dividend paid to equity holders of the Parent	-1,459	-1,334
Repurchase of own shares	-138	-671
Stock options exercised	165	414
Other	-11	9
Net cash used in financing activities	-1,420	-506
Net decrease in cash and cash equivalents	-252	683
Cash and cash equivalents at the beginning of the period	2,824	2,533
Effect of exchange rate fluctuations on cash and cash equivalents	27	6
Cash and cash equivalents at the end of the period	2,599	3,223

* For full detail, please refer to notes in the January-June 2013 report.

Key data*

	Jan-Jun 2013	Jan-Jun 2012
MSEK		
Operating margin, %	29.6	33.0
Operating capital, MSEK	7,704	7,478
Return on operating capital, % (12 months rolling from July 2012)	50.7	
EBITDA, MSEK**	1,969	2,176
EBITA, MSEK**	1,850	2,053
Net debt, MSEK	9,229	9,362
Net debt/EBITA** (12 months rolling from July 2012)	2.4	
Investments in property, plant and equipment, MSEK**	160	104
EBITA interest cover	6.9	7.7
<i>Excluding share of net profit in STG</i>		
EBITA, MSEK**	1,717	1,870
Net debt/EBITA** (12 months rolling from July 2012)	2.6	
Share data		
EPS, basic, SEK, incl. larger one-time items	7.05	6.99
EPS, basic, SEK, excl. larger one-time items	6.24	6.84
EPS, diluted, SEK, incl. larger one-time items	7.04	6.94
EPS, diluted, SEK, excl. larger one-time items	6.23	6.79
Average number of shares outstanding, basic (Mio)	199.5	204.2
Shares outstanding, end of period (Mio)	199.8	204.3

* 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 January-June 2013 report.

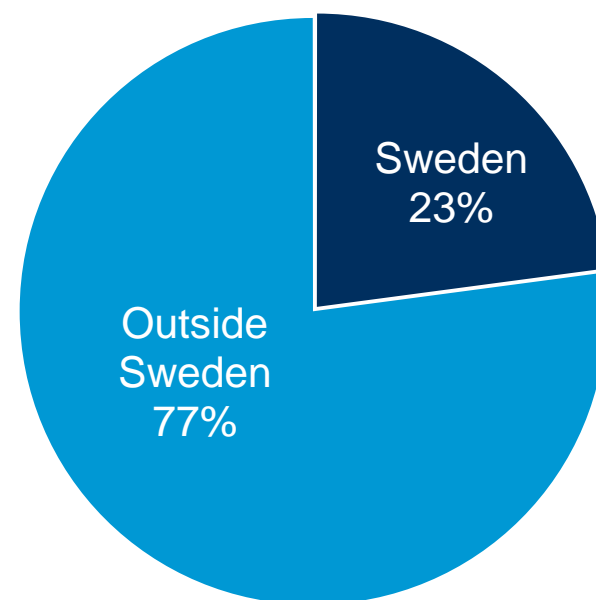
Largest shareholders*

As per June 30, 2013

Largest shareholders

Morgan Stanley Investment Management	5.2%
Standard Life Investment Funds	2.6%
AMF Insurance & Funds	2.3%
Fidelity Funds	1.9%
SHB Funds	1.7%
Second Swedish National Pension Fund	1.3%
Third Swedish National Pension Fund	1.1%
Fourth Swedish National Pension Fund	1.1%
Swedbank Robur Funds	1.1%
Parvus Asset Management	1.0%
	<hr/>
	19.3%

50,268 shareholders



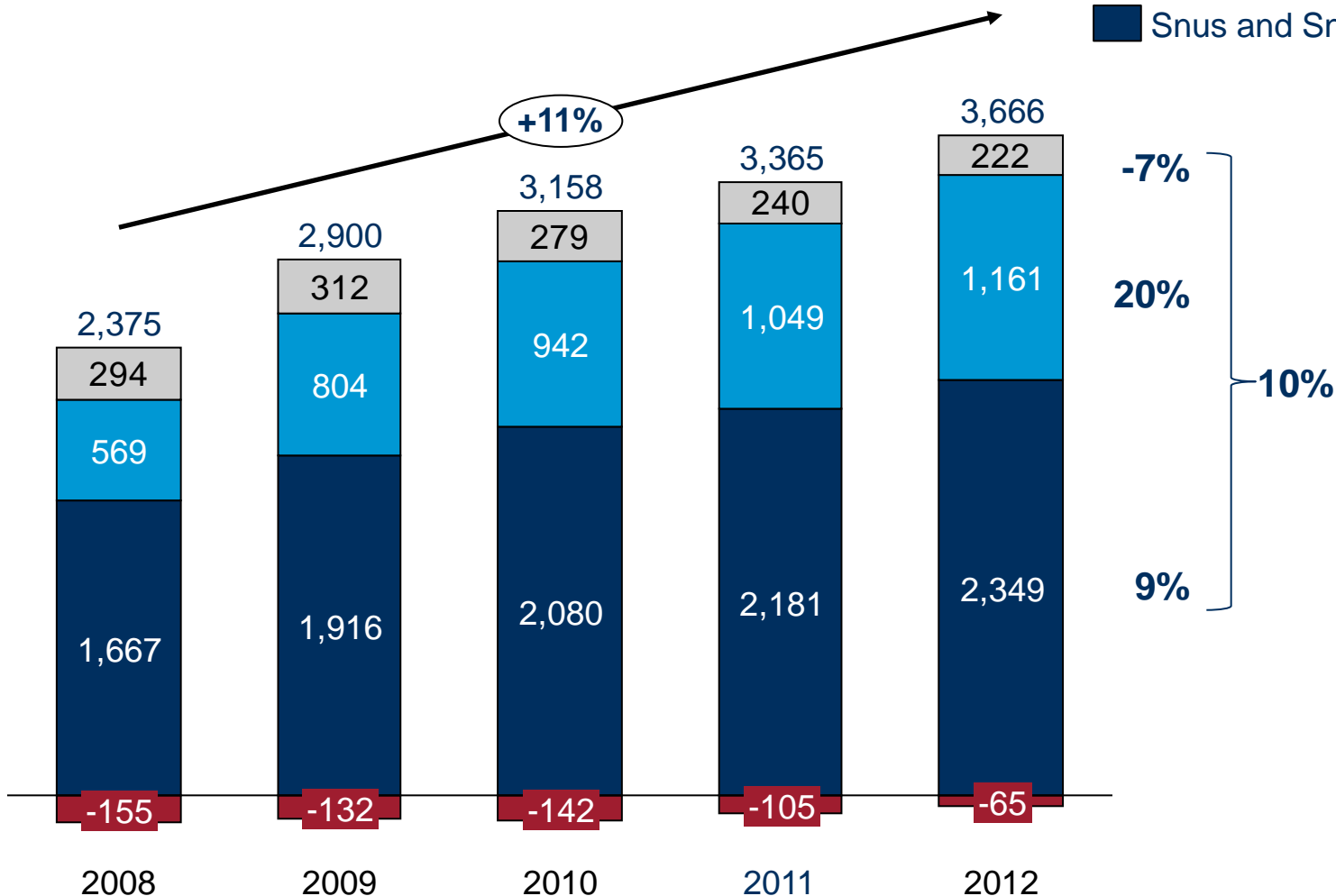
Source: Euroclear, official registry and SIS Ägaranalys.

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

Comparable operating profit

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

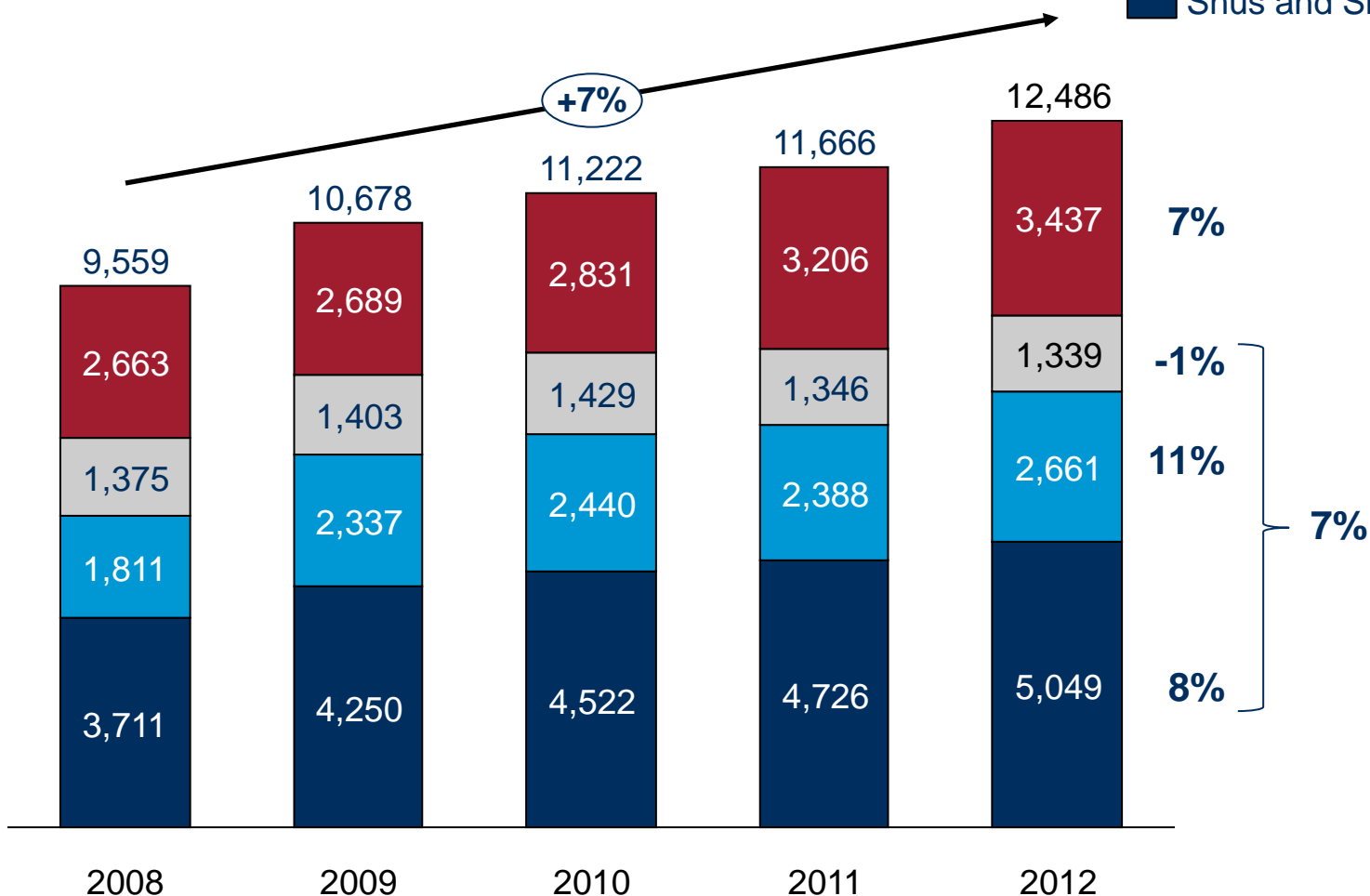
- Other operations
- Lights
- Other tobacco products
- Snus and Snuff



Comparable sales

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

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

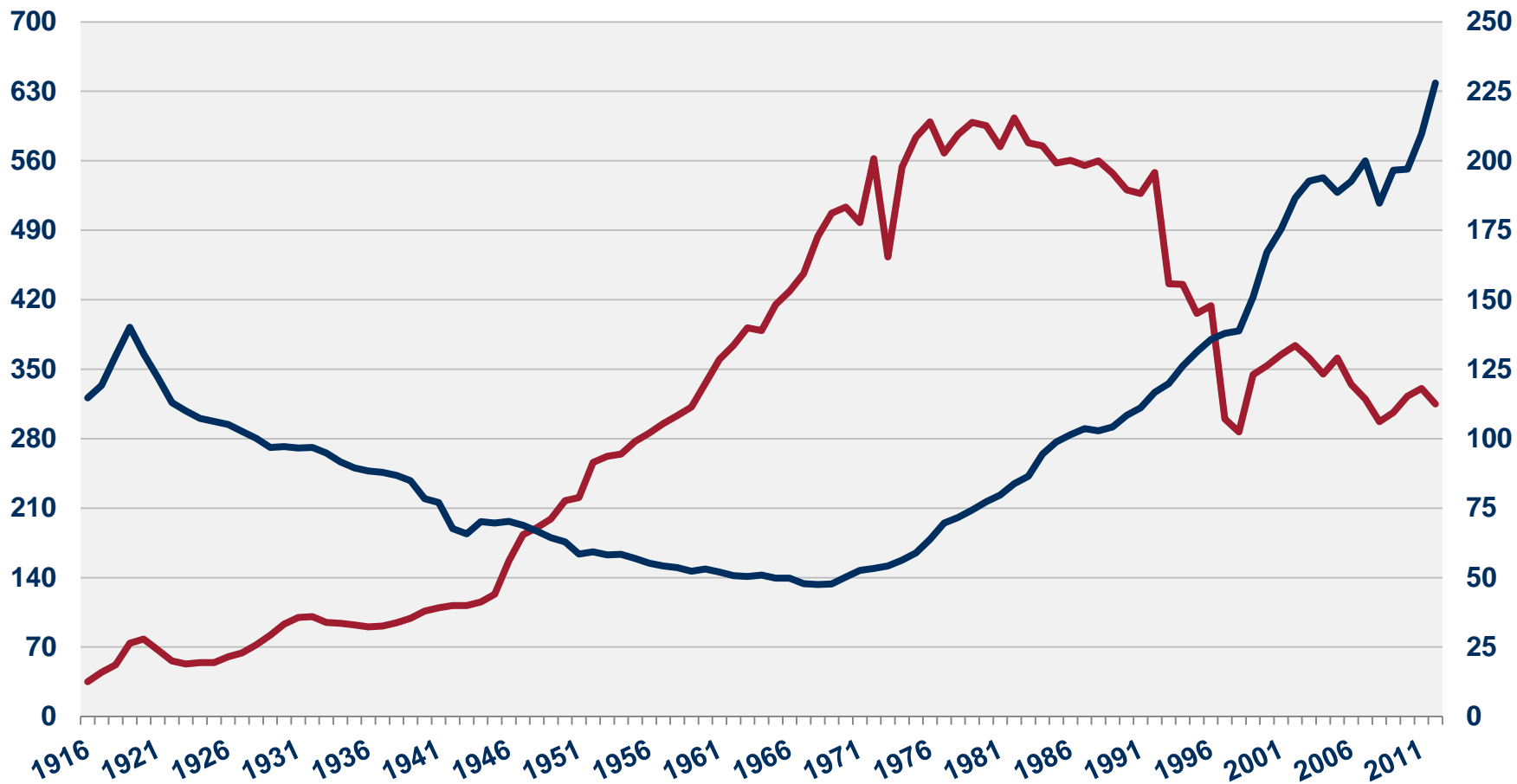


Snus vs. cigarettes in Sweden

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.