# Half Year Report
## January – June 2013

- **Sales for the second quarter amounted to 3,220 MSEK (3,213). In local currencies, sales for the second quarter increased by 3 percent.**
- **Operating profit from product areas[1)] for the second quarter declined by 7 percent to 871 MSEK (938). In local currencies, operating profit from product areas[1)] for the second quarter declined by 5 percent.**
- **Operating profit[2)] declined by 11 percent to 968 MSEK (1,082) for the second quarter.**
- **EPS (basic), excluding larger one-time items, for the second quarter amounted to 3.33 SEK (3.57).**

1) Operating profit for Swedish Match product areas, which excludes share of net profit in STG and larger one-time items.
2) Operating profit for the Group includes share of net profit in STG and larger one-time items.

**CEO Lars Dahlgren comments:**
In the second quarter Swedish Match reported stable sales, while the operating profit declined, as we continued to experience negative currency effects, invest for growth of Swedish snus internationally as well as address the competitive situation for snus in Sweden. In the US, the cigar market has become increasingly competitive with the introduction of a number of deep discount brands that have gained share and increased the price pressure in the category. However, for Swedish snus in the US, I am very pleased with the progress for our *General* brand, in terms of our distribution build and solid volume and market share gains.

The competitive activity in the low price segment of the Swedish snus market has remained high during the quarter, and Swedish Match has taken a number of steps to address the competitive situation including an ambitious product launch schedule in all price segments and competitive pricing of our own low price brand Kaliber. The growth of the low price segment continues to adversely affect the product mix. However, we are encouraged by some clear results from our actions with growing market share in the low price segment in particular, but also a more stable total market share development. It is also positive to note that the strong market volume growth in both Sweden and Norway has continued during the quarter, and there are some promising signs that down-trading from premium products to low price products in Sweden has slowed down.

In the US moist snuff market, our pouch and tub offerings continued their strong performance in the quarter, and while total volumes in can equivalents remained below prior year levels, they improved versus the first quarter and the operating profit in local currency was higher than in the second quarter of the prior year. Our expansion of *General* snus continued at a strong pace with distribution now in over 17,000 stores. Based on the most recent Nielsen data, *General* is now the second largest snus brand in the US, in spite of the fact that the product is still carried by relatively few stores compared to competitive offerings. In addition to our efforts with *General* in the US, test market activities for snus through SMPM International continue in Canada, St. Petersburg (Russia), Tel Aviv (Israel) and Malaysia.

In the US cigar market, the intensified competition resulted in volumes and net prices below our expectations. Category growth was strong and our volumes grew by 6 percent in the second quarter compared to the same quarter of the prior year, but operating profit in local currency declined, also adversely impacted by the changed accounting principle for pensions. We have decided on several initiatives during the second half of 2013 to address the competitive situation. While we are still confident that we will experience good volume growth for the full year, the competitive situation will require higher spending levels than previously anticipated, thus limiting profit growth for the year.

Within Other tobacco products, the tougher trading conditions for cigars were partially mitigated by a solid performance for our chewing tobacco business. Indications are that the market for chewing tobacco is declining somewhat less than the historical trend. During the quarter we continued to take market share, especially in the premium segment, and sales as well as operating profit increased versus the prior year in local currency.

Our Lights businesses delivered an operating result in line with our expectations during the quarter, with solid growth for lighters, while for matches we faced some relatively steep volume declines and adverse currency developments in some key markets.

For Scandinavian Tobacco Group, net profits improved substantially from Q1 levels, but were below prior year in the second quarter, mainly due to a weak market for machine made cigars.

## Summary of consolidated income statement

| *MSEK* | **April-June** | | **January-June** | | **Full year** |
|---|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** | **2012** |
| **Sales** | **3,220** | **3,213** | **6,202** | **6,130** | **12,486** |
| **Operating profit from product areas[1)]** | **871** | **938** | **1,704** | **1,841** | **3,666** |
| **Operating profit[2)]** | **968** | **1,082** | **1,999** | **2,054** | **4,062** |
| **Profit before income tax** | **830** | **942** | **1,725** | **1,780** | **3,511** |
| **Profit for the period** | **667** | **759** | **1,408** | **1,427** | **2,907** |
| **Earnings per share, basic (SEK)** | **3.34** | **3.72** | **7.05** | **6.99** | **14.33** |
| **Earnings per share, excluding larger one-time items, basic (SEK)** | **3.33** | **3.57** | **6.24** | **6.84** | **14.18** |

1) Excluding share of net profit in STG and larger one-time items.
2) Including share of net profit in STG and larger one-time items.

*Sales and results for the second quarter*

Sales for the second quarter of 2013 were in line with the second quarter of previous year and amounted to 3,220 MSEK (3,213). Currency translation has affected the sales comparison negatively by 83 MSEK. In local currencies, sales increased by 3 percent.

In the second quarter, sales for the product area Snus and snuff declined by 5 percent to 1,230 MSEK (1,300) and operating profit declined by 6 percent to 546 MSEK (581). In local currencies, sales declined by 4 percent. The operating margin for the Snus and snuff product area was 44.4 percent (44.7).

Scandinavian snus sales declined by 4 percent compared to the second quarter of the prior year, on 3 percent lower shipment volumes. Sales were higher in Norway, and lower in Sweden. Operating profit for snus in Scandinavia declined versus the same quarter of the prior year while operating margin improved slightly.

In the US, sales of snus and moist snuff in local currency in the second quarter were 4 percent lower than in the same period of the previous year, with volume declines for moist snuff partially offset by volume growth for snus. Marketing spending behind Swedish snus in the US was higher than a year ago. In the US, operating profit for moist snuff increased somewhat in local currency, but did not compensate for higher spending to support the *General* snus expansion.

For Other tobacco products, sales in the second quarter declined by 1 percent, to 687 MSEK (696). In local currency, sales increased by 4 percent. Operating profit in local currency was 2 percent lower than in the second quarter of the prior year, and reported operating profit declined by 7 percent to 295 MSEK (316). Currency translation has affected the sales and operating profit comparisons negatively by 40 MSEK and 16 MSEK respectively. Compared to the second quarter of the prior year, sales increased in local currency for both US cigars and for chewing tobacco. Operating margin for Other tobacco products was 42.9 percent (45.4), adversely impacted by a changed accounting treatment for tobacco excise taxes and pensions.

Operating profit from product areas declined by 7 percent to 871 MSEK (938). In local currencies, the operating profit declined by 5 percent. Currency translation has affected the comparison negatively by 20 MSEK. Operating margin from product areas for the second quarter was 27.1 percent (29.2).

The share of net profit in STG, after interest and tax, amounted to 95 MSEK (114, including a positive adjustment of 3 MSEK relating to differences between estimates and actual result for the previous period in the prior year).

Operating profit, including share of net profit in STG and larger one-time items, declined to 968 MSEK (1,082) during the second quarter. Operating margin, including share of net profit in STG, for the second quarter was 30.0 percent (32.7). EBITDA margin was 32.0 percent (35.1).

Basic earnings per share (EPS) for the second quarter, excluding larger one-time items, amounted to 3.33 SEK (3.57), while diluted EPS, excluding larger one-time items, was 3.32 SEK (3.55).

*Sales and results for the first six months*

Sales for the first six months amounted to 6,202 MSEK (6,130). Operating profit from product areas declined to 1,704 MSEK (1,841). In local currencies, sales increased by 4 percent, while operating profit declined by 5 percent. Currency translation has affected the operating profit comparison negatively by 37 MSEK. Operating margin from product areas for the first six months was 27.5 percent (30.0).

Swedish Match sold a parcel of land adjacent to the old headquarters building in Stockholm in 2007, for which the final purchase price was subject to the approval of a changed city plan. The city plan was approved in January, which has resulted in an additional capital gain of 161 MSEK reported under larger one-time items during the first six months of 2013.

Operating profit, including share of net profit in STG and larger one-time items, amounted to 1,999 MSEK (2,054). The share of net profit in STG amounted to 134 MSEK (183) for the first six months. Operating margin, including share of net profit in STG, for the first six months, was 29.6 percent (33.0). EBITDA margin was 31.8 percent (35.5).

Basic earnings per share (EPS) for the first six months, excluding larger one-time items, amounted to 6.24 SEK (6.84), while diluted EPS, excluding larger one-time items, was 6.23 SEK (6.79).

## Sales by product area

| MSEK | April-June 2013 | April-June 2012 | Chg % | January-June 2013 | January-June 2012 | Chg % | Full year 2012 |
|---|---|---|---|---|---|---|---|
| Snus and snuff | 1,230 | 1,300 | -5 | 2,403 | 2,506 | -4 | 5,049 |
| Other tobacco products | 687 | 696 | -1 | 1,352 | 1,371 | -1 | 2,661 |
| Lights | 326 | 336 | -3 | 654 | 686 | -5 | 1,339 |
| Other operations | 976 | 880 | 11 | 1,793 | 1,567 | 14 | 3,437 |
| **Sales** | **3,220** | **3,213** | **0** | **6,202** | **6,130** | **1** | **12,486** |

## Operating profit by product area

| MSEK | April-June 2013 | April-June 2012 | Chg % | January-June 2013 | January-June 2012 | Chg % | Full year 2012 |
|---|---|---|---|---|---|---|---|
| Snus and snuff | 546 | 581 | -6 | 1,080 | 1,149 | -6 | 2,349 |
| Other tobacco products | 295 | 316 | -7 | 555 | 613 | -10 | 1,161 |
| Lights | 53 | 60 | -12 | 112 | 117 | -5 | 222 |
| Other operations | -22 | -20 | | -43 | -39 | | -65 |
| **Operating profit from product areas** | **871** | **938** | **-7** | **1,704** | **1,841** | **-7** | **3,666** |
| Share of net profit in STG | 95 | 114 | -17 | 134 | 183 | -27 | 366 |
| **Subtotal** | **966** | **1,052** | **-8** | **1,837** | **2,024** | **-9** | **4,032** |
| Adjustment to capital gain from transfer of businesses to STG | - | 30 | | - | 30 | | 30 |
| Capital gain from sale of land | 2 | - | | 161 | - | | - |
| **Total larger one-time items** | **2** | **30** | | **161** | **30** | | **30** |
| **Operating profit** | **968** | **1,082** | **-11** | **1,999** | **2,054** | **-3** | **4,062** |

The Group's net finance cost amounted to 138 MSEK (140) for the second quarter and 274 MSEK (274) for the first six months. Deducting this from operating profit results in profit before income tax of 830 MSEK (942) for the second quarter and 1,725 MSEK (1,780) for the first six months.

## Operating margin by product area[1)]

| Percent | April-June 2013 | April-June 2012 | January-June 2013 | January-June 2012 | Full year 2012 |
|---|---|---|---|---|---|
| Snus and snuff | 44.4 | 44.7 | 44.9 | 45.9 | 46.5 |
| Other tobacco products | 42.9 | 45.4 | 41.1 | 44.7 | 43.6 |
| Lights | 16.2 | 17.9 | 17.1 | 17.0 | 16.6 |
| **Operating margin from product areas[2)]** | **27.1** | **29.2** | **27.5** | **30.0** | **29.4** |
| **Operating margin[3)]** | **30.0** | **32.7** | **29.6** | **33.0** | **32.3** |

1) Excluding larger one-time items.
2) Excluding share of net profit in STG.
3) Including share of net profit in STG.

## EBITDA by product area[1)]

| MSEK | April-June 2013 | April-June 2012 | Chg % | January-June 2013 | January-June 2012 | Chg % | Full year 2012 |
|---|---|---|---|---|---|---|---|
| Snus and snuff | 584 | 622 | -6 | 1,159 | 1,233 | -6 | 2,518 |
| Other tobacco products | 307 | 338 | -9 | 580 | 657 | -12 | 1,238 |
| Lights | 61 | 69 | -12 | 128 | 136 | -6 | 258 |
| Other operations | -16 | -16 | | -32 | -32 | | -52 |
| **EBITDA from product areas** | **937** | **1,013** | **-8** | **1,835** | **1,993** | **-8** | **3,962** |
| Share of net profit in STG | 95 | 114 | -17 | 134 | 183 | -27 | 366 |
| **EBITDA[2)]** | **1,031** | **1,128** | **-9** | **1,969** | **2,176** | **-10** | **4,328** |

1) Excluding larger one-time items.
2) Including share of net profit in STG.

## EBITDA margin by product area[1)]

| Percent | April-June 2013 | April-June 2012 | January-June 2013 | January-June 2012 | Full year 2012 |
|---|---|---|---|---|---|
| Snus and snuff | 47.5 | 47.8 | 48.2 | 49.2 | 49.9 |
| Other tobacco products | 44.7 | 48.6 | 42.9 | 47.9 | 46.5 |
| Lights | 18.8 | 20.7 | 19.6 | 19.8 | 19.3 |
| **EBITDA margin from product areas[2)]** | **29.1** | **31.5** | **29.6** | **32.5** | **31.7** |
| **EBITDA margin[3)]** | **32.0** | **35.1** | **31.8** | **35.5** | **34.7** |

1) Excluding larger one-time items.
2) Excluding share of net profit in STG.
3) Including share of net profit in STG.

### Snus and snuff

*Sweden is the world's largest snus market measured by per capita consumption. A substantially larger proportion of the male population uses the Swedish type of moist snuff called snus[*] compared to cigarettes. The Norwegian market is smaller than the Swedish market but has experienced strong volume growth in recent years. The US is the world's largest moist snuff market measured in number of cans and is about five times larger than the Scandinavian snus market. In Sweden and Norway, Swedish Match has a leading position. In the US, the Group is well positioned as the third largest player in moist snuff, and has a rapidly growing position in Swedish snus. Some of the best known brands include General, Ettan, Grovsnus, Göteborgs Rapé, Catch, Kaliber, and Kronan in Sweden, and Longhorn, Timber Wolf, Red Man and General in the US.*

*The second quarter*

In local currencies, sales for the product area Snus and snuff declined by 4 percent during the second quarter compared to the same quarter of the previous year. Reported sales declined by 5 percent to 1,230 MSEK (1,300). Operating profit declined by 6 percent to 546 MSEK (581), and includes an operating loss for international snus expansion in the US and through SMPM International amounting to 82 MSEK (67). The operating margin for the product area was 44.4 percent (44.7).

In Scandinavia, shipment volumes measured in number of cans, were down by 3 percent compared to the second quarter of the prior year. Shipment volumes declined in Sweden and grew in Norway. On an underlying basis, Swedish Match estimates that Swedish Match volumes declined in the range of 2 percent, with declines in Sweden and Travel Retail combined partially offset by continued growth in Norway.

[*] Swedish snus is moist snuff which is produced using a special heat treated process, much like pasteurization, as opposed to other moist snuff products for which a fermentation process is used.

The underlying volume decline in Sweden and Travel Retail combined is a result of a lower market share for Swedish Match in the second quarter compared to the same period of the prior year. On the Swedish market, for the twelve week period ending June 16, 2013, Nielsen (excluding tobacconists) reported a total market share for Swedish Match in volume terms of 73.0 percent compared to 78.2 percent in the corresponding period of the previous year and in value terms a total market share of 79.2 percent compared to 82.9 percent in the corresponding period of the previous year. The decline in market share in Sweden for Swedish Match is mainly attributable to the growth of the low priced segment, where Swedish Match has its lowest market share. The growth of the low priced segment has contributed to a strong overall volume growth in the Swedish market, which Swedish Match estimates to have been more than 5 percent in the second quarter, compared to the second quarter of 2012. Also the Norwegian market continued to show strong volume growth in the quarter, up by close to 10 percent.

Sales revenues in Scandinavia declined by less than 4 percent in the second quarter compared to the second quarter of the prior year, due to lower volumes combined with mix effects, on the Swedish market. While operating profit declined, the operating margin in Scandinavia improved slightly versus prior year.

The expansion of *General* snus in the US continued in the second quarter with the product now available in over 17,000 stores, up from 13,000 at the end of the first quarter. Year on year category growth for snus has accelerated, exceeding 7 percent over the most recent twelve week Nielsen period. Volume share for the *General* brand has more than doubled since year end 2012, from 3.3 percent for the four week period ending December 22, 2012 to 7.4 percent for the four week period ending June 8, 2013 (Nielsen). While part of this share growth is attributable to expanded store distribution, the brand has also experienced steady increases in same store sales. Spending in the first half and the second quarter of the year increased versus prior year primarily due to the distribution expansion. Swedish Match estimates that the Company will expand to approximately 20,000 stores by year end 2013, up by 10,000 stores versus year end 2012, with the majority of the annual expansion having taken place in the first half of the year. Swedish Match anticipates that spending behind US snus for the remainder of 2013 will be largely in line with prior year.

For the US moist snuff business, volumes measured in number of can equivalents were down by 6 percent versus the prior year's second quarter, but increased by 5 percent versus the first quarter. For the new large size tubs under the *Longhorn* brand as well as for the pouch portfolio, volumes in can equivalents increased significantly versus prior year. For total moist snuff, operating profit in local currency increased significantly from the first quarter and slightly from the second quarter of the prior year.

*The first six months*

For the first six months of the year, sales for the product area declined to 2,403 MSEK (2,506) and operating profit declined to 1,080 MSEK (1,149), and included an operating loss for international snus expansion in the US and through SMPM International amounting to 144 MSEK (102). The operating margin for the product area was 44.9 percent (45.9).

In Scandinavia, sales revenues declined by 3 percent, while shipment volumes declined by somewhat more than 2 percent. Operating margin was higher than previous year.

In the US, sales revenues for moist snuff for the first six months were down versus prior year on 6 percent lower volumes. Operating profit for moist snuff was also lower.

During the first six months of 2013, SMPM International (the joint venture between Swedish Match and Philip Morris International; 50 percent owned by Swedish Match) continued the test market activities for snus in Canada, Russia, Israel, and Malaysia.

**Other tobacco products**

*The product area Other tobacco products consists of US cigars and chewing tobacco. Swedish Match is a major player in the US mass market cigar market, with such well known brands as White Owl, Garcia y Vega, and Game by Garcia y Vega. Swedish Match is the leading producer of chewing tobacco in the US where the product is mainly sold in the southern states of the country. Well known brands include Red Man and Southern Pride. The market for chewing tobacco shows a declining trend.*

*The second quarter*

During the second quarter, sales for the product area Other tobacco products increased by more than 4 percent in local currency compared to the same period of the previous year, while operating profit was slightly lower. Reported sales for the product area amounted to 687 MSEK (696) and reported operating profit was 295 MSEK (316). In local currency, sales increased for both cigars and chewing tobacco. The operating margin was 42.9 percent (45.4). Excluding the change in pension accounting as described in Note 1 – Accounting Principles, operating profit in local currency increased slightly versus the prior year. The operating margin comparison versus the prior year has also been negatively affected by a changed accounting treatment for excise taxes for cigars, following changed logistics arrangements.

Volume growth for cigars of 6 percent in the second quarter was below expectations as a number of new discount competitive brands have begun to gain share in the category. A positive aspect of the increased activity is that Nielsen is reporting strong category growth, up nearly 8 percent over the twelve week period ending June 8, 2013, versus prior year. Over the same period, Nielsen estimates that Swedish Match volumes grew by 15 percent versus prior year. Swedish Match will introduce new products in the third quarter to address this competitive issue as well as make some adjustments to pricing of existing products. While Swedish Match is confident that the Company’s actions will result in stronger volume growth in the second half of the year, profit growth will be less than volume increases due to the increased investments. Based on the promotional and new product launch schedule for 2013, shipments of cigars will be more evenly phased throughout the year than was the case in 2012. Accordingly, most of the year on year growth is expected to take place in the fourth quarter which only contributed 20 percent of the annual volume in 2012.

US chewing tobacco shipments in the second quarter were down by 2 percent compared to the second quarter of the prior year as the Company gained share in a declining category, and sales in local currency were up as higher average prices more than compensated for the volume decline.

*The first six months*

Sales for the product area for the first six months amounted to 1,352 MSEK (1,371) while operating profit amounted to 555 MSEK (613). In local currency, sales for the first six months were up by 4 percent, while operating profit was down by 5 percent, adversely affected by the pension accounting adjustment. Sales in local currency were higher for cigars, while operating profit declined. The increased sales for cigars is a result of 3 percent higher volumes as well as a changed accounting treatment of tobacco excise taxes. Owing to changed logistics arrangements, tobacco excise taxes are now partly classified as cost of goods sold.

For chewing tobacco, sales in local currency were in line with the first six months of 2012 as higher average sales prices compensated for a volume decline of 6 percent. Operating profit for chewing tobacco in local currency increased somewhat compared to the prior year. Operating margin for the product group was 41.1 percent (44.7).

**Lights**

*Swedish Match is the market leader in a number of markets for matches. The match brands are mostly local, with leading positions in their home countries. Larger brands include Solstickan, Fiat Lux, Swan, Tres Estrellas, Feudor, and Redheads. The Group's main brand for disposable lighters is Cricket. Swedish Match's largest market for lighters is Russia.*

*The second quarter*

During the second quarter sales for the Lights product area amounted to 326 MSEK (336). Currency translation effects have affected the sales comparison negatively by 19 MSEK and in local currencies, sales were up by 3 percent. Operating profit amounted to 53 MSEK (60) and the operating margin was 16.2 percent (17.9). In local currencies, operating profit declined by 6 percent. Sales and operating profit were higher in local currencies for lighters, and were lower for matches compared to the second quarter of the prior year.

*The first six months*

Sales for the product area for the first six months declined to 654 MSEK (686), and operating profit declined to 112 MSEK (117). In local currencies sales as well as operating profit increased versus the prior year. Compared to the first six months of the previous year, operating profit increased for lighters and declined for matches. Operating margin was 17.1 percent (17.0).

**Other operations**

*Other operations are primarily the distribution of tobacco products on the Swedish market, and corporate overhead costs.*

*The second quarter*

Sales in Other operations for the second quarter amounted to 976 MSEK (880). Operating loss for Other operations was 22 MSEK (20).

*The first six months*

Sales for the first six months amounted to 1,793 MSEK (1,567). Operating loss for the first six months was 43 MSEK (39).

**Scandinavian Tobacco Group**

*Scandinavian Tobacco Group (STG) was established on October 1, 2010, following a merger between the tobacco activities in Scandinavian Tobacco Group A/S and the European mass market cigar, US premium cigar and pipe tobacco businesses of*

*Swedish Match. The Danish company Skandinavisk Holding A/S holds 51 percent of the shares in STG, and the remaining 49 percent are held by Swedish Match. STG is the world's largest manufacturer of cigars, a world leader in pipe tobacco, and holds a strong position within fine cut tobacco in Scandinavia and the US. STG's leading brands include Café Crème, La Paz, Henri Wintermans, Macanudo, CAO, Partagas (USA), Cohiba (USA), Erinmore, Borkum Riff, Colts and Tiedemanns.*

Please see Note 3 for a summary of the STG consolidated income statement.

The STG result, and consequently the Swedish Match reported share of the net result in STG, may for some reporting periods be partly based on estimates due to differences in reporting time schedules. Any differences between such estimates and the actual result of STG for the period, are adjusted in the following reporting period.

*The second quarter*

Sales for STG during the second quarter declined by 2 percent to 1,536 MDKK (1,566) compared to the same quarter of the previous year. Reported EBITDA amounted to 341 MDKK (349). The decline in EBITDA came exclusively from machine made cigars, as all other product areas (pipe tobacco, fine cut tobacco, handmade cigars, and "other") reported higher operating profits.

For handmade cigars, sales were up, from both higher shipment volumes and positive mix effects in the US. The mail order and Internet channels continued to perform well. The increase in sales contributed to an increase in EBITDA.

Sales for machine made cigars declined as a result of lower volumes. The decline in volumes compared to the same period of the previous year was partly due to last year's volumes being somewhat inflated by stock building in France ahead of last year's ERP implementation in the European cigar operations. The lower sales caused EBITDA to decline and resulted in a lower operating margin. EBITDA in the second quarter was however significantly stronger than in the first quarter of 2013.

For both the fine cut tobacco and the pipe tobacco businesses, sales were up from increased volumes and higher average prices, and EBITDA improved as a result of the increased gross profit for both product areas.

Net finance costs for the quarter increased to 32 MDKK (7), mainly due to positive currency effects in the prior year period.

Net profit for the period amounted to 168 MDKK (190).

The Swedish Match reported share of net profit in STG for the second quarter amounted to 95 MSEK (114). The share of net profit of the prior year was affected by a positive adjustment of 3 MSEK relating to differences between estimates and actual results. Excluding the adjustment, Swedish Match share of profit in STG amounted to 95 MSEK (111).

*The first six months*

Sales for STG declined by 2 percent to 2,832 MDKK (2,898) during the first six months compared to the same period of the previous year. Reported EBITDA amounted to 556 MDKK (608).

For handmade cigars, sales and EBITDA increased in local currencies on flat shipment volumes.

For machine made cigars, sales declined on lower volumes. The decline in volumes was partly due to continued difficult market conditions, inventory reductions at major distributors and somewhat inflated shipments during the first half of 2012 in preparation for a changed ERP system. The lower sales resulted in a decreased EBITDA.

For the fine cut tobacco business, sales and EBITDA increased as a result of higher average prices and lower marketing costs.

Pipe tobacco sales and EBITDA increased, mainly as a result of an improved sales mix which more than offset a slight decline in volumes.

Net finance costs for the first six months increased to 50 MDKK (40), mainly due to positive currency effects in the second quarter of the prior year period. Net profit for the period amounted to 242 MDKK (291).

The Swedish Match share of net profit in STG for the first six months amounted to 134 MSEK (183). Excluding accounting adjustments from differences between actual and estimated results, Swedish Match's share of net profit amounted to 136 MSEK (170). On March 7, 2013, Swedish Match received a dividend from STG of 224 MSEK. In 2012, Swedish Match received a dividend from STG of 204 MSEK on April 27.

**Taxes**

For the first half of the year, the reported tax expense amounted to 317 MSEK (353), corresponding to a tax rate of 18.4 percent (19.9). The reported tax rate, excluding one-time items, associated companies and joint ventures, was 22 percent (22). One-time items relate to the additional capital gain from the sale of a parcel of land in 2007 and associated companies relate mainly to the share of earnings from Scandinavian Tobacco Group.

**Earnings per share**

Basic earnings per share (EPS) for the second quarter, excluding larger one-time items, amounted to 3.33 SEK (3.57), while diluted EPS, excluding larger one-time items, was 3.32 SEK (3.55).

Basic EPS for the first six months of the year, excluding larger one-time items, amounted to 6.24 SEK (6.84), while diluted EPS, excluding larger one-time items, was 6.23 SEK (6.79).

**Depreciation and amortization**

In the second quarter, total depreciation and amortization amounted to 66 MSEK (75), of which depreciation on property, plant and equipment amounted to 59 MSEK (61) and amortization of intangible assets amounted to 7 MSEK (15).

In the first six months, total depreciation and amortization amounted to 132 MSEK (152), of which depreciation on property plant and equipment amounted to 119 MSEK (123) and amortization of intangible assets amounted to 13 MSEK (29).

**Financing and cash flow**

Cash flow from operating activities for the first six months amounted to 1,199 MSEK compared with 1,323 MSEK for the same period of the previous year. The cash flow from operations decreased compared to the same period last year mainly due to lower operating profit and higher tax payments for the period. Investments in property, plant and equipment during the first six months amounted to 160 MSEK (104). The increased investments mainly relate to capacity investments in the US cigar operations and investments in the Scandinavian snus operations. Net investments amounted to 30 MSEK (133) and include the receipt of the additional purchase price of 161 MSEK for the parcel of land adjacent to the former head office site in Stockholm which was sold in 2007.

Net finance cost for the first six months amounted to 274 MSEK (274).

The net debt as per June 30, 2013 amounted to 9,229 MSEK compared to 9,289 MSEK at December 31, 2012.

During the first six months, new bond loans of 1,225 MSEK were issued. Repayments of bond loans for the same period amounted to 1,191 MSEK. As of June 30, 2013 Swedish Match had 10,806 MSEK of interest bearing debt excluding retirement benefit obligations compared to 10,796 MSEK at December 31, 2012. None of this debt falls due for payment during the remainder of 2013.

In the first half of the year, Swedish Match paid a dividend totaling 1,459 MSEK and made share repurchases of 138 MSEK. During the same period the Company sold treasury shares of 165 MSEK as a result of option holders exercising options.

As of June 30, 2013, Swedish Match had 1,404 MSEK in unutilized committed credit lines.

Cash and cash equivalents amounted to 2,599 MSEK at the end of the period, compared to 2,824 MSEK at December 31, 2012.

**Average number of employees**

The average number of employees in the Group during the first half of 2013 was 4,069 compared with 3,848 for the full year 2012.

**Share structure**

During the first quarter, Swedish Match repurchased 0.6 million shares for 138 MSEK at an average price of 218.03 SEK, following authorization from the Annual General Meeting held in 2012. No shares were repurchased during the second quarter. Total shares bought back by Swedish Match since the buyback program started have been repurchased at an average price of 105.70 SEK.

During the first six months of 2013 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.

In accordance with the resolution at the Annual General Meeting on April 25, 2013, 4 million shares held in treasury have been cancelled. The total number of registered shares in the Company after the cancellation of shares is 202.0 million.

As per June 30, 2013 Swedish Match held 2.2 million shares, corresponding to 1.07 percent of the total number of shares. The number of shares outstanding, net, as per June 30, 2013, amounted to 199.8 million. The Company has issued call options of which an amount corresponding to 1.3 million shares exercisable in gradual stages from 2013-2015 were outstanding as of June 30, 2013.

**Outlook (from the first quarter report)**

We expect both the Scandinavian snus market and the US market for moist snuff to continue to grow in volume terms in 2013.

For the full year of 2013 we anticipate higher sales and operating profit for US cigars, driven by strong volume growth.

During the year we will continue to invest for growth for snus internationally, particularly in the US, and also increase spending in order to drive share growth in the fast growing pouch segment of the US moist snuff market.

In Scandinavia, we will increase investments behind new market initiatives, particularly in Sweden, which has been negatively impacted by portfolio mix shifts.

As a consequence of the increased market investments in the US and the competitive situation in Sweden, it is likely that the operating profit from the Snus and snuff product area for the full year 2013 will be lower than in 2012.

The tax rate for 2013, excluding one-time items as well as associated companies and joint ventures, is expected to be around 22 percent.

The Company maintains its long term financial strategy and dividend policy, and we remain committed to returning cash not needed in operations to shareholders.

**Revised outlook**

We expect both the Scandinavian snus market and the US market for moist snuff to continue to grow in volume terms in 2013.

For the full year of 2013 we anticipate higher sales and operating profit for US cigars, driven by strong volume growth. *However, due to pricing and promotional activities now planned in light of increased competition, operating profit growth is more uncertain and is expected to be modest.*

During the year we will continue to invest for growth for snus internationally, particularly in the US, and also continue to invest for share growth in the fast growing pouch segment of the US moist snuff market.

In Scandinavia, we invest behind new market initiatives, particularly in Sweden, which has been negatively impacted by portfolio mix shifts.

As a consequence of the increased market investments in the US and the competitive situation in Sweden, it is likely that the operating profit from the Snus and snuff product area for the full year 2013 will be lower than in 2012. However, for the remainder of 2013 we expect investments for growth for snus internationally to be largely in line with the second half of 2012.

The tax rate for 2013, excluding one-time items as well as associated companies and joint ventures, is expected to be around 22 percent.

The Company maintains its long term financial strategy and dividend policy, and we remain committed to returning cash not needed in operations to shareholders.

**Risk factors**

Swedish Match faces intense competition in all of its markets and for each of its products and such competition may increase in the future. In order to be successful the Group must price and promote its brands competitively and anticipate and respond to new consumer trends. Restrictions on advertising and promotion may, however, make it more difficult to counteract loss of consumer loyalty. Competitors may develop and promote new products which could be successful, and could thereby have an adverse effect on Swedish Match results of operations.

Swedish Match has a substantial part of its production and sales in the US as well as in Brazil, Norway and EMU member countries. Consequently, changes in exchange rates of euro, Norwegian krona, Brazilian real and in particular the US dollar may adversely affect the Group’s results of operations, cash flow, financial condition or relative price competitiveness in the future. Such effects may occur both in local currencies and when such local currencies are translated into Swedish currency for purposes of financial reporting.

Regulatory and fiscal changes related to tobacco and other taxes, as well as to the marketing, sale and consumption of tobacco products, in the countries where the Group is operating may have an adverse effect on Swedish Match results of operations.

For a further description of risk factors affecting Swedish Match, see the Report of the Board of Directors in the published Swedish Match annual report for 2012.

**Swedish Match AB (publ)**
Swedish Match AB (publ) is the Parent Company of the Swedish Match Group.

Sales in the Parent Company for the first six months amounted to 22 MSEK (39). Profit before income tax amounted to 1,598 MSEK (2,979) and net profit for the first six months amounted to 1,743 MSEK (3,187).

The main sources of income for the Parent Company are dividends and Group contributions from subsidiaries. The Parent Company sold a parcel of land adjacent to the old headquarters building in Stockholm in 2007, for which the final purchase price was subject to the approval of a changed city plan. The city plan was approved in January, and payment of the additional purchase price of 161 MSEK was received in the second quarter of 2013.

Part of the Group’s treasury operations are within the operations of the Parent Company including the major part of the Group’s external borrowings. The majority of these loans have fixed interest rates and hence any changes in interest rates would have an immaterial impact on the result of the Parent Company.

Capital expenditures on tangible fixed assets for the first six months amounted to 0 MSEK. During the first six months of 2012, no capital expenditures were recognized. During the period no capital expenditures on intangible fixed assets have been recognized. During previous year’s first six months, capital expenditures on intangible fixed assets were 19 MSEK. An investment in software development for an ERP system for the Group has been transferred to a Group company.

The total cash flow for the period was zero (0) as the Parent Company does not hold any cash and bank balances.

During the first six months, new bond loans of 1,225 MSEK were issued and repayments of bond loans amounted to 1,191 MSEK.

During the period, the Parent Company made share repurchases of 0.6 million (2.6) shares for 138 MSEK (671) and sold 1.1 million (2.7) treasury shares for 165 MSEK (414).

Dividend of 1,459 MSEK (1,334) has been paid during the period.

**Forward-looking information**
This report contains forward-looking information based on the current expectation of the Swedish Match Group’s management. Although management deems that the expectations presented by such forward-looking information are reasonable, no guarantee can be given that these expectations will prove correct. Accordingly, the actual future outcome could vary considerably compared to what is stated in the forward-looking information, due to such factors as changed market conditions for Swedish Match’s products and more general conditions regarding business cycles, market and competition, changes in legal requirements and other political measures, and fluctuation in exchange rates.

## Additional information

This report has not been reviewed by the Company's auditors. The January-September 2013 report will be released on October 29, 2013.

The Board of Directors and the CEO declare that the half year report gives a true and fair view of the operations, position and result of the Company and the Group and describes the major risks and uncertainties of the Company and the companies in the Group.

Stockholm, July 19, 2013

| | | | |
|---|---|---|---|
| Conny Karlsson<br>Chairman of the Board | Andrew Cripps<br>Deputy Chairman | Kenneth Ek<br>Board member | Karen Guerra<br>Board member |
| Håkan Johansson<br>Board member | Eva Larsson<br>Board member | Wenche Rolfsen<br>Board member | Robert F. Sharpe<br>Board member |
| Meg Tivéus<br>Board member | Joakim Westh<br>Board member | Lars Dahlgren<br>President and CEO | |

## Key data

| *All key data have been calculated excluding larger one-time items.* | January - June 2013 | January - June 2012 | 12 months ended June 30, 2013 | Full year 2012 |
|---|---|---|---|---|
| Operating margin, % | 29.6 | 33.0 | 30.6 | 32.3 |
| Operating capital, MSEK | 7,704 | 7,478 | 7,704 | 7,253 |
| Return on operating capital, % | | | 50.7 | 55.7 |
| EBITDA, MSEK[1)] | 1,969 | 2,176 | 4,121 | 4,328 |
| EBITA, MSEK[2)] | 1,850 | 2,053 | 3,880 | 4,082 |
| Net debt, MSEK | 9,229 | 9,362 | 9,229 | 9,289 |
| Net debt/EBITA[2)] | | | 2.4 | 2.3 |
| Investments in property, plant and equipment, MSEK[3)] | 160 | 104 | 307 | 251 |
| EBITA interest cover | 6.9 | 7.7 | 7.2 | 7.6 |
| *Excluding share of net profit in STG* | | | | |
| EBITA, MSEK[2)] | 1,717 | 1,870 | 3,562 | 3,716 |
| Net debt/EBITA[2)] | | | 2.6 | 2.5 |
| *Share data* | | | | |
| Earnings per share, basic, SEK | | | | |
| Including larger one-time items | 7.05 | 6.99 | 14.40 | 14.33 |
| Excluding larger one-time items | 6.24 | 6.84 | 13.59 | 14.18 |
| Earnings per share, diluted, SEK | | | | |
| Including larger one-time items | 7.04 | 6.94 | 14.35 | 14.25 |
| Excluding larger one-time items | 6.23 | 6.79 | 13.55 | 14.10 |
| Number of shares outstanding at end of period | 199,830,395 | 204,261,243 | 199,830,395 | 199,408,335 |
| Average number of shares outstanding, basic | 199,533,920 | 204,216,689 | 200,547,571 | 202,888,955 |
| Average number of shares outstanding, diluted | 199,962,358 | 205,623,350 | 201,163,702 | 203,995,039 |

1) Operating profit adjusted for depreciation, amortization and write-downs of tangible and intangible assets.
2) Operating profit adjusted for amortization and write-downs of intangible assets.
3) Including investments in forest plantations of 12 MSEK (14).

## Consolidated income statement in summary

| *MSEK* | April-June 2013 | April-June 2012 | Chg % | January-June 2013 | January-June 2012 | Chg % | 12 months ended June 30, 2013 | Full year 2012 | Chg % |
|---|---|---|---|---|---|---|---|---|---|
| Sales, including tobacco tax | 6,430 | 6,568 | | 12,190 | 12,337 | | 25,301 | 25,449 | |
| Less tobacco tax | -3,210 | -3,355 | | -5,988 | -6,207 | | -12,744 | -12,963 | |
| **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** |
| *Attributable to:* | | | | | | | | | |
| Equity holders of the Parent | 667 | 759 | | 1,407 | 1,427 | | 2,887 | 2,906 | |
| Non-controlling interests | 0 | 0 | | 0 | 0 | | 0 | 0 | |
| **Profit for the period** | **667** | **759** | **-12** | **1,408** | **1,427** | **-1** | **2,888** | **2,907** | **-1** |
| Earnings per share, basic, SEK | | | | | | | | | |
| Including larger one-time items | 3.34 | 3.72 | | 7.05 | 6.99 | | 14.40 | 14.33 | |
| Excluding larger one-time items | 3.33 | 3.57 | | 6.24 | 6.84 | | 13.59 | 14.18 | |
| Earnings per share, diluted, SEK | | | | | | | | | |
| Including larger one-time items | 3.33 | 3.69 | | 7.04 | 6.94 | | 14.35 | 14.25 | |
| Excluding larger one-time items | 3.32 | 3.55 | | 6.23 | 6.79 | | 13.55 | 14.10 | |

## Consolidated statement of comprehensive income

| *MSEK* | April - June 2013 | April - June 2012 | January - June 2013 | January - June 2012 | 12 months ended June 30, 2013 | Full year 2012 |
|---|---|---|---|---|---|---|
| **Profit for the period** | **667** | **759** | **1,408** | **1,427** | **2,888** | **2,907** |
| *Other comprehensive income that will be reclassified to the income statement* | | | | | | |
| Translation differences related to foreign operations | 262 | 6 | 144 | -120 | -101 | -365 |
| Translation differences included in profit and loss | - | 1 | - | -1 | -3 | -3 |
| Effective portion of changes in fair value of cash flow hedges | 15 | -8 | 34 | 56 | -38 | -16 |
| Share of other comprehensive income in associated companies and joint ventures | -66 | 116 | 9 | 25 | -76 | -60 |
| Income tax relating to components of other comprehensive income | -3 | 2 | -8 | -15 | 8 | 1 |
| **Subtotal, net of tax for the period** | **207** | **116** | **180** | **-54** | **-210** | **-444** |
| *Other comprehensive income that will not be reclassified to the income statement* | | | | | | |
| Actuarial gains and losses attributable to pensions, including payroll tax | 201 | -171 | 383 | -57 | 416 | -25 |
| Share of other comprehensive income in associated companies and joint ventures | - | - | - | - | -30 | -30 |
| Income tax relating to components of other comprehensive income | -81 | 69 | -154 | 23 | -170 | 8 |
| **Subtotal, net of tax for the period** | **120** | **-103** | **229** | **-35** | **216** | **-47** |
| **Total comprehensive income for the period** | **994** | **773** | **1,817** | **1,338** | **2,894** | **2,415** |
| *Attributable to:* | | | | | | |
| Equity holders of the Parent | 994 | 773 | 1,816 | 1,338 | 2,893 | 2,415 |
| Non-controlling interests | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total comprehensive income for the period** | **994** | **773** | **1,817** | **1,338** | **2,894** | **2,415** |

## Consolidated 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)] | 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[2)] | 1,427 | 1,870 |
| Current provisions | 85 | 102 |
| Current loans | 768 | 1,119 |
| Other current liabilities[3)] | 2,896 | 3,084 |
| **Total equity and liabilities** | **14,365** | **14,371** |

1) Includes pension assets of 66 MSEK (65) and derivative financial instruments of 29 MSEK (32) used to hedge the Parent Company's bond loans denominated in euro.
2) Includes pension liabilities of 1,088 MSEK (1,382) and derivative financial instruments of 275 MSEK (386) used to hedge the Parent Company's bond loans denominated in euro.
3) Includes current financial derivatives of 23 MSEK (85) used to hedge the Parent Company's bond loans denominated in euro.

## Consolidated cash flow statement in summary

| *MSEK* | January - June | |
|---|---|---|
| | **2013** | **2012** |
| *Operating activities* | | |
| **Profit before income taxes** | **1,725** | **1,780** |
| Share of profit/loss in associated companies and joint ventures | -122 | -173 |
| Dividend received from associated companies | 232 | 209 |
| Other non-cash items and other | 57 | 177 |
| Income tax paid | -341 | -309 |
| **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** |
| *Investing activities* | | |
| 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[1)] | -20 | -20 |
| Proceeds from sale of subsidiaries, net of cash disposed of[2)] | 166 | 9 |
| Changes in financial receivables etc. | 3 | 0 |
| **Net cash used in investing activities** | **-30** | **-133** |
| *Financing activities* | | |
| 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 increase/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** |

1) Investments in associated companies and joint ventures pertain to additional investments in SMPM International of 20 MSEK in 2013 and 20 MSEK in 2012.
2) The cash flow from sale of subsidiaries in 2013 is related to additional payment for Swedish Match UK sold in 2008 and to capital gain from sale of land in 2007.

## Change in shareholders' equity

| *MSEK* | **Equity attributable to holders of the Parent** | **Non-controlling interests** | **Total equity** |
|---|---|---|---|
| **Equity at January 1, 2012** | **-1,602** | **2** | **-1,599** |
| Profit for the period | 1,427 | 0 | 1,427 |
| Other comprehensive income, net of tax for the period | -89 | - | -89 |
| **Total comprehensive income for the period** | **1,338** | **0** | **1,338** |
| Dividend | -1,334 | 0 | -1,334 |
| Repurchase of own shares | -671 | - | -671 |
| Stock options exercised | 414 | - | 414 |
| Cancellation of shares | -13 | - | -13 |
| Bonus issue | 13 | - | 13 |
| **Equity at June 30, 2012** | **-1,855** | **2** | **-1,853** |
| **Equity at January 1, 2013** | **-2,053** | **2** | **-2,051** |
| Profit for the period | 1,407 | 0 | 1,407 |
| Other comprehensive income, net of tax for the period | 409 | 0 | 409 |
| **Total comprehensive income for the period** | **1,816** | **0** | **1,816** |
| Dividend | -1,459 | - | -1,459 |
| Repurchase of own shares | -138 | - | -138 |
| Stock options exercised | 165 | - | 165 |
| Cancellation of shares | -8 | - | -8 |
| Bonus issue | 8 | - | 8 |
| **Equity at June 30, 2013** | **-1,669** | **2** | **-1,666** |

## Parent Company income statement in summary

| *MSEK* | January - June | |
|---|---|---|
| | **2013** | **2012** |
| Sales | 22 | 39 |
| Administrative expenses | -97 | -121 |
| **Operating loss** | **-75** | **-82** |
| Result from participation in Group companies | 2,262 | 3,771 |
| Net finance cost | -590 | -710 |
| **Profit before income tax** | **1,598** | **2,979** |
| Income tax | 146 | 208 |
| **Profit for the period** | **1,743** | **3,187** |

## Parent Company statement of comprehensive income

| *MSEK* | January – June | |
|---|---|---|
| | **2013** | **2012** |
| **Profit for the period** | **1,743** | **3,187** |
| *Other comprehensive income that will be reclassified to the income statement* | | |
| Effective portion of changes in fair value of cash flow hedges | 34 | 56 |
| Income tax relating to components of other comprehensive income | -8 | -15 |
| **Subtotal, net of tax for the period** | **27** | **42** |
| **Total comprehensive income for the period** | **1,770** | **3,229** |

## Parent Company balance sheet in summary

| *MSEK* | **Jun 30, 2013** | **Jun 30, 2012** | **Dec 31, 2012** |
|---|---|---|---|
| Intangible and tangible assets | 1 | 75 | 96 |
| Non-current financial assets | 51,349 | 51,370 | 51,357 |
| Current assets | 266 | 447 | 2,332 |
| **Total assets** | **51,617** | **51,892** | **53,784** |
| | | | |
| **Equity** | **21,568** | **21,163** | **21,230** |
| **Untaxed reserves** | **230** | **124** | **260** |
| Provisions | 73 | 81 | 92 |
| Non-current liabilities | 28,217 | 27,570 | 27,814 |
| Current liabilities | 1,529 | 2,955 | 4,388 |
| **Total liabilities** | **29,818** | **30,605** | **32,295** |
| **Total equity and liabilities** | **51,617** | **51,892** | **53,784** |

### Note 1 – Accounting principles

This report for the Group is prepared in accordance with the Accounting Standard IAS 34 Interim Financial Reporting and applicable rules in the Annual Accounts Act. The report for the Parent Company is prepared in accordance with the Annual Accounts Act, Chapter 9 and RFR 2.

New principles that are applied from January 1, 2013:

Changes are made to the presentation of Other comprehensive income and expense. According to IAS 1 – *Presentation of Financial Statements,* these items are now presented into two categories; 1) *Items that will be reclassified subsequently to profit and loss* and 2) *Items that will not be reclassified subsequently to profit and loss*.

The revised IAS 19 – *Employee Benefits* is applied. The expected effect is higher operating costs of approximately 35 MSEK on an annual basis which will be fully offset by a corresponding income to be reported in Other comprehensive income. This occurs as the return on plan assets above the discount rate used to measure the pension obligation will be reported as an actuarial gain instead of lowering operating costs.

New disclosures are added in accordance with IFRS 7 – *Financial Instruments: Disclosure* and IAS 32 – *Financial Instruments Presentation: Classification*. The IFRS 7 requires disclosures on the estimated fair market values of financial instruments, see Note 4 and IAS 32 requires disclosures on possibilities to net derivatives, see Note 5.

In all other aspects, the accounting principles and basis of calculation in this report are the same as in the annual report for 2012.

### Note 2 – Related parties transactions

The Group's related parties include joint ventures, associated companies and key management personnel with significant influence over the Company. Key management personnel with significant influence over the Company are Swedish Match Board of Directors and members of the Group Management Team.

In the normal course of business, Swedish Match conducts various transactions with associated companies and joint ventures. Transactions are conducted at an arms-length basis. At the end of the first half of 2013, receivables from these companies amounted to 30 MSEK (38) and total payables to these companies amounted to 4 MSEK (3). During the first six months 2013, total sales to associated companies and joint ventures amounted to 96 MSEK (107) and total purchases from associated companies and joint ventures amounted to 42 MSEK (43).

No transactions with key management personnel besides normal remuneration have been conducted during the period.

### Note 3 – Scandinavian Tobacco Group

**Summary of STG consolidated income statement**

| | January - June | | Change | Full year |
|---|---|---|---|---|
| *MDKK* | **2013** | **2012** | **%** | **2012** |
| Sales | 2,832 | 2,898 | -2 | 5,978 |
| EBITDA | 556 | 608 | -8 | 1,313 |
| Operating profit | 365 | 433 | -16 | 943 |
| Net finance cost | -50 | -40 | | -101 |
| Income tax expense | -73 | -103 | | -224 |
| **Net profit for the period** | **242** | **291** | **-17** | **618** |
| *MSEK* | | | | |
| **Swedish Match's share of net profit** | **136** | **170** | **-20** | **356** |
| Adjustment to estimate vs. actual | -2 | 13 | | 10 |
| **Swedish Match's reported share of net profit** | **134** | **183** | **-27** | **366** |

### Note 4 – Carrying value and fair value

The following table shows carrying value and fair value for financial instruments per June 30, 2013.

**Carrying value and fair value**

| *MSEK* | **Items carried at fair value via the income statement** | **Loans and receivables** | **Other financial liabilities** | **Cash flow hedges** | **Total carrying value** | **Fair value** |
|---|---|---|---|---|---|---|
| Trade receivables | - | 1,496 | - | - | 1,496 | 1,496 |
| Non-current receivables | 2 | - | - | 28 | 30 | 30 |
| Other receivables | 21 | - | - | - | 21 | 21 |
| Cash and cash equivalents | - | 2,599 | - | - | 2,599 | 2,599 |
| **Total assets** | **23** | **4,095** | **-** | **28** | **4,146** | **4,146** |
| Loans and borrowings | - | - | 10,559 | - | 10,559 | 11,213 |
| Other liabilities | 24 | - | - | 323 | 347 | 347 |
| Trade payables | - | - | 556 | - | 556 | 556 |
| **Total liabilities** | **24** | **-** | **11,115** | **323** | **11,462** | **12,116** |

All items valued at fair value in the balance sheet are considered to be included in level 2 within the fair value hierarchy. No transfer in or out of level 2 has been made during the reporting period since the annual report for 2012.

The recognized amounts are regarded as reasonable estimates for all items measured at carrying value in the balance sheet, except for loans and borrowings since these amounts have a long time to maturity. The fair value of loans and borrowings has been calculated by discounting future cash flow. Total nominal amount of outstanding derivatives (cross currency and interest rate swaps) is 7,496 MSEK of which 5,931 MSEK is in cash flow hedges.

### Note 5 – Derivatives under netting agreements

To reduce the credit risk in receivables from banks arising via derivative instruments, Swedish Match has entered into netting agreements, known as ISDA Master Agreements, with all of its counterparties. The following table shows the netted exposures per June 30, 2013. No collateral has been received or pledged.

**Financial instruments under master netting agreements**

| *MSEK* | **Gross amount for financial instruments** | **Amount netted in the balance sheet** | **Net amount in the balance sheet** | **Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement** | **Net** |
|---|---|---|---|---|---|
| Derivatives – Assets | 31 | 0 | 31 | -20 | 12 |
| Derivatives – Liabilities | 329 | 0 | 329 | -20 | 309 |

## Quarterly data

## Consolidated income statement in summary

| *MSEK* | **Q2/13** | **Q1/13** | **Q4/12** | **Q3/12** | **Q2/12** | **Q1/12** | **Q4/11** | **Q3/11** | **Q2/11** |
|---|---|---|---|---|---|---|---|---|---|
| Sales, including tobacco tax | 6,430 | 5,759 | 6,461 | 6,651 | 6,568 | 5,769 | 6,262 | 6,208 | 6,033 |
| Less tobacco tax | -3,210 | -2,777 | -3,313 | -3,443 | -3,355 | -2,852 | -3,198 | -3,198 | -3,089 |
| **Sales** | **3,220** | **2,982** | **3,148** | **3,208** | **3,213** | **2,917** | **3,064** | **3,011** | **2,944** |
| Cost of goods sold | -1,673 | -1,527 | -1,586 | -1,617 | -1,558 | -1,376 | -1,515 | -1,495 | -1,467 |
| **Gross profit** | **1,546** | **1,455** | **1,562** | **1,591** | **1,655** | **1,541** | **1,549** | **1,516** | **1,478** |
| Selling and administrative expenses | -668 | -618 | -667 | -640 | -710 | -635 | -648 | -604 | -647 |
| Share of net profit/loss in associated companies and joint ventures | 87 | 35 | 91 | 72 | 107 | 66 | 120 | 71 | 74 |
| | **966** | **872** | **986** | **1,022** | **1,052** | **972** | **1,022** | **983** | **904** |
| *Larger one-time items* | | | | | | | | | |
| Adjustment to capital gain from transfer of businesses to STG | - | - | - | - | 30 | - | - | - | - |
| Capital gain from sale of land | 2 | 159 | - | - | - | - | - | - | - |
| **Operating profit** | **968** | **1,031** | **986** | **1,022** | **1,082** | **972** | **1,022** | **983** | **904** |
| Finance income | 8 | 8 | 10 | 11 | 12 | 6 | 8 | 10 | 9 |
| Finance costs | -146 | -144 | -146 | -152 | -151 | -140 | -142 | -140 | -140 |
| Net finance cost | -138 | -136 | -137 | -141 | -140 | -134 | -134 | -130 | -131 |
| **Profit before income tax** | **830** | **895** | **850** | **881** | **942** | **838** | **888** | **853** | **773** |
| Income tax expense | -163 | -154 | -63 | -188 | -183 | -170 | -183 | -169 | -157 |
| **Profit for the period** | **667** | **741** | **787** | **693** | **759** | **668** | **705** | **684** | **616** |
| *Attributable to:* | | | | | | | | | |
| Equity holders of the Parent | 667 | 740 | 787 | 693 | 759 | 667 | 705 | 684 | 615 |
| Non-controlling interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Profit for the period** | **667** | **741** | **787** | **693** | **759** | **668** | **705** | **684** | **616** |

## Sales by product area

| MSEK | Q2/13 | Q1/13 | Q4/12 | Q3/12 | Q2/12 | Q1/12 | Q4/11 | Q3/11 | Q2/11 |
|---|---|---|---|---|---|---|---|---|---|
| Snus and snuff | 1,230 | 1,173 | 1,280 | 1,263 | 1,300 | 1,206 | 1,266 | 1,199 | 1,193 |
| Other tobacco products | 687 | 664 | 601 | 689 | 696 | 675 | 578 | 613 | 613 |
| Lights | 326 | 328 | 341 | 311 | 336 | 350 | 364 | 333 | 313 |
| Other operations | 976 | 816 | 926 | 944 | 880 | 687 | 856 | 866 | 826 |
| **Sales** | **3,220** | **2,982** | **3,148** | **3,208** | **3,213** | **2,917** | **3,064** | **3,011** | **2,944** |

## Operating profit by product area

| MSEK | Q2/13 | Q1/13 | Q4/12 | Q3/12 | Q2/12 | Q1/12 | Q4/11 | Q3/11 | Q2/11 |
|---|---|---|---|---|---|---|---|---|---|
| Snus and snuff | 546 | 534 | 593 | 607 | 581 | 568 | 581 | 590 | 540 |
| Other tobacco products | 295 | 260 | 248 | 300 | 316 | 297 | 255 | 278 | 272 |
| Lights | 53 | 59 | 61 | 44 | 60 | 57 | 80 | 59 | 44 |
| Other operations | -22 | -20 | -18 | -8 | -20 | -19 | -18 | -18 | -26 |
| **Operating profit from product areas** | **871** | **832** | **883** | **942** | **938** | **903** | **898** | **909** | **829** |
| Share of net profit in STG | 95 | 39 | 103 | 80 | 114 | 69 | 124 | 74 | 74 |
| **Subtotal** | **966** | **872** | **986** | **1,022** | **1,052** | **972** | **1,022** | **983** | **904** |
| Adjustment to capital gain from transfer of businesses to STG | - | - | - | - | 30 | - | - | - | - |
| Capital gain from sale of land | 2 | 159 | - | - | - | - | - | - | - |
| **Total larger one-time items** | **2** | **159** | **-** | **-** | **30** | **-** | **-** | **-** | **-** |
| **Operating profit** | **968** | **1,031** | **986** | **1,022** | **1,082** | **972** | **1,022** | **983** | **904** |

## Operating margin by product area[1)]

| Percent | Q2/13 | Q1/13 | Q4/12 | Q3/12 | Q2/12 | Q1/12 | Q4/11 | Q3/11 | Q2/11 |
|---|---|---|---|---|---|---|---|---|---|
| Snus and snuff | 44.4 | 45.5 | 46.3 | 48.0 | 44.7 | 47.1 | 45.9 | 49.2 | 45.3 |
| Other tobacco products | 42.9 | 39.2 | 41.2 | 43.5 | 45.4 | 44.0 | 44.1 | 45.3 | 44.4 |
| Lights | 16.2 | 17.8 | 17.9 | 14.0 | 17.9 | 16.3 | 21.9 | 17.7 | 13.9 |
| **Operating margin from product areas[2)]** | **27.1** | **27.9** | **28.0** | **29.4** | **29.2** | **31.0** | **29.3** | **30.2** | **28.2** |
| **Operating margin[3)]** | **30.0** | **29.2** | **31.3** | **31.9** | **32.7** | **33.3** | **33.4** | **32.7** | **30.7** |

1) Excluding larger one-time items.
2) Excluding share of net profit in STG.
3) Including share of net profit in STG.

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The character of the information in this report is such that it shall be disclosed by Swedish Match AB (publ) in accordance with the Swedish Securities Markets Act. The information was disclosed to the media on July 19, 2013 at 08.15 a.m. (CET).

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