

Q3 2014

Investor Kit

JANUARY-SEPTEMBER 2014



A reformulated vision: “A world without cigarettes”

- **The availability and accessibility of our high quality snus explains the uniquely low cigarette consumption in Sweden.**
- **In Norway, we are now witnessing a similar trend of migration from cigarettes to snus.**
- **With our heritage and deep experience and expertise in developing, producing and marketing quality products, Swedish Match is distinctly positioned to compete in and further develop the growing snus category while contributing significantly to improved public health.**
- **To further emphasize the Company strategy and prospects we have reformulated our vision. Our new company vision is “*A world without cigarettes*”.**
- **We create shareholder value by offering tobacco consumers enjoyable products of superior quality in a responsible way. By providing products that are recognized as safer alternatives to cigarettes, we can contribute significantly to improved public health.**

Increased sales and operating profit

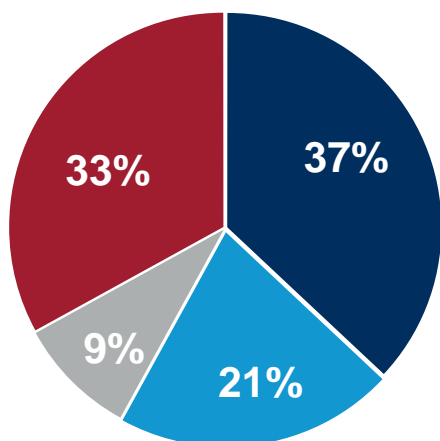
- **Increased sales and operating profit in the third quarter**
 - Sales increased by 6% to 3,416 MSEK (3,230).
 - Operating profit from product areas increased by 5% to 874 MSEK (836).
- **The strongest growth came from the Other tobacco products product area**
 - In local currency, sales were 9% higher and the operating profit increased by 6%.
 - Volumes grew for cigars and sales and operating profit increased in local currency.
 - Sales and operating profit grew for chewing tobacco in local currency despite modest volume declines.
- **Sales and operating profit grew within the Snus and moist snuff product area**
 - For Snus and moist snuff the operating profit comparison benefits from the inclusion of restructuring charges (28 MSEK) in the prior year's third quarter.
 - Operating profit in local currencies increased, when excluding the effects of last year's restructuring charges and international snus investments from both years.
- **The Lights product area showed a softer performance during the quarter, with declines in sales and profits**
 - Operating profit declined for lighters but increased slightly for matches.
 - For lighters there was a relatively sharp volume decline, in part due to a difficult comparison from the prior year.

Sales and operating profit

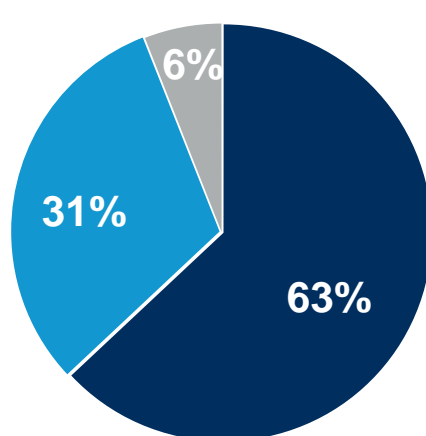
Sales and operating profit by product area

Q3 2014

Sales, SEK



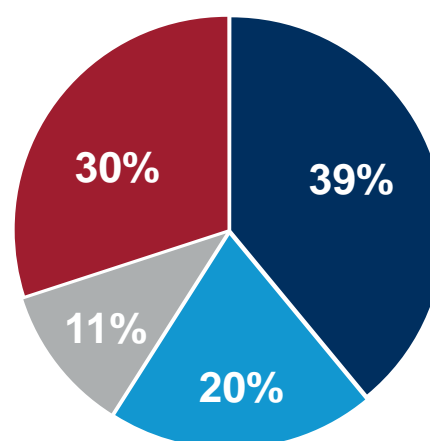
Operating profit*, SEK



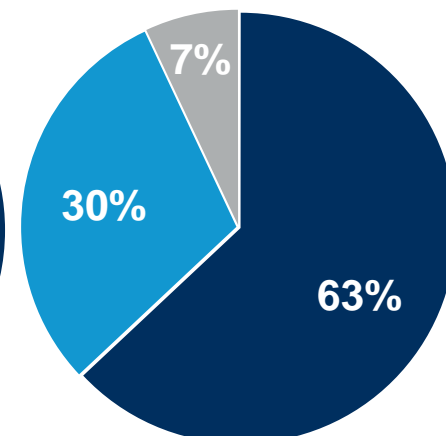
- Snus and moist snuff
- Other tobacco products
- Lights
- Other operations

Full year 2013

Sales, SEK



Operating profit*, SEK



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

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

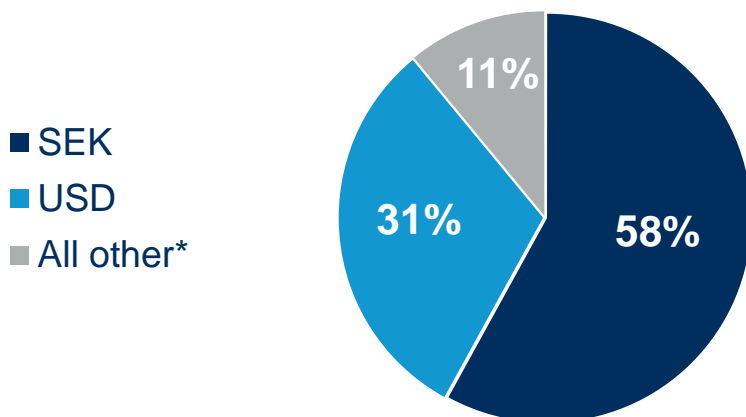
Highlights for sales in Q3

- **Sales increased by 6% to 3,416 MSEK (3,230)**
 - Currency translation has affected the sales comparison positively by 77 MSEK.
 - In local currencies, sales increased by 3%.
- **Snus and moist snuff sales up by 3%, up 2% in local currency**
 - Flat sales in Scandinavia.
 - Higher sales in the US for both moist snuff and snus.
- **Other tobacco products sales up 16%, up 9% in local currency**
 - Cigar sales up on 22% higher volumes, driven by strong growth for natural cigars.
 - Chewing tobacco sales up on favorable pricing.
- **Lights sales down 4%**
 - Sales decline for lighters on lower volumes.
 - Match sales were flat.
 - Higher sales for complementary products in Brazil.

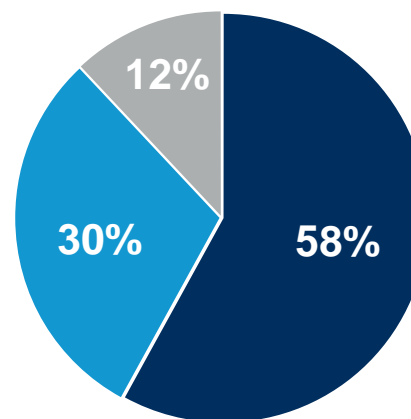
Sales by currency block

Percent of sales, MSEK

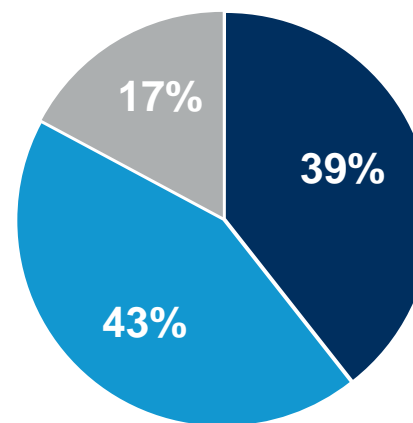
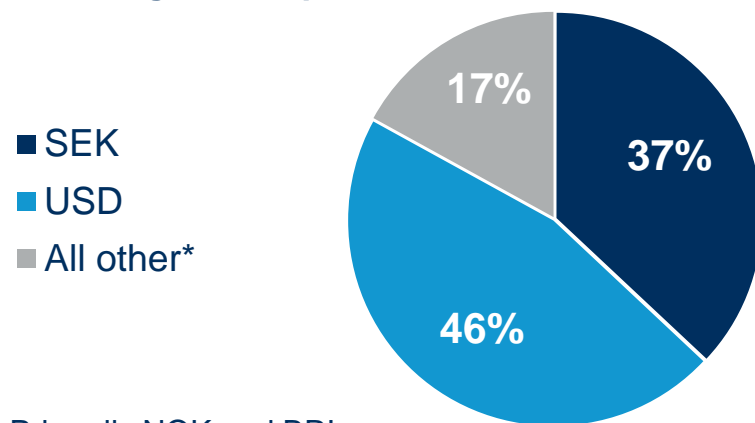
Q3 2014



Full year 2013



Excluding Other operations



* Primarily NOK and BRL.

Highlights for operating profit in Q3

- **Operating profit from product areas* increased by 5%, up 2% in local currencies**
- **Snus and moist snuff: operating profit up by 2%**
 - Excluding Q3 2013 restructuring charges of 28 MSEK Scandinavia operating profit declined slightly, on somewhat higher operating expenses.
 - US moist snuff operating profit increased.
 - Net costs for snus expansion outside Scandinavia were 91 MSEK (64).
- **Other tobacco products: operating profit up 12%, up 6% in local currency**
 - Cigar operating profit increased on strong volume growth.
 - Chewing tobacco operating profit slightly higher in local currency, with higher average prices.
- **Lights: operating profit down 9%, down 14% in local currencies**
 - Lighters operating profit down on lower volume.
 - Matches operating profit slightly higher in local currencies.



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

Snus and moist snuff

- Leading position for snus in **Scandinavia**
- The third largest producer of moist snuff in **the US**
- **General** is the second largest and fastest growing snus brand in **the US**
- Production in **Sweden** and **the US**
- Joint venture with Philip Morris International for markets **outside Scandinavia and the US**



Snus and moist snuff (with Q3 commentary)

Continued solid market growth in Scandinavia

- **Scandinavia snus sales flat vs prior year Q3, operating profit comparison affected by prior year restructuring charge**
 - Overall shipment volumes as well as estimated underlying consumption volumes flat, with growth in Norway and slight declines in Sweden/Travel Retail markets combined.
 - Sales impacted by price reduction on *Kronan*, offset by stronger NOK and slight price increases in September 2013 in Sweden and in February 2013 in Norway.
 - Operating profit lower when excluding prior year restructuring charges of 28 MSEK.
 - Gaining share of growing Swedish value segment*
- **US moist snuff sales and operating profit up**
 - Moist snuff sales and operating profit were higher on 4% higher volumes, driven by promotional phasing and underlying growth for pouches and tubs.
- **Continued investment behind snus internationally (incl. US)**
 - Snus sales in the US up, with higher year on year shipment volumes, and on price/mix.
 - Slower pace of store expansion year on year.
 - Higher level of snus investments in the quarter on awareness/brand building.
 - In total, net costs of snus expansion outside Scandinavia was 91 MSEK (64).



MSEK	Q3-2014	Q3-2013	chg	9m-2014	9m-2013	chg	Oct 2013- Sep 2014	Full year 2013
Sales	1,257	1,217	3	3,678	3,620	2	4,925	4,868
Operating profit	562	553	2	1,630	1,632	0	2,192	2,195
Operating margin, %	44.8	45.4		44.3	45.1		44.5	45.1

* Price segmentation using Swedish Match estimates.

Market growth and share estimates

- **Scandinavian snus market up 5% year to date***
 - Sweden up 5% year to date and 4% in Q3 vs. prior year.*
 - Market share in Sweden 69.8% in Q3.**
 - Market share in Norway 59.2% in Q3.**
- **US moist snuff market* year to date up close to 4% versus year ago**
 - Some slowdown in growth in recent months.
 - Category growth continues to be driven by the value segment and pouches.
- **Swedish Match moist snuff market share in the US**
 - Swedish Match estimates its market share based on industry shipments to be approximately 9% of the market.



* Source: Swedish Match and industry estimates.

** Nielsen estimates.

Snus market shares

Market shares¹⁾

Percent	July-September		Chg	January-September		Chg
	2014	2013	ppts	2014	2013	ppts
Snus, Sweden, total	69.8	72.0	-2.2	70.0	72.6	-2.6
Snus, Sweden, premium	93.8	95.0	-1.2	94.0	95.4	-1.4
Snus, Sweden, value	38.4	37.2	1.2	37.7	37.0	0.7
Snus, Norway, total	59.2	63.1	-3.9	60.5	64.0	-3.5

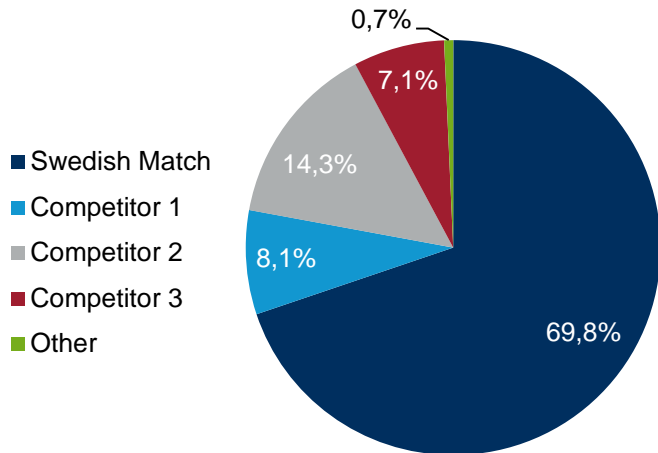
¹⁾ Swedish Match estimates using Nielsen data (excl. tobacconists due to small sample of tobacconists in Nielsen data).

Source: Nielsen (excluding tobacconists). Volume basis.

Segmentation by segment: premium and value, made by Swedish Match, not Nielsen.

Manufacturer share by price segment, Sweden

Total volume shares



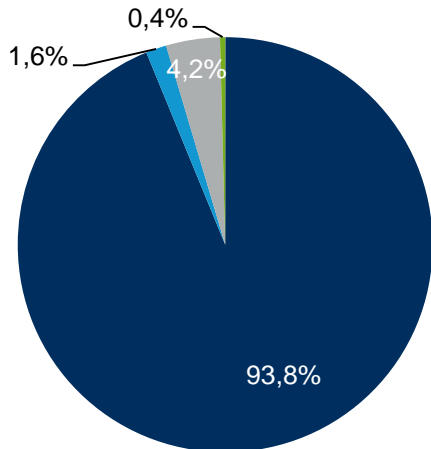
5 October 2014 (4 weeks ending),
Swedish Match share of:

Premium segment was: 94.2%

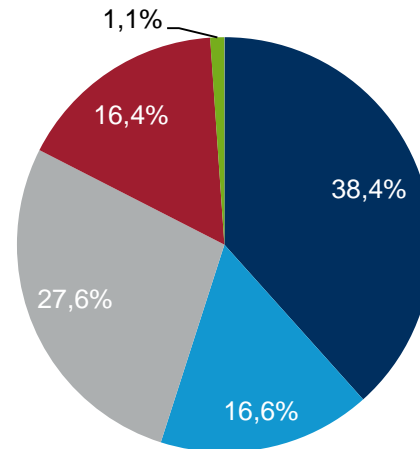
Value segment was: 38.9%

Total market was: 69.8%

Share of premium segment



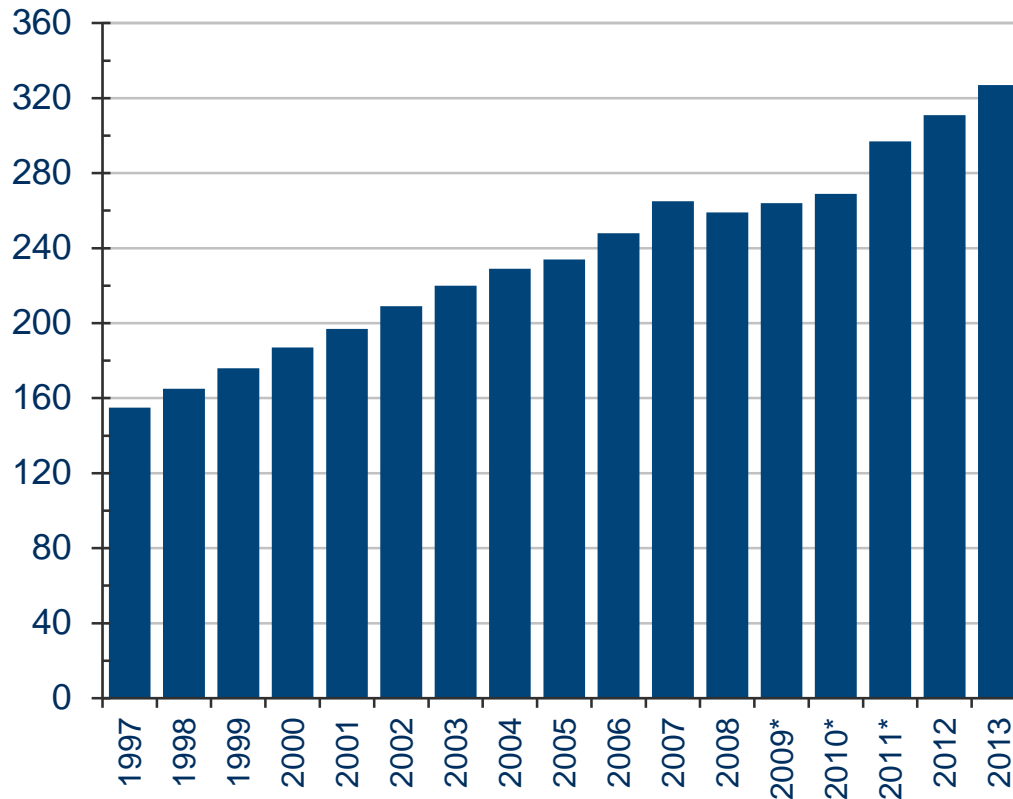
Share of value segment



Source: Nielsen (excluding tobacconists), 12 weeks ending 5 October 2014.

Estimated snus consumption, Scandinavia

Million cans



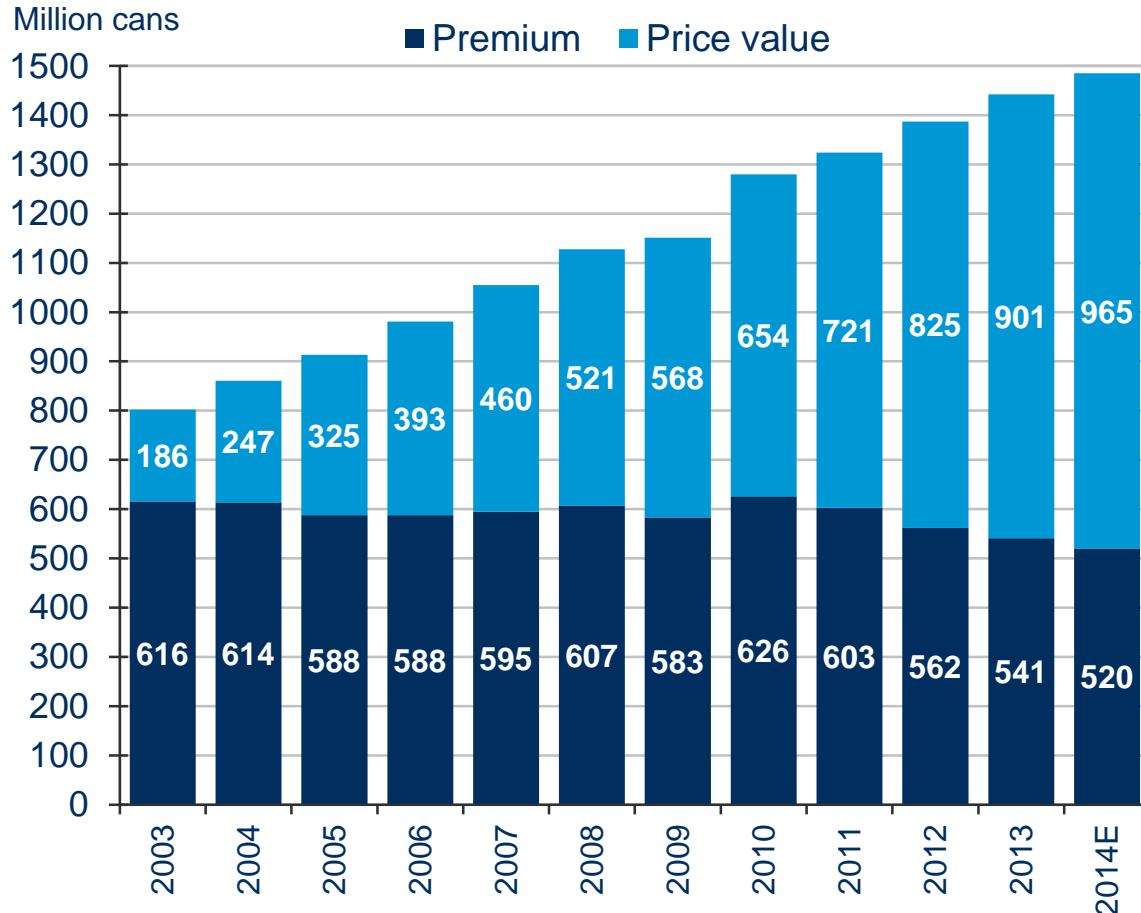
Source: Swedish Match estimates, adjusted for hoarding in Sweden (estimated hoarding volumes Q4 2006 and Q4 2007 moved to 2007 and 2008 to more accurately reflect consumption).

* 2009 to 2011 figures rebased.



US moist snuff category development

Category by segment: premium vs. value



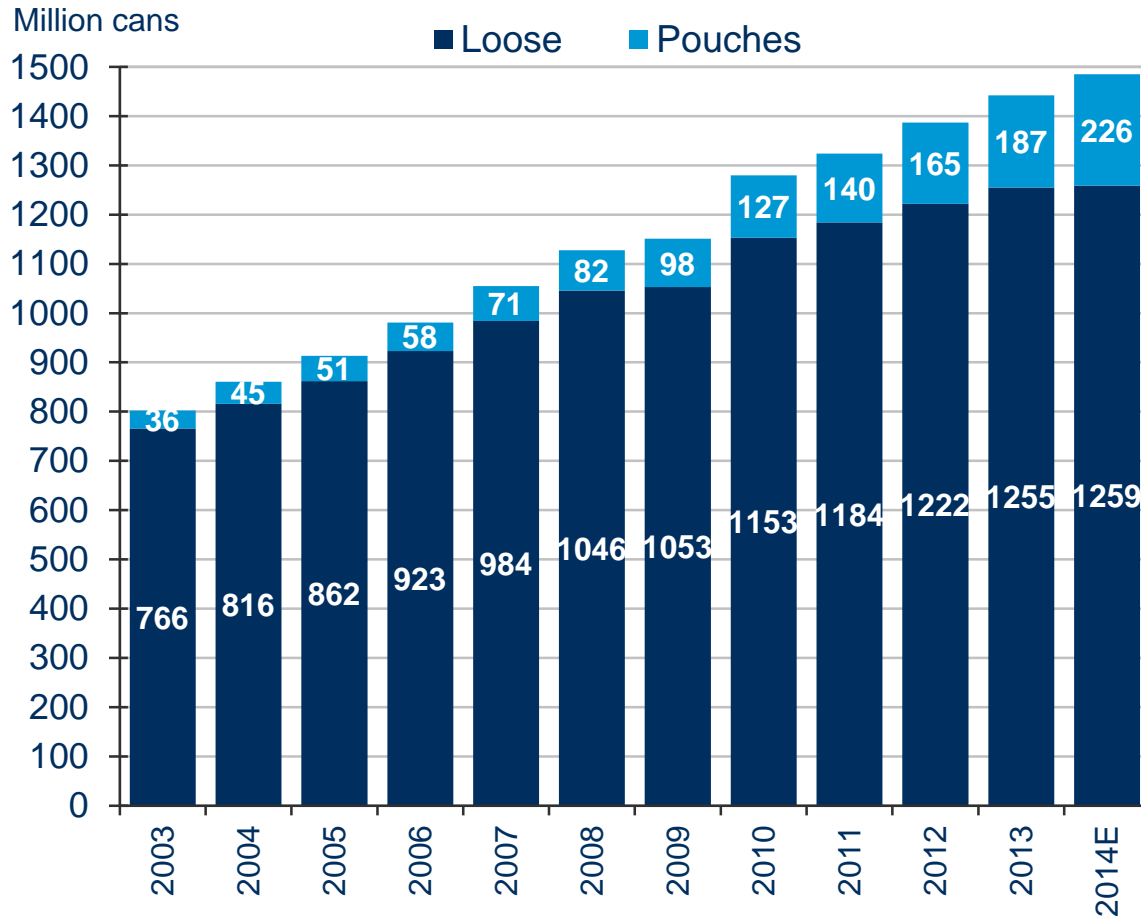
Market size estimated by Swedish Match using Nielsen as well as industry data and estimates.

Estimates have been restated by Swedish Match.

Note that the value segment includes competitive “premium brand” line extensions launched at price value level.

US moist snuff category development

Category by segment: loose vs. pouches



Market size estimated by Swedish Match using Nielsen as well as industry data and estimates. Estimates have been restated by Swedish Match.

Snus expansion outside Scandinavia

Snus in the US

- **Continued investments for future growth**
- **General snus currently in more than 24,000 stores in the US**
 - Higher level of consumer engagement activities.
 - Distribution expansion continues but at a slower pace than in 2013.
- **Market share continues to grow**
 - Consumption growth for *General*, faster than market growth rate.
- **Snus sales up year on year in Q3**
 - Net shipment volumes up year on year in Q3.
 - Gross shipments were up in Q3 and year to date, while net shipments YTD are lower.
 - Product returns in YTD 2014 from heavy promotion shipments in 2013.
 - Lower level of pipeline for new store expansion in 2014 than in 2013.



SMPM International

- **Test markets continue**
 - Snus under the Chesterfield brand now available in selected stores in Russia.

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



Other tobacco products (with Q3 commentary)

Cigar volume growth, led by natural cigars

- In local currency, sales were up 9% while operating profit was up by 6%
- Cigars sales and operating profit up on higher volumes
 - Cigar volumes up 22%, due in part to unusually soft volumes in the prior year period.
 - Continued strong volume development of *Game by Garcia y Vega* natural cigars.
 - Sales and profit impacted by promotional pricing/mix.
- Chewing tobacco sales and operating profit up
 - Volume declines of 4% for own products.
 - Sales and operating profit for chewing tobacco up on favorable pricing.



MSEK	Q3-2014	Q3-2013	chg	9m-2014	9m-2013	chg	Oct 2013- Sep 2014	Full year 2013
Sales	724	622	16	2,109	1,974	7	2,699	2,564
Operating profit	276	246	12	821	801	2	1,049	1,029
Operating margin, %	38.1	39.6		38.9	40.6		38.9	40.1

Shipment volumes for cigars and chewing tobacco

Percent	July-September			January-September		
	2014	2013	Chg %	2014	2013	Chg %
Cigars, millions of sticks	272.3	224.0	22	860.9	773.6	11
Chewing tobacco, thousands of pounds (excl. contract manufacturing)	2,033	2,127	-4	6,124	6,330	-3



Q3 sales and operating profit down 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**

- **Sales and operating profit lower for lighters as a result of volume declines**
 - Volume declines were in part due to difficult comparisons
- **Flat sales for matches in local currencies, slight increase in operating profit**
 - Higher prices and a more favorable currency situation compensated for lower volumes
- **Higher sales for complementary products in Brazil**



MSEK	Q3-2014	Q3-2013	chg	9m-2014	9m-2013	chg	Oct 2013- Sep 2014	Full year 2013
Sales	319	332	-4	934	986	-5	1,279	1,332
Operating profit	51	56	-9	155	167	-7	218	230
Operating margin, %	16.0	16.8		16.6	17.0		17.0	17.3

- **STG sales up 4% for the third quarter and up 3% in local currencies**
- **Gross profit up by 3% driven by higher result from all product areas except for machine made cigars**
 - Machine made cigar sales up, but gross profit down on product mix effects.
 - Handmade cigar sales and gross profit up in local currencies on higher volumes in the US.
 - Fine cut tobacco sales down, but gross profit up on positive mix effects.
 - Pipe tobacco sales down, but gross profit up driven by lower production costs.
- **Reported EBITDA amounted to 364 MDKK (335)**
 - The increase was driven by positive development within handmade cigars, pipe tobacco and fine cut tobacco, combined with lower operating expenses.
 - Underlying EBITDA, adjusted for currency effects, the Verellen acquisition and one-time items, up by 9%.
- **Total STG net finance cost for the third quarter amounted to 18 MDKK (24)**
 - The decrease was driven by realized gains on financial instruments.
- **Net profit for the third quarter for STG amounted to 192 MDKK (155)**
- **Swedish Match share of STG net profit after interest and tax for the third quarter amounted to 115 MSEK (88)**

Tax, cash flow and financing (for the first nine months)

■ Tax rate for the Group was 20.1%

- Includes profit and loss impact from associated companies.
- The reported tax rate, excluding one-time items, associated companies, and joint ventures was 22% (22).
- The tax rate for the full year of 2014, excluding one-time items, associated companies, and joint ventures is estimated to be around 22%.

■ Cash flow

- Cash flow from operating activities for the first nine months was 2,537 MSEK (2,100), positively affected by timing of cash flow from changes in working capital.
- Net cash flow from investment activities amounted to negative 212 MSEK (135). The cash from investment activities in prior year was affected positively by the proceeds from the sale of a parcel of land.
- Cash generated from operating activities net of cash flow from investments amounted to 2,325 MSEK (1,965).

■ Cash distributed to shareholders

- Dividend distributed to shareholders amounts to 1,453 MSEK
- Shares to an amount of 299 MSEK have been repurchased. This represents 1.3 million shares at an average price of 224.98 SEK
- In total, 1,752 MSEK have been distributed to shareholders via dividend and share buy-backs.

Tax, cash flow and financing (for the first nine months)

■ Financial policy

- Dividend policy: 40 - 60% of earnings per share.
- 2013 dividend: 7.30 SEK per share (7.30).
- Net debt not to exceed 3 times EBITA*.

■ Financing

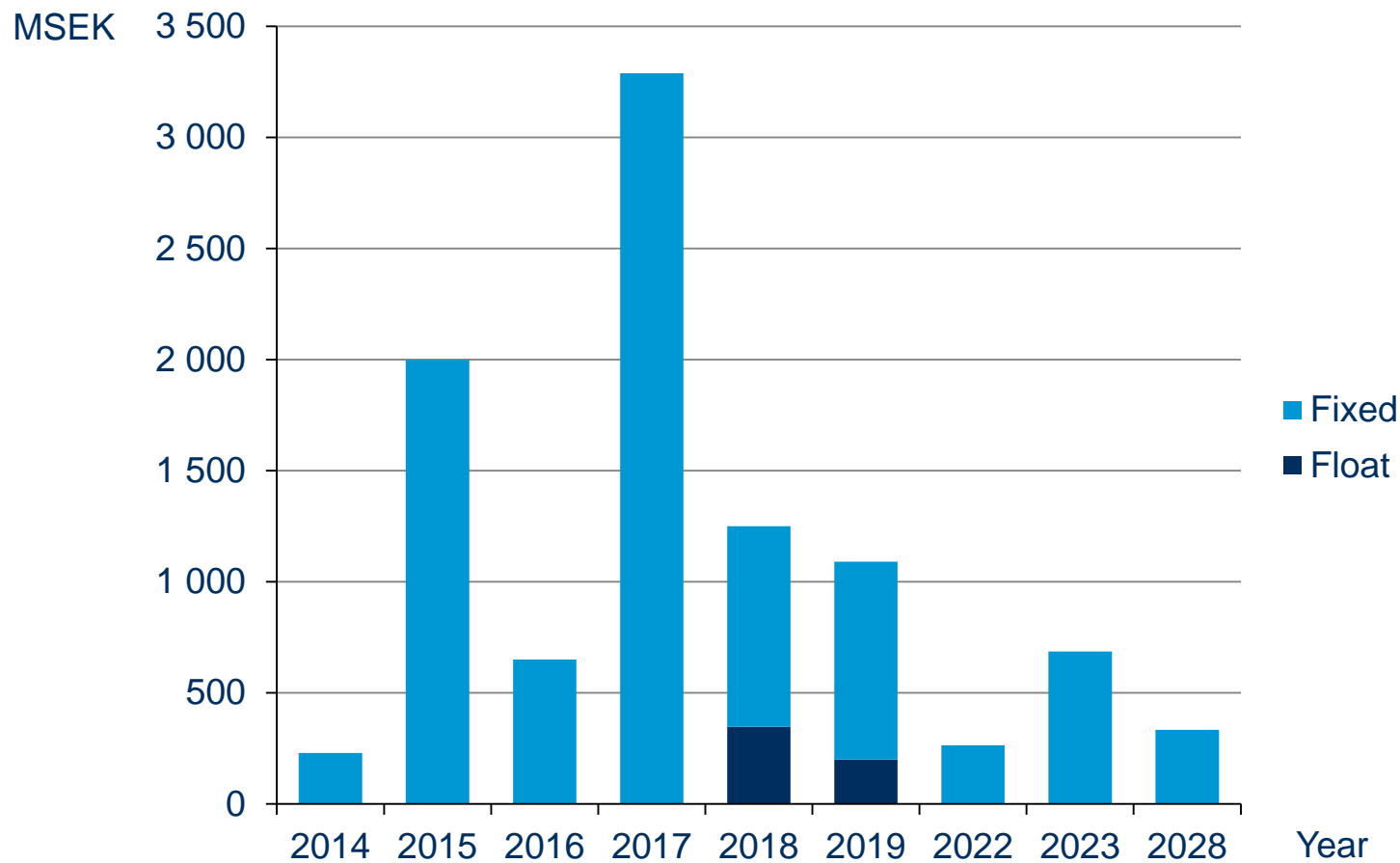
- The net finance cost amounted to 378 MSEK. This is down by 38 MSEK due primarily to lower average debt.
- The interest bearing debt excluding retirement benefit obligations amounted at Sep 30, 2014 to 9,793 MSEK.
- Cash and cash equivalents amounted at Sep 30, 2014 to 3,220 MSEK.
- Net Debt/EBITA per Sep 30, 2014 was at 2.3.



* 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 September 30, 2014



P&L in summary

MSEK	Q3-2014	Q3-2013	chg	9m-2014	9m- 2013	chg	Oct 2013- Sep 2014	Full year 2013	chg
Sales	3,416	3,230	6	9,769	9,432	4	12,947	12,610	3
Cost of goods sold	-1,853	-1,749		-5,199	-4,950		-6,897	-6,647	
Gross profit	1,563	1,481	6	4,570	4,482	2	6,051	5,963	1
Selling and administrative expenses	-675	-638		-1,993	-1,924		-2,626	-2,556	
Share of profit/loss in associated companies and joint ventures	101	81		210	203		294	287	
Capital gain from sale of land	-	-		-	161		-	161	
Operating profit	989	924	7	2,788	2,923	-5	3,719	3,855	-4
Finance income	7	9		23	25		31	34	
Finance costs	-134	-151		-401	-441		-538	-578	
Net finance cost	-127	-142		-378	-416		-506	-544	
Profit before income tax	862	782	10	2,409	2,507	-4	3,213	3,310	-3
Income tax expense	-167	-154		-484	-471		-612	-600	
Profit for the period	695	628	11	1,926	2,035	-5	2,601	2,711	-4
EPS, basic, SEK, incl. larger one-time items	3.50	3.15		9.68	10.20		13.07	13.63	
EPS, basic, SEK, excl. larger one-time items	3.50	3.15		9.68	9.39		13.07	12.82	
EPS, diluted, SEK, incl. larger one-time items	3.49	3.14		9.67	10.18		13.06	13.61	
EPS, diluted, SEK, excl. larger one-time items	3.49	3.14		9.67	9.38		13.06	12.80	

Balance sheet in summary

MSEK	September 30, 2014	December 31, 2013
Intangible assets	999	973
Property, plant and equipment	2,061	2,027
Investments in associated companies and joint ventures	4,899	4,506
Other non-current financial receivables*	1,388	1,165
Current operating assets	2,928	3,038
Other current investments and current financial assets*	1	8
Cash and cash equivalents	3,220	3,164
Total assets	15,497	14,881
Equity attributable to equity holders of the Parent	-41	-786
Non-controlling interests	1	1
Total equity	-40	-785
Non-current provisions	1,050	1,031
Non-current loans	7,591	9,420
Other non-current financial liabilities*	1,692	1,440
Current provisions	95	103
Current loans	2,228	920
Other current liabilities*	2,881	2,751
Total equity and liabilities	15,497	14,881

* For full detail, please refer to notes in the January-September 2014 report.

Cash flow in summary

MSEK	Jan-Sep 2014	Jan-Sep 2013
Cash flow from operating activities before changes in working capital	2,353	2,238
Cash flow from changes in working capital	184	-138
Net cash from operating activities	2,537	2,100
Purchase of property, plant and equipment	-167	-232
Proceeds from sale of property, plant and equipment	1	1
Purchase of intangible assets	-1	-30
Investments in associated companies and joint ventures	-45	-43
Proceeds from sale of subsidiaries, net of cash disposed of*	-	168
Changes in financial receivables etc.	0	0
Net cash used in investing activities	-212	-135
Changes in loans	-713	-278
Dividend paid to equity holders of the Parent	-1,453	-1,459
Repurchase of own shares	-299	-302
Stock options exercised	53	165
Other	-1	-13
Net cash used in financing activities	-2,413	-1,887
Net increase in cash and cash equivalents	-89	78
Cash and cash equivalents at the beginning of the period	3,164	2,824
Effect of exchange rate fluctuations on cash and cash equivalents	145	-23
Cash and cash equivalents at the end of the period	3,220	2,880

* For full detail, please refer to notes in the January-September 2014 report.

Key ratios*

MSEK	Jan-Sep 2014	Jan-Sep 2013
Operating margin, %	28.5	29.3
Operating capital, MSEK	8,076	7,337
Return on operating capital, % (12 months rolling from Oct 2013)	48.3	
EBITDA, MSEK**	3,009	2,959
EBITA, MSEK**	2,818	2,781
Net debt, MSEK	7,906	8,598
Net debt/EBITA** (12 months rolling from Oct 2013)	2.1	
Investments in property, plant and equipment, MSEK**	167	232
EBITA interest cover	7.5	6.8
<i>Excluding share of net profit in STG</i>		
EBITA, MSEK**	2,576	2,559
Net debt/EBITA** (12 months rolling from Oct 2013)	2.3	
Share data		
EPS, basic, SEK, incl. larger one-time items	9.68	10.20
EPS, basic, SEK, excl. larger one-time items	9.68	9.39
EPS, diluted, SEK, incl. larger one-time items	9.67	10.18
EPS, diluted, SEK, excl. larger one-time items	9.67	9.38
Shares outstanding, end of period (Mio)	198.1	199.1
Average number of shares outstanding, basic (Mio)	199.0	199.6

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

** For full detail, please refer to notes in the January-September 2014 report.

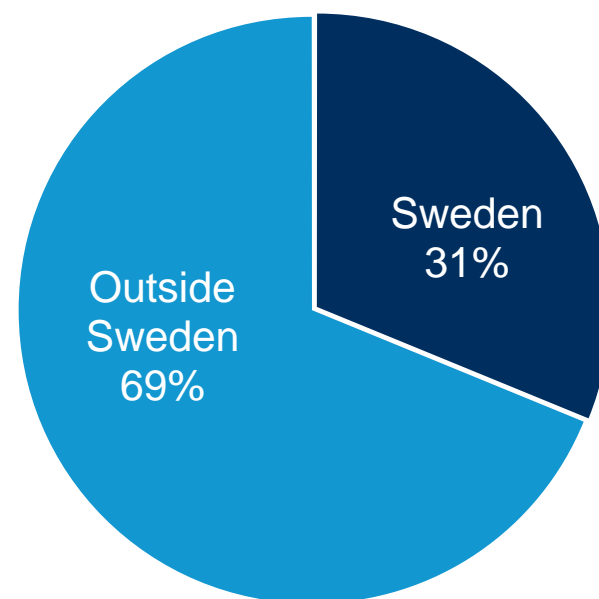
Largest shareholders*

As per September 30, 2014

Largest shareholders

Morgan Stanley Investment Management	5.1%
Didner & Gerge Funds	4.1%
Standard Life Investment Funds	3.2%
Nordea Funds	2.8%
SEB Funds	2.6%
Second Swedish National Pension Fund	2.0%
SHB Funds	1.7%
Fourth Swedish National Pension Fund	1.3%
Fidelity Funds	1.2%
Swedbank Robur Funds	1.1%
	<hr/>
	25.1%

48,929 shareholders



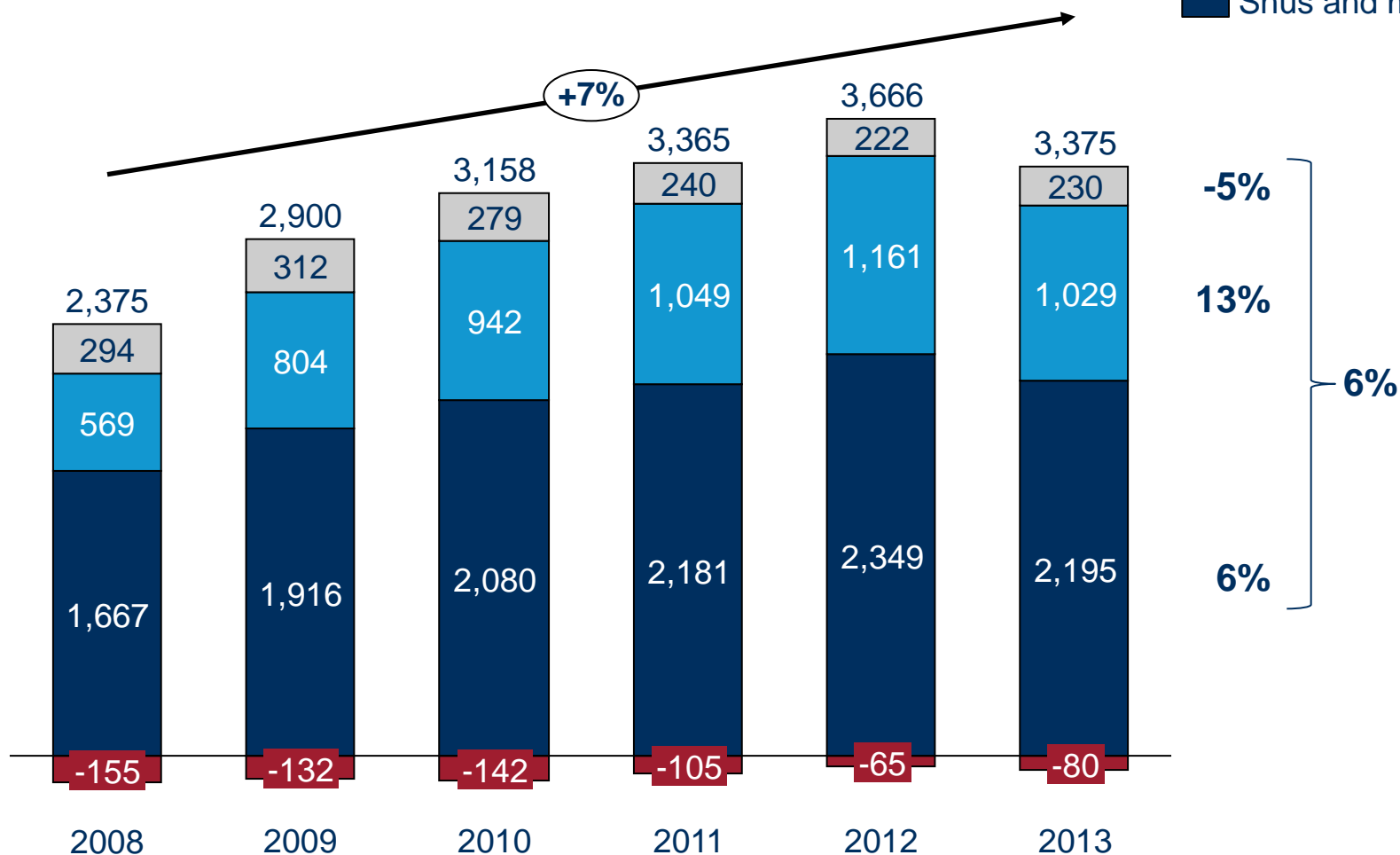
Source: Euroclear, official registry and SIS Ägaranalys.

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

Comparable operating profit

Excluding businesses transferred to STG (MSEK)
CAGR 08-13

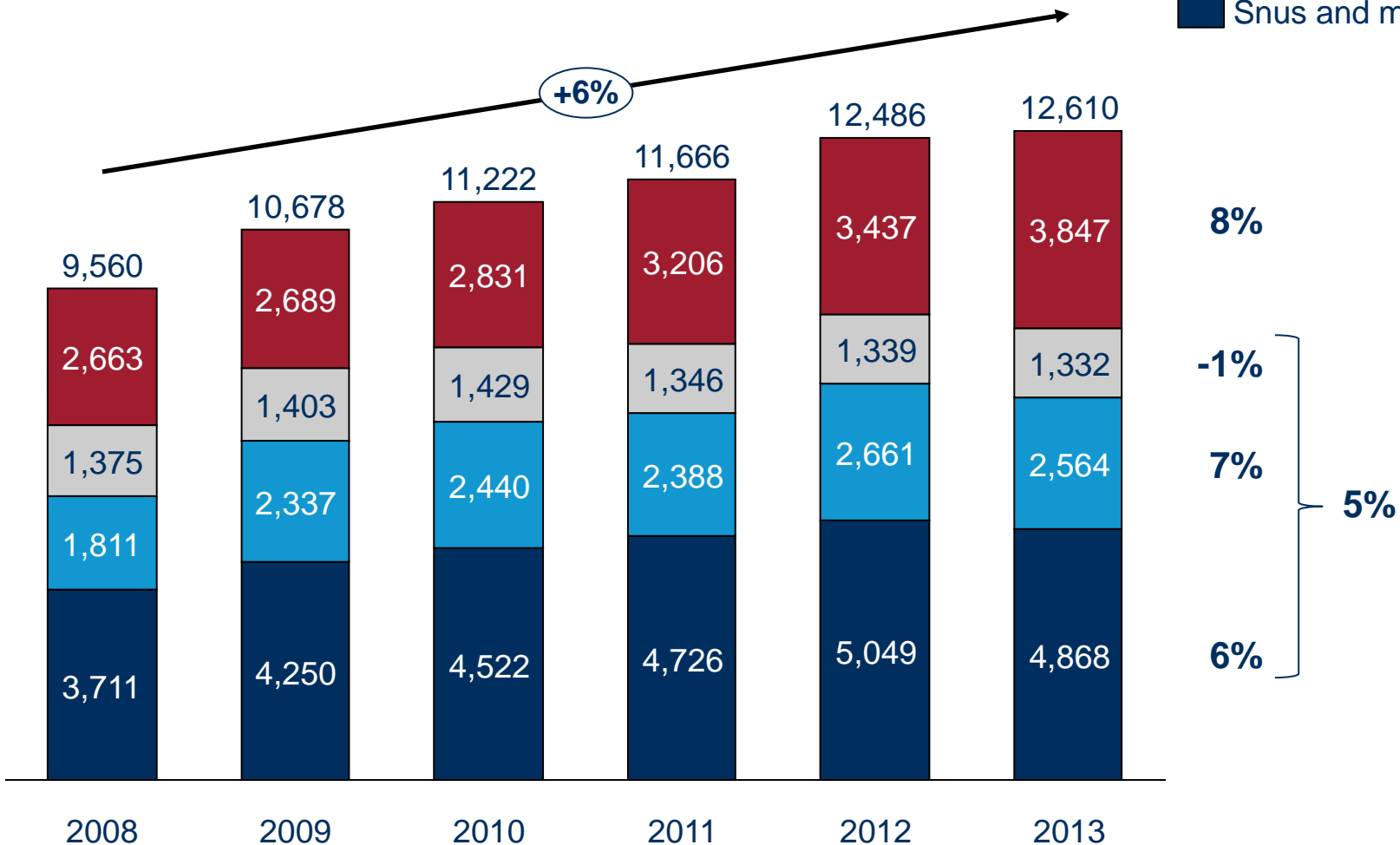
- Other operations
- Lights
- Other tobacco products
- Snus and moist snuff



Comparable sales

Excluding businesses transferred to STG (MSEK)
CAGR 08-13

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

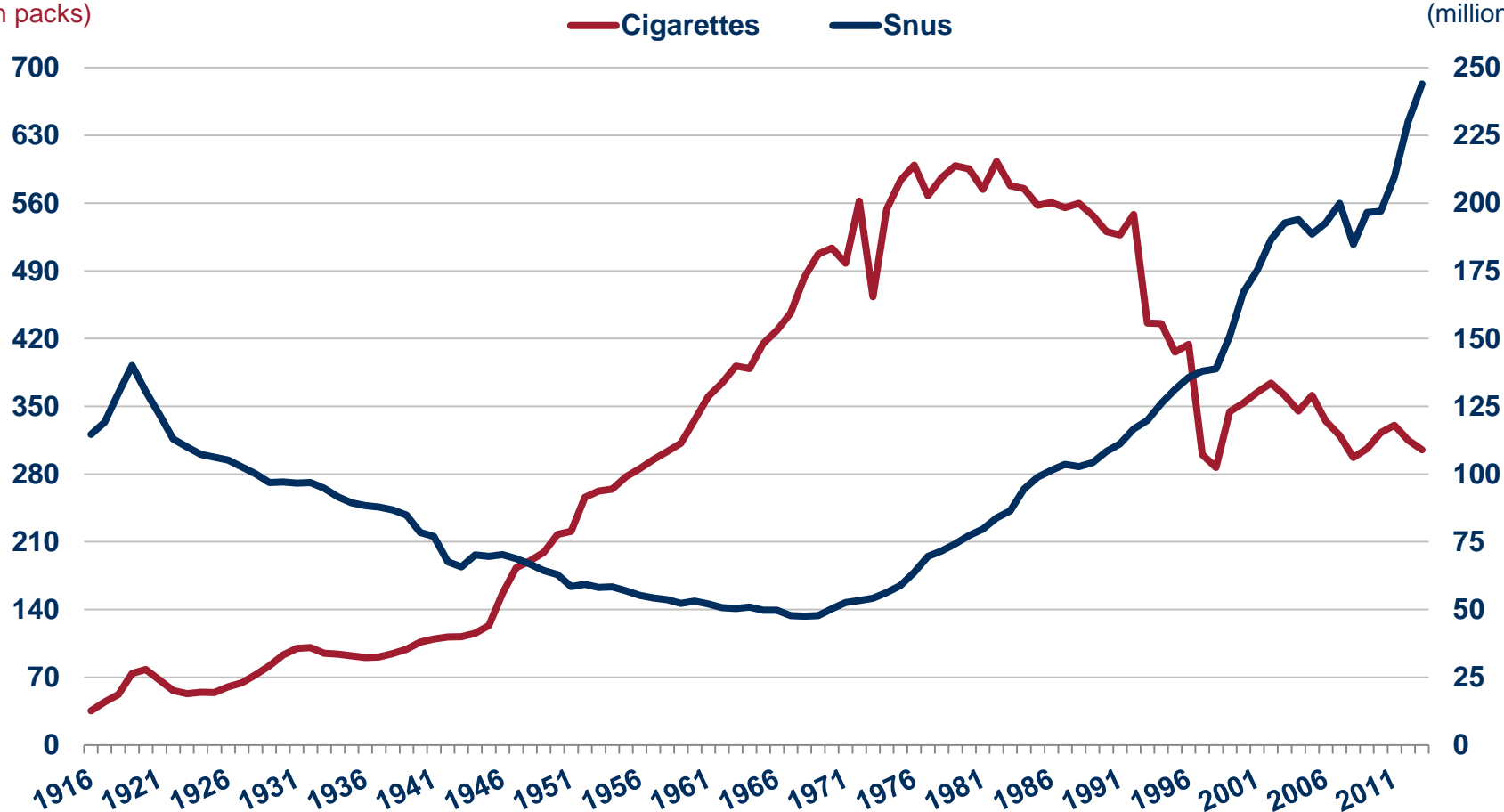


Snus vs. cigarettes in Sweden

Volume of snus and cigarettes in Sweden 1916-2013

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.