

# SWEDISH MATCH INVESTOR KIT

Q1 2017



## A look at the quarter



## Q1 - HEADLINE BULLETS

- Sales increased by 6 percent to 3,775 MSEK (3,557) for the first quarter. In local currencies, sales increased by 3 percent.
- Operating profit from product areas<sup>1)</sup> increased by 6 percent to 994 MSEK (939) for the first quarter. In local currencies, operating profit from product areas<sup>1)</sup> increased by 1 percent.
- Operating profit<sup>2)</sup> amounted to 1,232 MSEK (1,711) for the first quarter, and included larger one-time items of 238 MSEK relating to the capital gains from divestment of shares in Scandinavian Tobacco Group (STG) and sale of land. The prior year included larger one-time items of 704 MSEK relating to the capital gains from divestment of shares in STG and divestment of a distribution center property.
- Profit for the period amounted to 930 MSEK (1,404) for the first quarter.
- Earnings per share amounted to 5.06 SEK (7.44) for the first quarter. Earnings per share excluding larger one-time items and share of net profit in STG amounted to 3.76 SEK (3.35).
- In January, as previously announced, Swedish Match reduced its ownership in STG from 18.1 percent to 9.1 percent.

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

2) Operating profit for the Group includes larger one-time items and share of net profit in STG.

# Q1 - KEY DEVELOPMENTS

## ○ Snus and moist snuff

- Higher sales and operating profit in the US more than offset modest declines in Scandinavia.
- Slowdown of market growth in Scandinavia, but improving share trend continued in Norway.
- Continued growth of *General* and *ZYN* outside Scandinavia.

## ○ Other tobacco products

- Continued strong sales and volume growth for cigars in the US, especially for HTL cigars.
- Only slight decline of chewing tobacco versus an unusually weak prior year period.
- Small increase in operating profit in local currency despite costs for FDA user fees for cigars.

## ○ Lights

- Sales increased driven by matches and aided by positive currency effects.
- Increased operating profit across the portfolio.

## Overview by product area



# SNUS AND MOIST SNUFF: Q1 COMMENTARY

## Growth in both sales and operating profit driven by the US

- **Scandinavian shipment volumes flat**
  - Underlying volumes are estimated to be down by 1% (adjusted for trade destocking/calendar effects). Lower premium volumes were partly offset by higher volumes for value priced products.
- **Scandinavia snus sales up, operating profit slightly lower**
  - Price increase in the beginning of the year in Norway and stronger NOK vs. SEK.
  - Negative mix in Sweden from more value price products.
  - Absorption of the 2017 excise tax increase in Sweden.
- **US moist snuff operating profit up in local currency on flat sales**
  - Flat volumes. List price increases offset by promotions.
  - Reduced production costs.
- **Lower operating loss for snus and nicotine pouches outside Scandinavia**
  - Snus/ZYN sales in the US up on higher volumes and better realized pricing.
  - Lower marketing spend, partly due to phasing of activities during 2017 vs. 2016.



MSEK	Q1-2017	Q1-2016	chg	April 2016-March 2017	Full year 2016	chg
Sales	1,293	1,245	4	5,325	5,277	1
Operating profit	531	521	2	2,207	2,197	0
Operating margin, %	41.1	41.8		41.5	41.6	



# SNUS AND MOIST SNUFF

## Swedish Match's shipment volumes for snus and moist snuff (not adjusted for timing, calendar and destocking effects)

	January-March		chg	Full year
	2017	2016	%	2016
Snus, million of cans, Scandinavia*	56.5	56.3	0	241.3
Moist snuff, millions of cans, US	34.6	34.5	0	131.4

\* Underlying shipments down by 1% in Q1



Source: Swedish Match and industry estimates.

# SCANDINAVIAN MARKET GROWTH AND SHARE ESTIMATES

- **Scandinavian snus market up 2% in volume terms in Q1\***
  - Market growth in both Sweden and Norway.
- **Swedish Match's share declined in Sweden**
  - Decline in value segment share year on year somewhat less pronounced than in Q4 with introduction of *Kaliber+*.
  - Premium share down on more competitive activity, and also negatively impacted by Swedish Match having a high share for loose products, a segment that is declining.
  - The value segment's share of the market in Sweden was somewhat higher than a year ago and previous quarter.
- **Swedish Match's share decline rate in Norway has been improving in recent quarters**
  - Continued good performance for *General G.3* in Norway.

## Swedish Match's market shares\*\*

Percent	January-March		chg ppts	Full year 2016
	2017	2016		
Snus, Sweden, total	65.6	68.0	-2.4	67.4
Snus, Sweden, premium	92.0	93.1	-1.0	92.7
Snus, Sweden, value	36.4	39.2	-2.8	38.0
Snus, Norway, total	52.2	54.6	-2.3	53.5

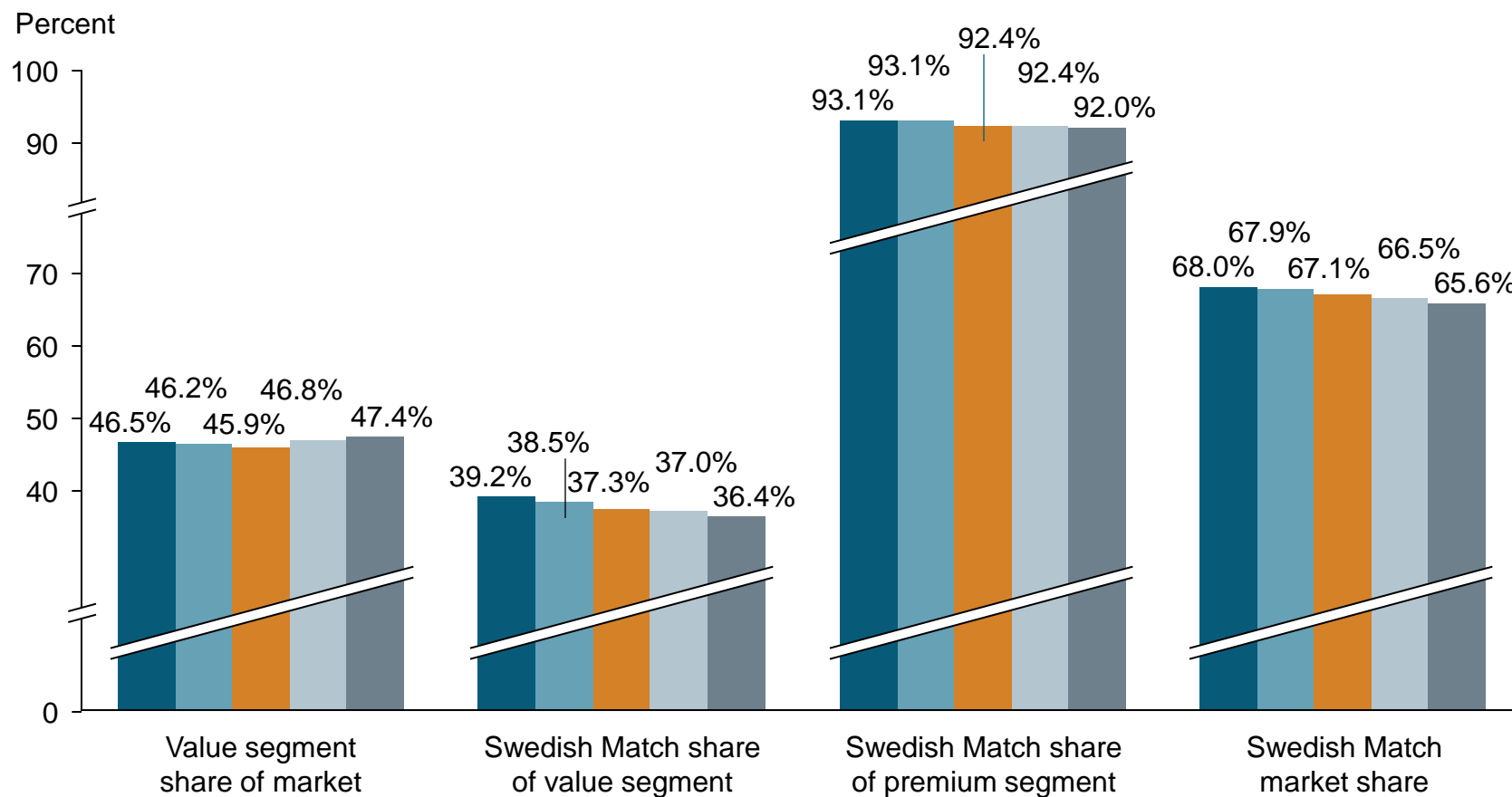
\* Source: Swedish Match estimates.

\*\* Swedish Match estimates using Nielsen data (excl. tobaccoists due to small sample of tobaccoists in Nielsen data): 13 weeks to April 2, 2017 and March 27, 2016. All figures for the Swedish market have been restated to reflect changes in Nielsen store measurements.



# SWEDEN - MARKET SHARE DYNAMICS - VOLUME SHARES

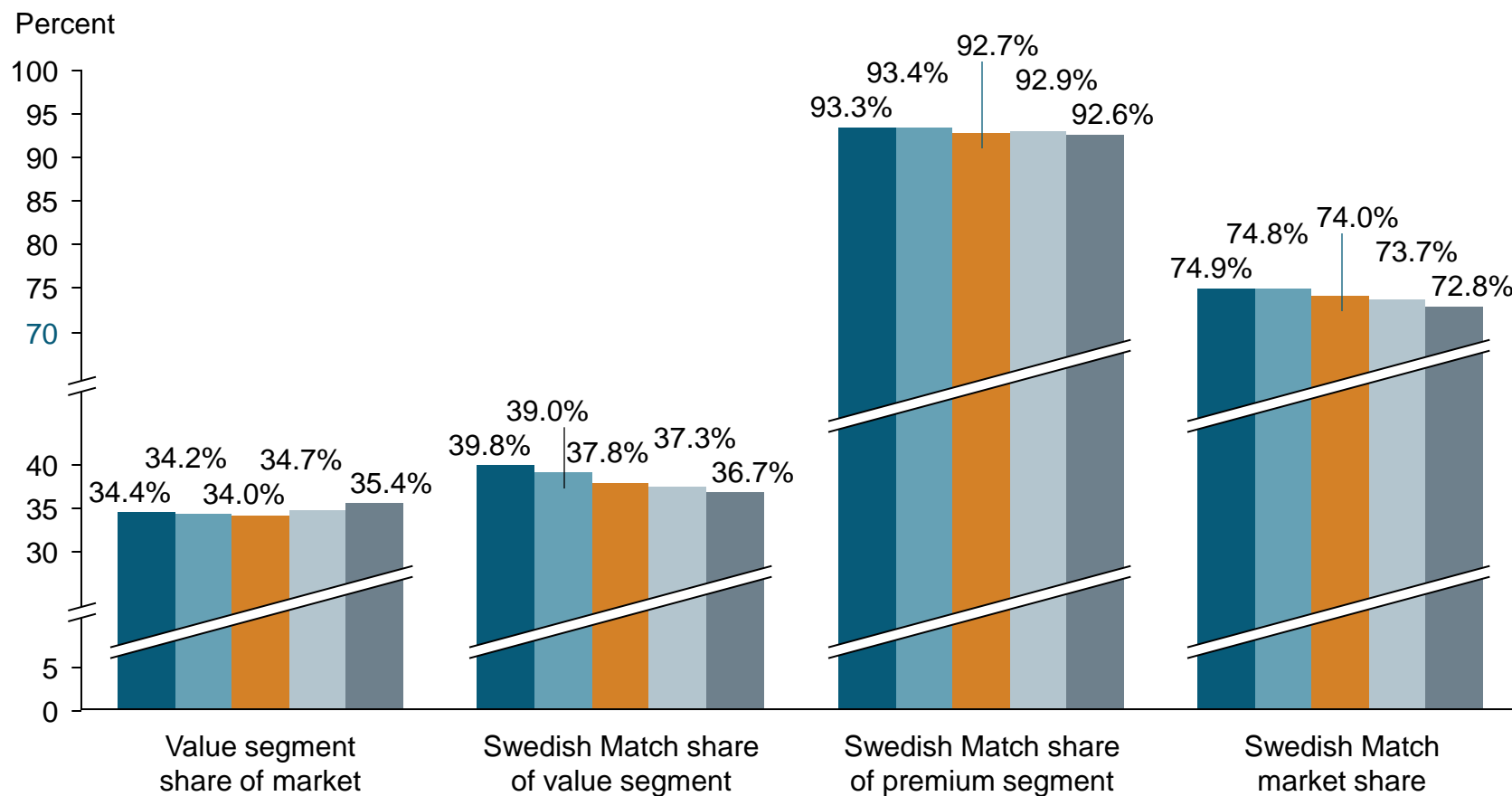
Q1 2016 Q2 2016 Q3 2016 Q4 2016 Q1 2017



Source: Nielsen DVH+SVH excluding tobacconists. Segmentation by Swedish Match. Numbers restated due to changes in Nielsen store measurement.

# SWEDEN - MARKET SHARE DYNAMICS – SEK SHARES

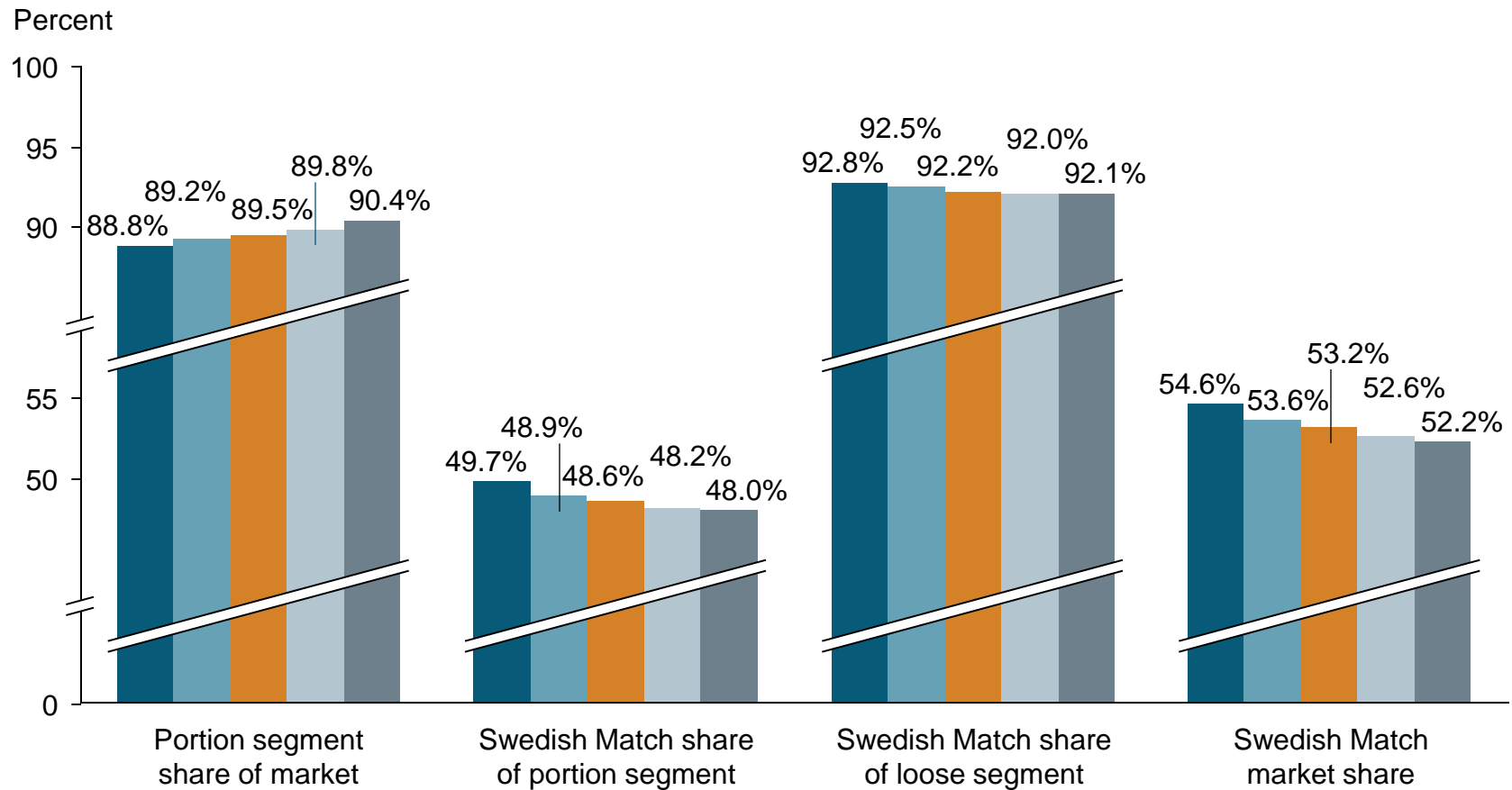
■ Q1 2016 ■ Q2 2016 ■ Q3 2016 ■ Q4 2016 ■ Q1 2017



Source: Nielsen DVH+SVH excluding tobaccoconists. Segmentation by Swedish Match. Numbers restated due to changes in Nielsen store measurement.

# NORWAY - MARKET SHARE DYNAMICS – VOLUME SHARES

Q1 2016 Q2 2016 Q3 2016 Q4 2016 Q1 2017



Source: Nielsen DVH+SVH excluding tobaccoists.

# SCANDINAVIAN NEW PRODUCT ACTIVITY

## Sweden

- *Kaliber+* in stores from January.
- *Kronan* packaging and product upgrade.
- *G.3 VOLT Super Strong* in Swedish Match snus stores from March, full distribution in Sweden early June.
- *ZYN* in Swedish Match snus stores.
- *Göteborgs Rapé White Strong* from April.

## Norway

- Line extension of *G.3 Super Slim* pouch product in stores from February.
- *Göteborgs Rapé Slim* in stores from February.
- *G.3 VOLT Super Strong* in stores from March.



# US MARKET GROWTH AND SHARE ESTIMATES

## Moist snuff

- US moist snuff market estimated to be flat versus year ago
- Swedish Match estimates its moist snuff volume market share at approximately 8%
  - Swedish Match share of growing pouch segment has increased over the past year.

## Snus and ZYN

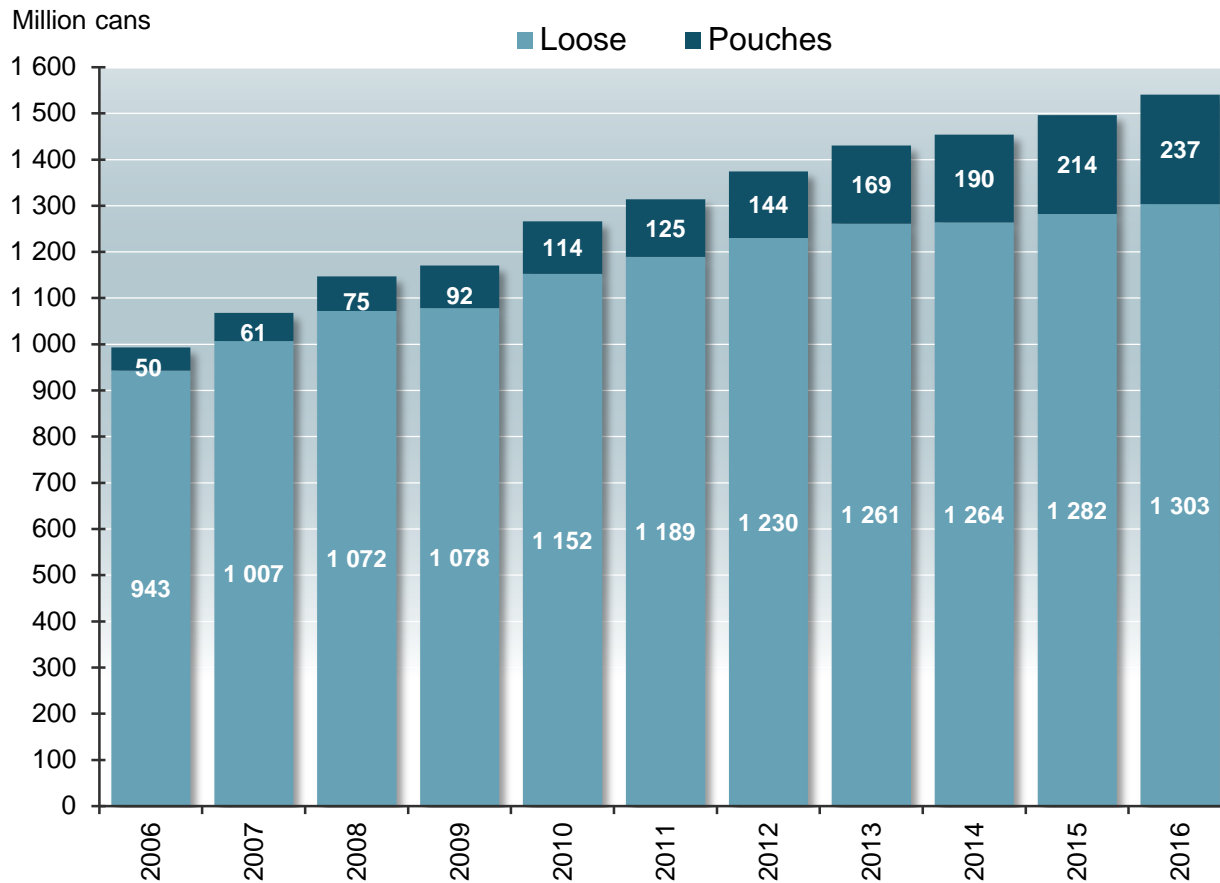
- Volumes continue to grow at double digit levels
  - General snus share of snus market in the range of 10%.
- Continued strong performance for ZYN nicotine pouches without tobacco
  - Further expansion in western US.



Source: Swedish Match and industry estimates.

# US MOIST SNUFF CATEGORY DEVELOPMENT

## Category by segment: loose vs. pouches



CAGR 2011-2016



**13.6%**  
**POUCHES**



**1.8%**  
**LOOSE**

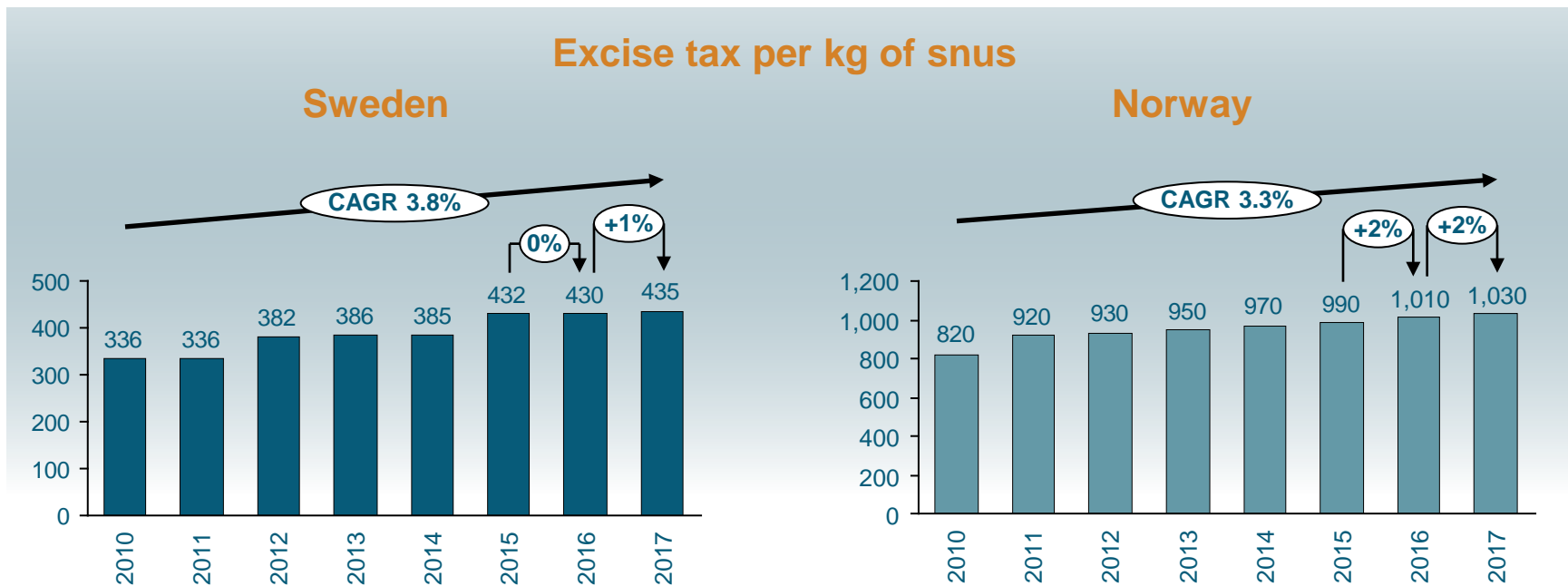


Source: Swedish Match and industry estimates.



## Tobacco tax in Sweden and Norway

- **Excise tax increase in Sweden in effect from January 1, 2017.**
  - Tax increase from 430 SEK/kg to 435 SEK/kg.
- **Excise tax increase in Norway in effect from January 1, 2017.**
  - Tax increase from 1,010 NOK/kg to 1,030 NOK/kg.



# REGULATORY NEWS

## ○ **Norway - plain packaging**

- Decision on plain packaging on December 9.
- Public Health Directorate (Helsedirektoratet) tasked with issuing detailed instructions – not yet published.
- Expected implementation in 2018 (12 months from instructions).

## ○ **US - MRTP**

- Swedish Match has met with FDA's Center for Tobacco Products (CTP) to discuss possible amendments to the applications for MRTP (Modified Risk Tobacco Product) status.

## ○ **UK High Court of Justice refers issue of the EU snus ban to the ECJ**

- On January 26, 2017, the UK High Court of Justice granted permission to Swedish Match's application for judicial review of the snus ban to be referred to the ECJ for a preliminary judgement. Swedish Match expects a ruling by the ECJ in the first half of 2018 at the earliest.

## ○ **Ruling by the Swedish Patent and Market Court**

- On February 8, 2017, the Swedish Patent and Market Court ruled that labelling system used during a short time in 2012/2013 was in breach of competition law, and imposed a 38 MSEK fine plus legal fees. Swedish Match intends to appeal this decision and no provision has been made for any fine.

# OTHER TOBACCO PRODUCTS (OTP): Q1 COMMENTARY

## Continued strong volume growth for cigars

- **Strong growth in sales while operating profit was up slightly in local currency**
  - Cigar volumes up 16% with the fastest growth for HTL cigars.
  - Natural leaf volumes adversely impacted by timing of shipments.
  - Operating profit increased in local currency, despite new FDA fees of 2.5 MUSD.
- **Chewing tobacco remains challenging, but Q1 performance solid year on year**
  - Reported result compares with weak prior year period.
  - Volumes declined by only 1% for own brands.
  - Volumes negatively impacted by enactment of Pennsylvania state excise tax in the beginning of October.
  - Average pricing negatively impacted by more value price products.
  - Sales and operating profit flat.



MSEK	Q1-2017	Q1-2016	chg	April 2016-March 2017	Full year 2016	chg
Sales	1,120	994	13	4,409	4,283	3
Operating profit	427	400	7	1,732	1,705	2
Operating margin, %	38.1	40.2		39.3	39.8	

# OTHER TOBACCO PRODUCTS

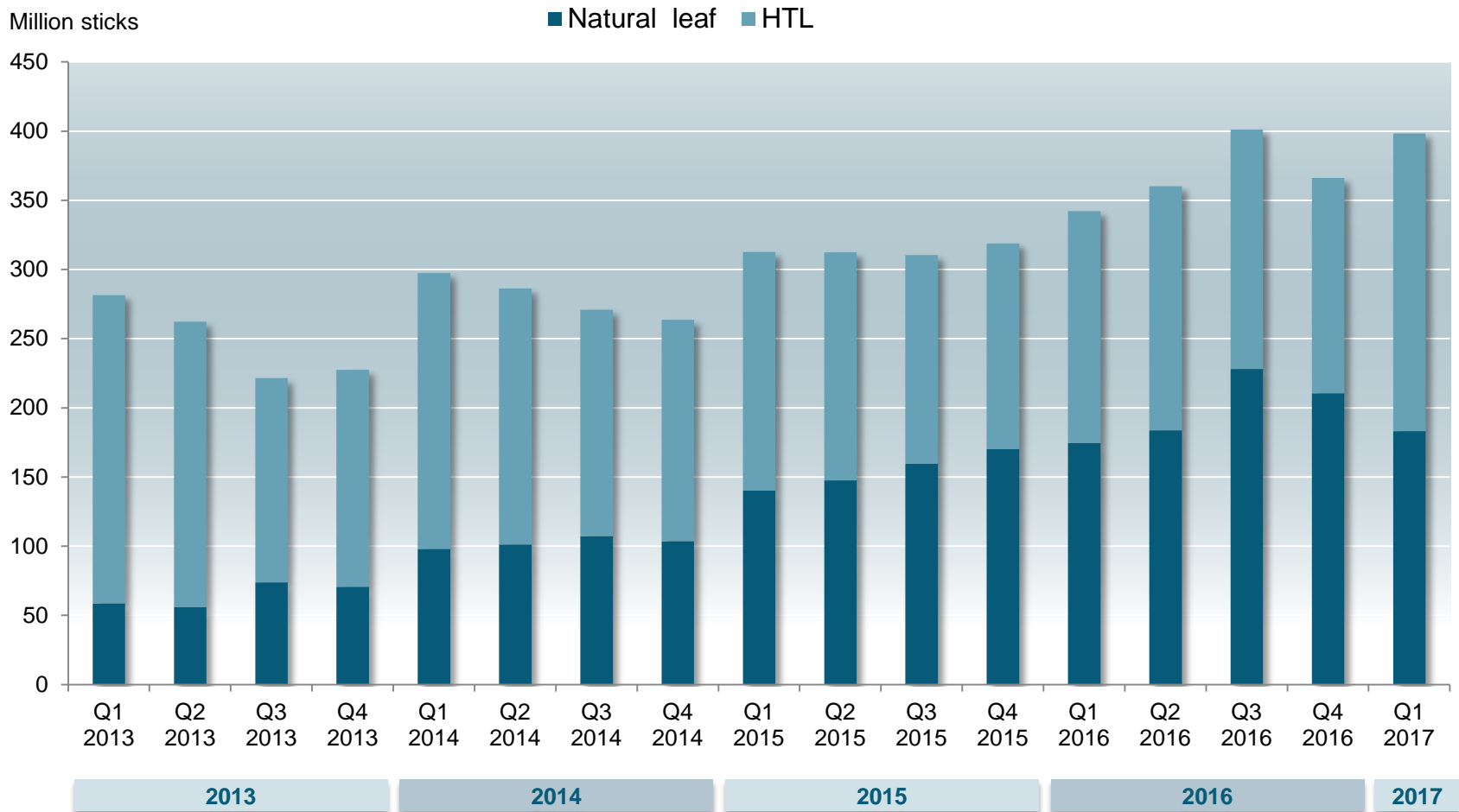
## Swedish Match's US shipment volumes for cigars and chewing tobacco

	January-March		chg	Full year
	2017	2016	%	2016
Cigars, millions of sticks	398	343	16	1,472
Chewing tobacco, thousands of pounds (excl. contract manufacturing)	1,663	1,677	-1	6,709



# MASS MARKET CIGAR VOLUMES

## Swedish Match's mass market cigar shipments - by quarter and format



- **US FDA deeming regulations for cigars in force from August 8, 2016**
  - 3 months extension announced for SE and PMTA filings in order to give the new leadership at the FDA and the Department of Health and Human Services additional time to more fully consider issues raised by the final deeming rule that are now the subject of multiple lawsuits.
  - User fees from October 1, 2016 are approximately 2.5 MUSD per quarter for Swedish Match.



# LIGHTS: Q1 COMMENTARY

## Higher sales and operating profit

- Sales increased, driven by a good performance for matches with flat volumes and positive price/mix effects, as well as a recovery of the Brazilian real.
- Sales also grew for lighters and complementary products.
- Other profit drivers include:
  - Lower production costs for lighters.
  - Improved costing for complementary products.
- Prior year period was negatively affected by some costs of a temporary nature for matches.



MSEK	Q1-2017	Q1-2016	chg	April 2016-March 2017	Full year 2016	chg
Sales	340	303	12	1,351	1,314	3
Operating profit	60	42	44	238	219	8
Operating margin, %	17.7	13.8		17.6	16.7	

# Overview of tax, cash flow and financing



# TAX, CASH FLOW AND FINANCING

- **Tax rate excluding larger one-time items and income from associated companies amounted to 24.5 percent.**
  - Reported tax rate amounted to 19.3 percent but was impacted by tax exempt larger one-time items.
- **Net finance cost decreased to 80 MSEK (107).**
  - Higher interest income from the very strong cash position following the STG partial divestment and additional proceeds relating to a parcel of land sold in 2007.
  - Lower interest rates on debt partly offset by higher average debt.
- **During the first quarter, no new bond loans were issued and no repayments of bond loans have been made.**



# TAX, CASH FLOW AND FINANCING

- **Strong cash flow including proceeds from divestments**
  - Cash flow from operating activities was 826 MSEK (792).
  - Higher cash flow from changes in working capital.
- **Positive net cash flow from investing activities**
  - Swedish Match received 1,355 MSEK from the partial divestment of STG in January and another 107 MSEK of additional proceeds relating to a parcel of land sold in 2007.
- **Investments in property, plant and equipment as well as intangible assets decreased to 86 MSEK (202)**
  - Prior year investments reflect the acquisition of patent rights for a nicotine pouch product without tobacco.
- **Share buybacks**
  - Share repurchases of 2.6 million shares for 739 MSEK.

# TAX, CASH FLOW AND FINANCING

## ○ Financial policy

- Dividend policy: normally within 40-60% of earnings per share, subject to adjustment for larger one-time items.
- Excess cash to be returned to shareholders.
- 2016 ordinary dividend: 8.50 SEK per share (8.00).
- Special dividend of 7.50 SEK per share following Swedish Match's divestment of shares in STG in January 2017.
- Net debt not to exceed 3 times EBITA\*.

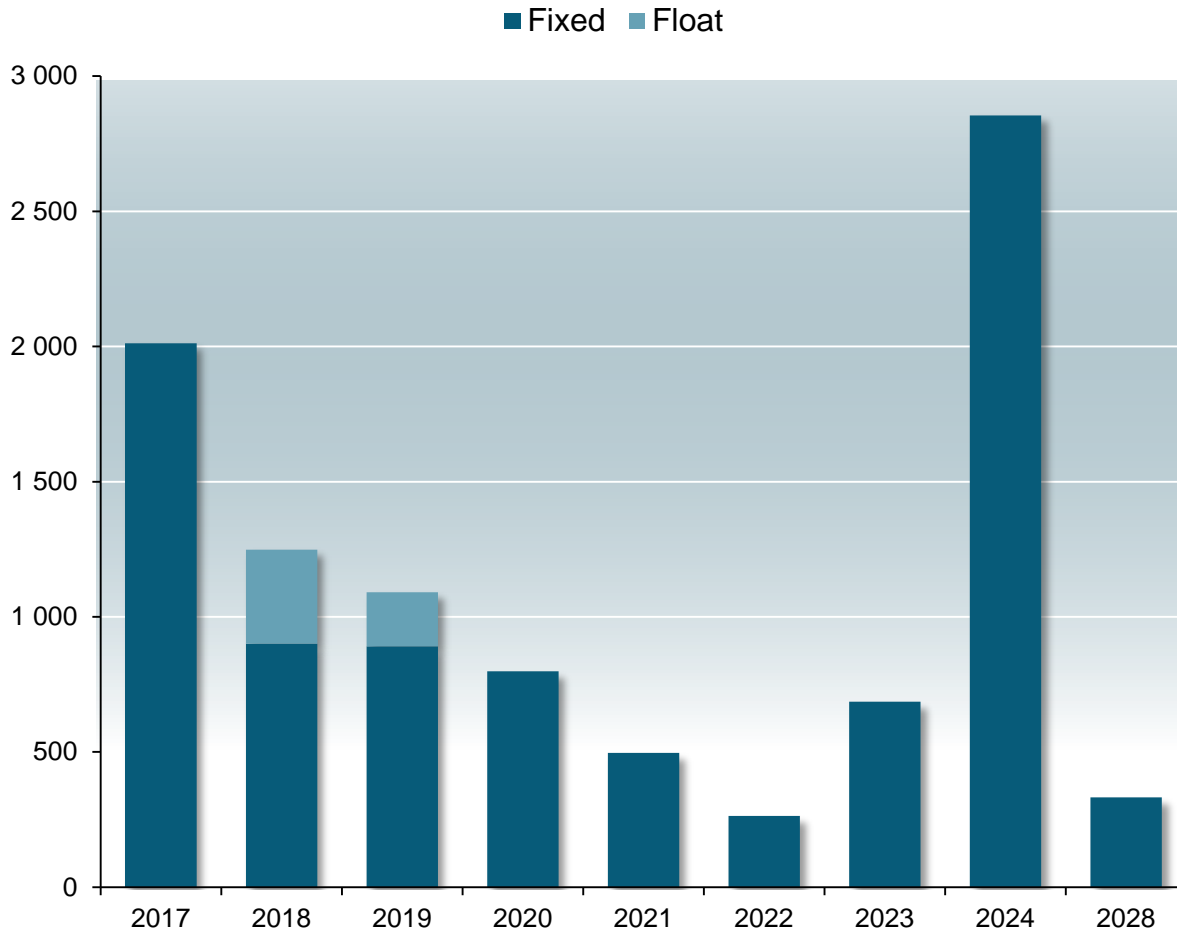
## ○ Financing and liquidity

- Cash and cash equivalents per March 31 amounted to 4,777 MSEK (3,364).
  - Impacted by STG partial divestment proceeds as well as proceeds from earlier sale of land parcel.
- Net debt/EBITA\* per March 31 was at 1.6 compared to 2.0 at December 31, 2016.

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

# MATURITY PROFILE OF INTEREST BEARING LIABILITIES

## Debt as of March 31, 2017





# Financials



# SALES AND OPERATING PROFIT

## Sales and operating profit by product area

Q1 2017

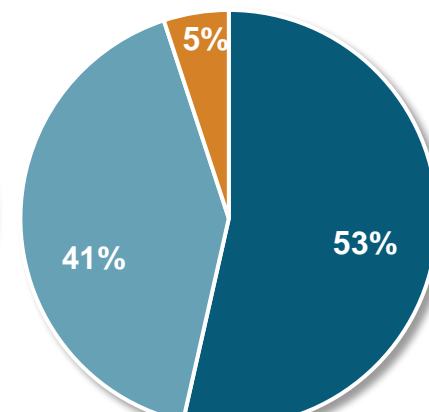
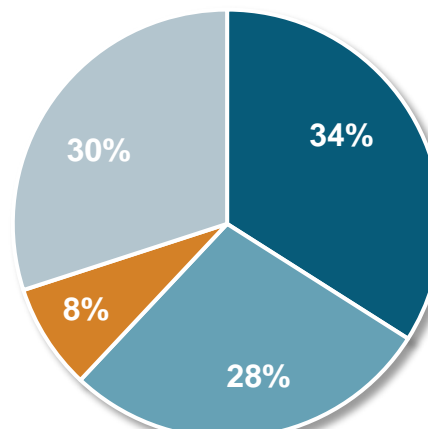
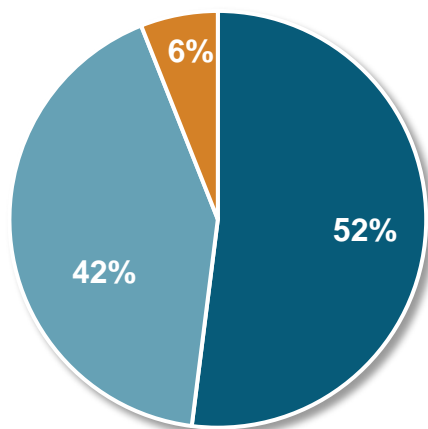
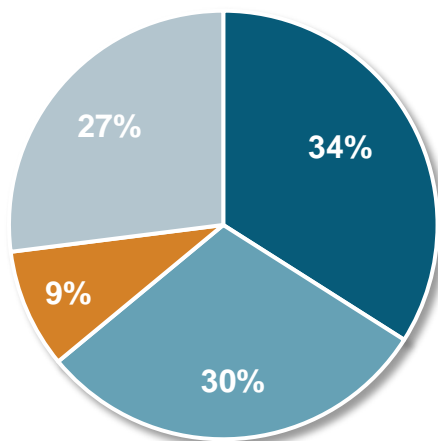
Full year 2016

Sales, SEK

Operating profit\*, SEK

Sales, SEK

Operating profit\*, SEK



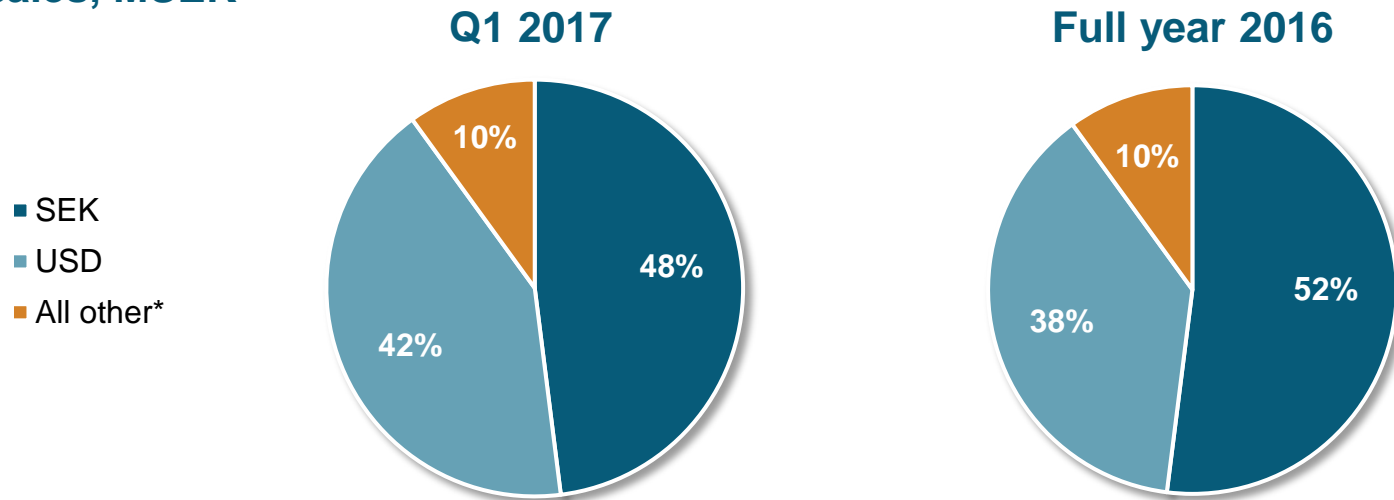
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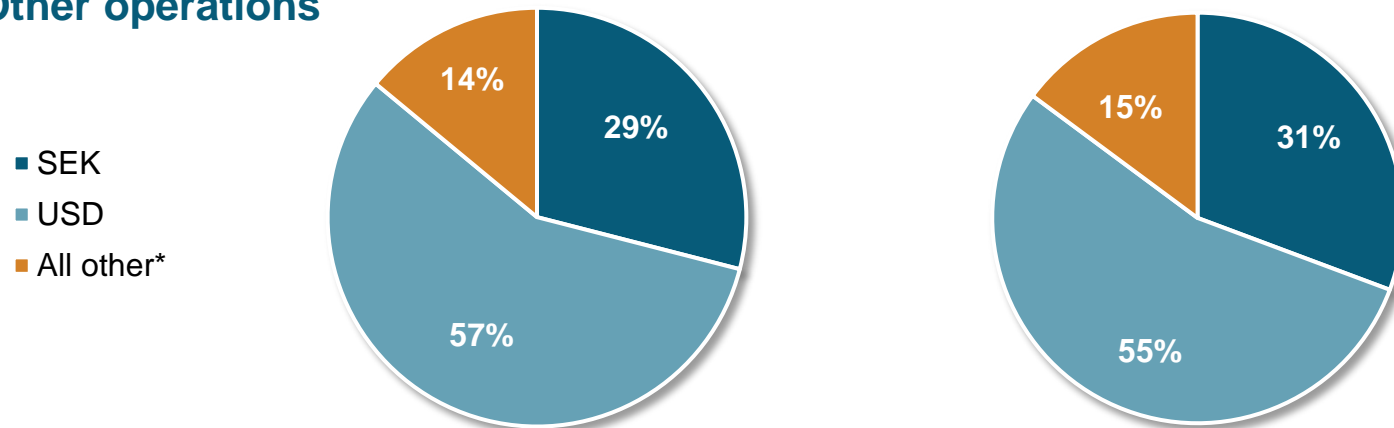
\* Excluding Other operations, share of net profit in STG. Totals may not add up due to rounding.

# SALES BY CURRENCY BLOCK

## Percent of sales, MSEK



## Excluding Other operations



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

# P&L IN SUMMARY

MSEK	Q1-2017	Q1-2016	Chg %	April 2016- March 2017	Full year 2016	Chg %
<b>Sales</b>	<b>3,775</b>	<b>3,557</b>	<b>6</b>	<b>15,769</b>	<b>15,551</b>	<b>1</b>
Cost of goods sold	-1,995	-1,872		-8,449	-8,325	
<b>Gross profit</b>	<b>1,780</b>	<b>1,685</b>	<b>6</b>	<b>7,320</b>	<b>7,226</b>	<b>1</b>
Selling and administrative expenses	-791	-745		-3,285	-3,240	
Share of profit/loss in associated companies*	5	66		118	180	
Sale of STG shares	131	560		779	1,208	
Gain on fair value of STG shares	-	-		902	902	
Sale of distribution facility	-	145		-	145	
Capital gain from sale of land	107	-		107	-	
<b>Operating profit</b>	<b>1,232</b>	<b>1,711</b>	<b>-28</b>	<b>5,941</b>	<b>6,420</b>	<b>-7</b>
Finance income	18	9		62	53	
Finance costs	-98	-116		-466	-484	
Net finance cost	-80	-107		-404	-431	
<b>Profit before income tax</b>	<b>1,153</b>	<b>1,604</b>	<b>-28</b>	<b>5,537</b>	<b>5,988</b>	<b>-8</b>
Income tax expense	-223	-200		-888	-865	
<b>Profit for the period</b>	<b>930</b>	<b>1,404</b>	<b>-34</b>	<b>4,649</b>	<b>5,123</b>	<b>-9</b>
Earnings per share, SEK	5.06	7.44		25.01	27.38	
Earnings per share, excl. STG, SEK	5.06	7.09		24.43	26.44	
Earnings per share, excl. STG, adjusted, SEK*	3.76	3.35		14.81	14.39	

\* For full detail, please refer to notes in the January-March 2017 report.

# BALANCE SHEET IN SUMMARY

MSEK	March 31, 2017	December 31, 2016
Intangible assets	1,235	1,250
Property, plant and equipment	2,536	2,543
Investments in associated companies	127	122
Other non-current assets and operating receivables	23	23
Other non-current financial assets and receivables*	3,076	4,450
Other current financial receivables*	228	251
Current operating assets and receivables	3,243	3,333
Cash and cash equivalents	4,777	3,364
<b>Total assets</b>	<b>15,245</b>	<b>15,335</b>
Equity attributable to equity holders of the Parent	-1,350	-1,366
Non-controlling interests	1	1
<b>Total equity</b>	<b>-1,349</b>	<b>-1,365</b>
Non-current financial provisions	1,168	1,168
Non-current loans	7,659	8,169
Other non-current financial liabilities*	1,586	1,613
Other non-current operating liabilities	360	369
Current loans	2,584	2,047
Other current financial liabilities*	397	321
Other current operating liabilities	2,841	3,013
<b>Total equity and liabilities</b>	<b>15,245</b>	<b>15,335</b>

\* For full detail, please refer to notes in the January-March 2017 report.

# CASH FLOW IN SUMMARY

MSEK	Jan-Mar 2017	Jan-Mar 2016
<b>Cash flow from operating activities before changes in working capital</b>	<b>926</b>	<b>975</b>
Changes in working capital	-100	-182
<b>Net cash generated from operating activities</b>	<b>826</b>	<b>792</b>
Purchase of property, plant and equipment*	-83	-81
Proceeds from sale of property, plant and equipment	-	145
Purchase of intangible assets	-4	-121
Proceeds from sale of land*	107	-
Divestments in associated companies*	1,355	2,172
Investments in associated companies*	-	-5
Changes in financial receivables etc.	0	0
<b>Net cash from investing activities</b>	<b>1,375</b>	<b>2,110</b>
Changes in loans	-2	134
Repurchase of own shares	-739	-199
Other	-83	-78
<b>Net cash used in financing activities</b>	<b>-824</b>	<b>-143</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,377</b>	<b>2,759</b>
Cash and cash equivalents at the beginning of the period	3,364	1,732
Effect of exchange rate fluctuations on cash and cash equivalents	36	-50
<b>Cash and cash equivalents at the end of the period</b>	<b>4,777</b>	<b>4,441</b>

\* For full detail, please refer to notes in the January-March 2017 report.



# KEY RATIOS

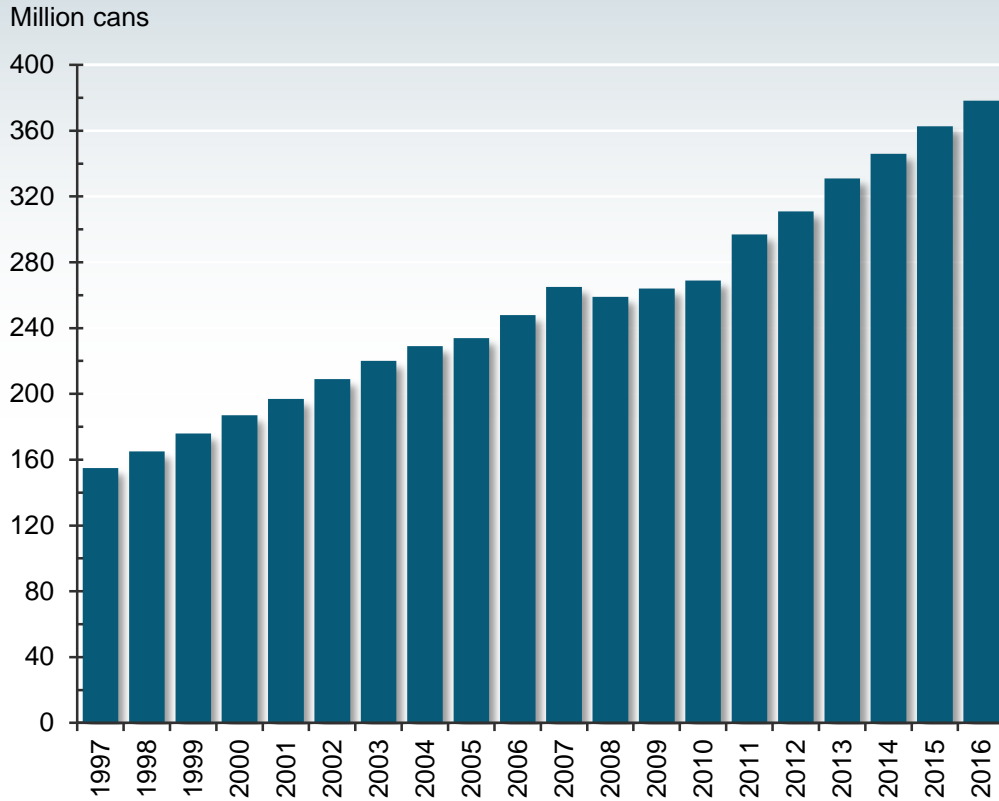
MSEK	Jan-Mar 2017	Jan-Mar 2016
Operating margin from product areas, %	26.3	26.4
Operating capital, MSEK*	3,963	3,544
Return on operating capital, %* (12 months ended March 31, 2017)	107.7	
Net debt, MSEK	6,422	5,522
Investments in property, plant and equipment, MSEK*	83	81
EBITA from product areas, MSEK	1,009	950
EBITA interest cover*	13.0	9.5
Net debt/EBITA from product areas (12 months ended March 31, 2017)	1.6	
<b>Share data</b>		
Shares outstanding, end of period (Mio)	182.1	188.2
Average number of shares outstanding (Mio)	183.7	188.6

\* For full detail, please refer to notes in the January-March 2017 report.

## Further information



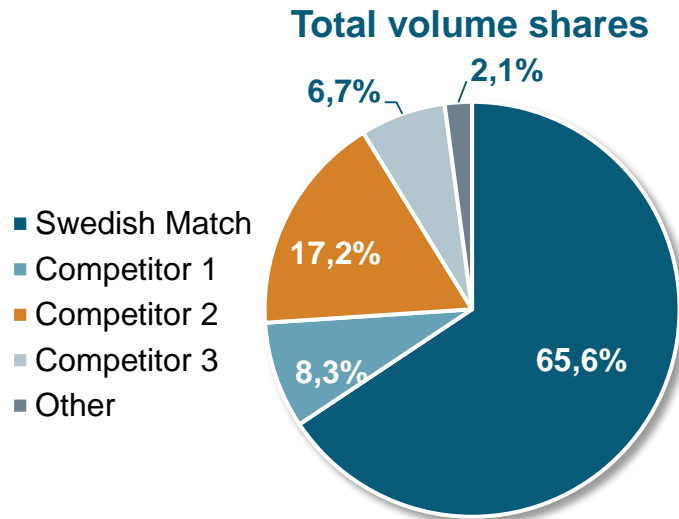
# ESTIMATED SNUS CONSUMPTION IN SCANDINAVIA



Source: Swedish Match estimates, adjusted for hoarding in Sweden.



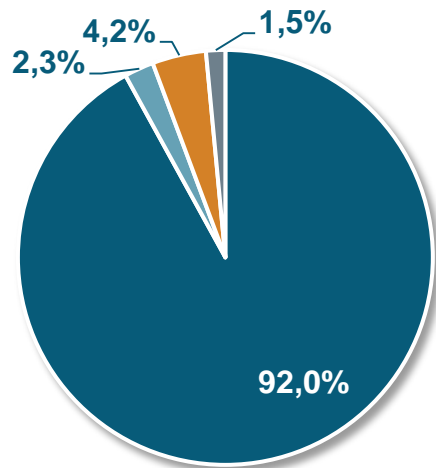
# MANUFACTURER SHARE BY PRICE SEGMENT, SWEDEN



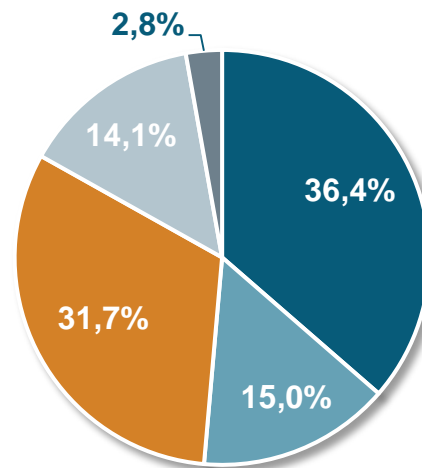
**April 2, 2017  
(4 weeks ending),  
Swedish Match share of:**

Premium segment: 92.0%  
Value segment: 36.5%  
Total market: 65.7%

**Share of premium segment**



**Share of value segment**



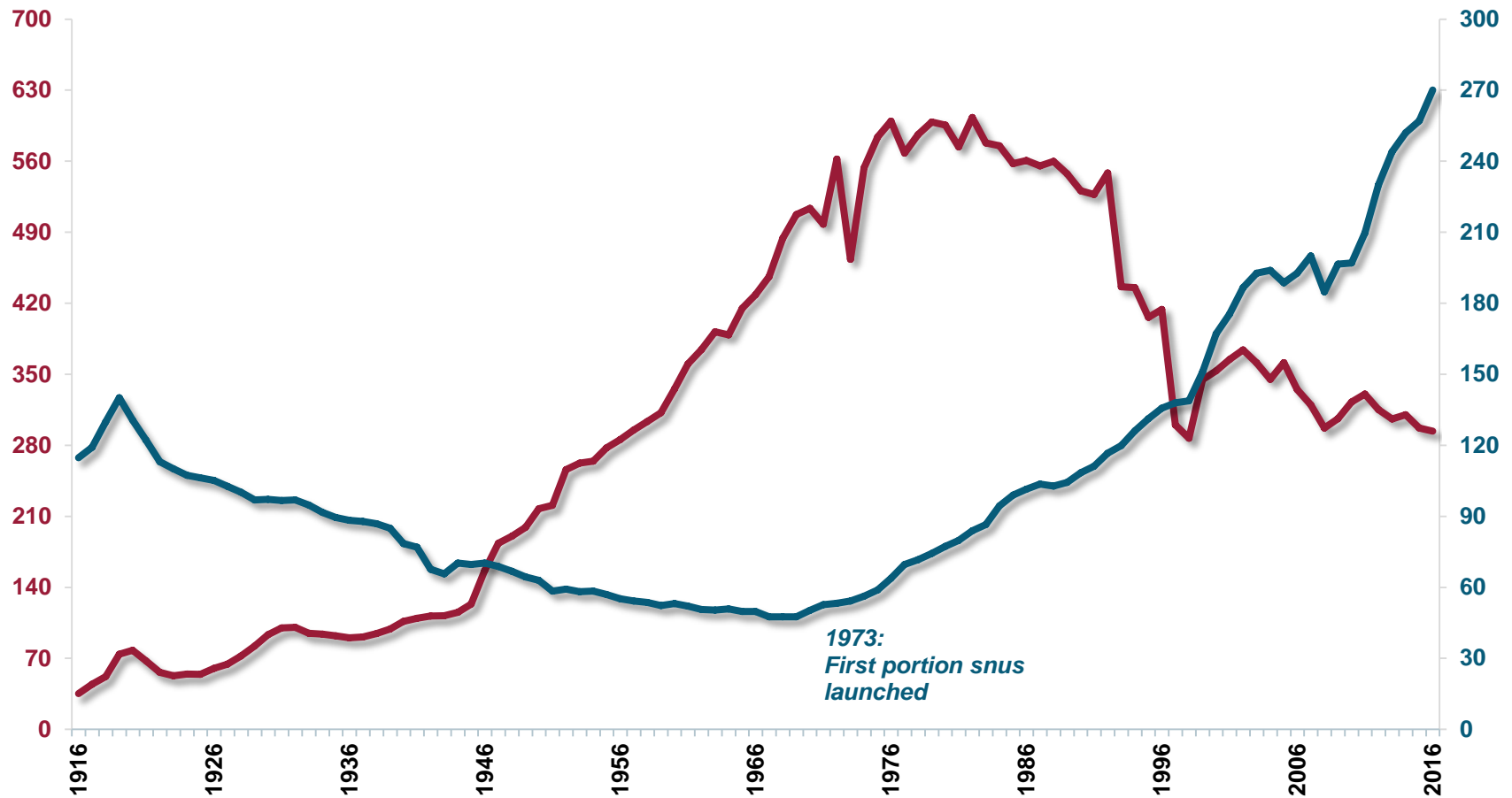
Source: Swedish Match estimates based on Nielsen (excluding tobaccoconists), 13 weeks to April 2, 2017.  
All figures for the Swedish market have been restated to reflect changes in Nielsen store measurement.

# COMPETING WITH CIGARETTES IS NOT NEW TO SWEDISH MATCH

## Volume development for cigarettes and snus in Sweden since 1916

**Cigarettes**  
(million packs)

**Snus**  
(million cans)

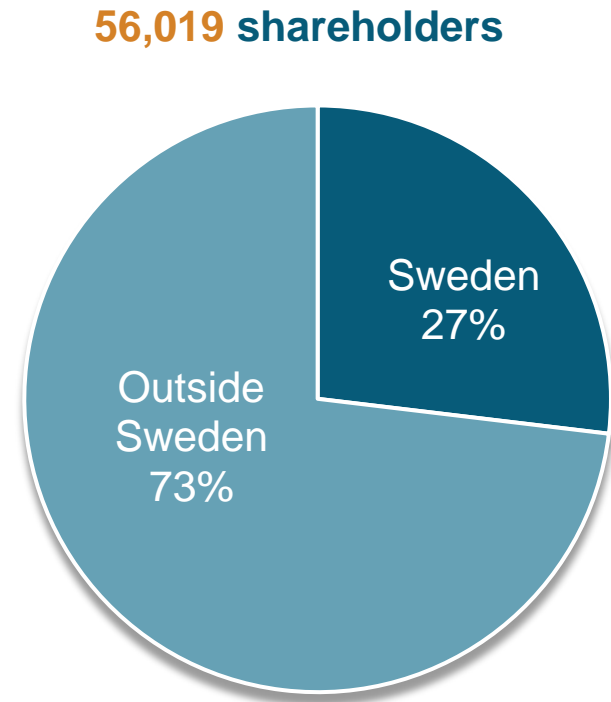


Source: Swedish Match estimates.

# LARGEST SHAREHOLDERS

As of March 31, 2017

10 largest shareholders	
BlackRock	5.5%
Standard Life Investment Funds	4.2%
Oppenheimer	3.5%
AMF Insurance & Funds	2.6%
Gabelli/GAMCO	2.4%
Vanguard Funds	2.4%
Nordea Funds	2.3%
First Swedish National Pension Fund	2.0%
Invesco Funds	1.8%
Second Swedish National Pension Fund	1.6%
	28.4%



Source: Modular Finance AB, data derived from Euroclear Sweden AB, Morningstar and Finansinspektionen (Swedish FSA). Percent split of share capital held, excluding Swedish Match shares held in treasury. Totals may be affected by rounding.

## OTHER EVENTS

### ○ **Divestments of shares in STG**

- On January 19, 2017, Swedish Match divested 9 million shares in STG at a price of 118 DKK per share. Swedish Match's proceeds, net of transaction costs, from this divestment amounted to 1,355 MSEK. Following the transaction, Swedish Match owns 9,069,906 shares, corresponding to 9.1 percent of the total number of shares in STG. The tax exempt capital gain from the January divestment amounted to 131 MSEK and equaled the difference between the price at divestment and the market value at reclassification in September 2016, less transaction costs, and has been recognized as a larger one-time item in the first quarter.

### ○ **Proceeds and capital gain from sale of land**

- 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 approval of a changed city plan. This approval was received in January 2017, and Swedish Match received an additional payment of 107 MSEK in the first quarter.

### ○ **Ruling by the Swedish Patent and Market Court**

- On February 8, 2017, the Swedish Patent and Market Court ruled that a uniform labelling system implemented for Swedish Match's and other manufacturers' products in Swedish Match's own snus coolers during parts of 2012 and 2013 was in breach of competition legislation. The court imposed a fine of approximately 38 MSEK plus legal fees. Swedish Match intends to appeal the decision and no provision has been made for any fine.



## ANNUAL GENERAL MEETING (MAY 4, 2017)

- Re-election of Charles A. Blixt, Andrew Cripps, Jacqueline Hoogerbrugge, Conny Karlsson, Wenche Rolfsen and Joakim Westh as members of Swedish Match's Board of Directors and Pauline Lindwall was elected as new member of the Board. Conny Karlsson was re-elected Chairman of the Board and Andrew Cripps was re-elected Deputy Chairman of the Board.
- An ordinary dividend of 8.50 SEK per share and a special dividend of 7.50 SEK per share, in total 16.00 SEK per share.
- Mandate to repurchase up to 10 percent of all shares in the Company.
- Withdrawal of 6,950,000 repurchased company shares with a simultaneous bonus issue without issuing any new shares.
- Mandate to resolve on transfer of shares in the Company and to issue new shares.
- Election of Deloitte AB as auditor.

## OUTLOOK STATEMENT

For 2017, on a full year basis, we expect Scandinavian snus as well as US moist snuff consumption to grow as measured in number of cans. In Scandinavia, we expect the growth to be more modest than in 2016. We expect the level of competitive activity in the Scandinavian snus market to continue to be high in 2017.

For cigars in the US, Swedish Match expects the market to continue to grow in 2017 but to remain highly competitive. Swedish Match has the ambition to continue to grow cigar volumes in the US market in 2017. Costs of goods per cigar are expected to increase due to both the full year effect of FDA fees as well as higher raw material costs. We expect the US chewing tobacco market to continue to decline.

Swedish Match will continue to invest in growth for snus and nicotine pouches outside Scandinavia in 2017. We expect continued growth in volumes and sales. Market related costs are expected to increase somewhat primarily related to the expansion of ZYN in the US market. Operating loss for snus and nicotine pouches outside Scandinavia is expected to be broadly in line with 2016.

The effective corporate tax rate in 2017, excluding associated companies and non-taxable larger one-time items, is expected to be similar to 2016, assuming no changes to current tax regimes. There are currently general expectations that there will be a US corporate income tax reform. Due to the uncertain outcome and structure of such reform, Swedish Match makes no projections to whether the impact would be positive or negative for the Company.

The Company remains committed to returning cash not needed in operations to shareholders.