

# Q1

## INVESTOR KIT

JANUARY-MARCH 2011

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**SWEDISH MATCH**



# Swedish Match reporting segments

Reporting segments following the transaction with STG on October 1, 2010

- **Snus and snuff**
  - Swedish snus in Scandinavia and US
  - US moist snuff
  - Income from SMPM International
- **Other tobacco products (OTP)**
  - US mass market cigars
  - Chewing tobacco
- **Lights**
  - Lighters
  - Matches
  - Fire related products
- **Other operations**
  - Distribution
  - Central costs



# Comparable sales and operating profit

## Comparable sales and operating profit by product area

Q1 2011

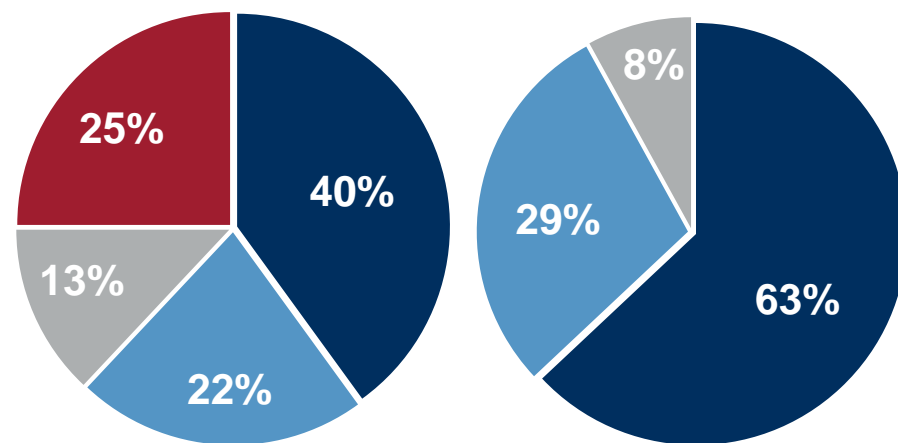
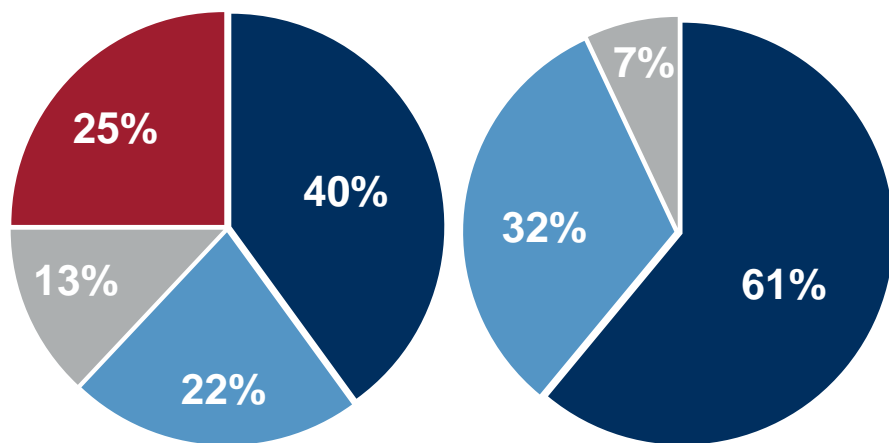
Full year 2010\*

Sales, SEK

Operating profit\*\*, SEK

Sales, SEK

Operating profit\*\*, SEK



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

- Snus and snuff
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- Lights
- Other operations

\* Excludes businesses transferred to STG, share of net loss from STG (loss of 60 MSEK in 2010) and larger one time items.

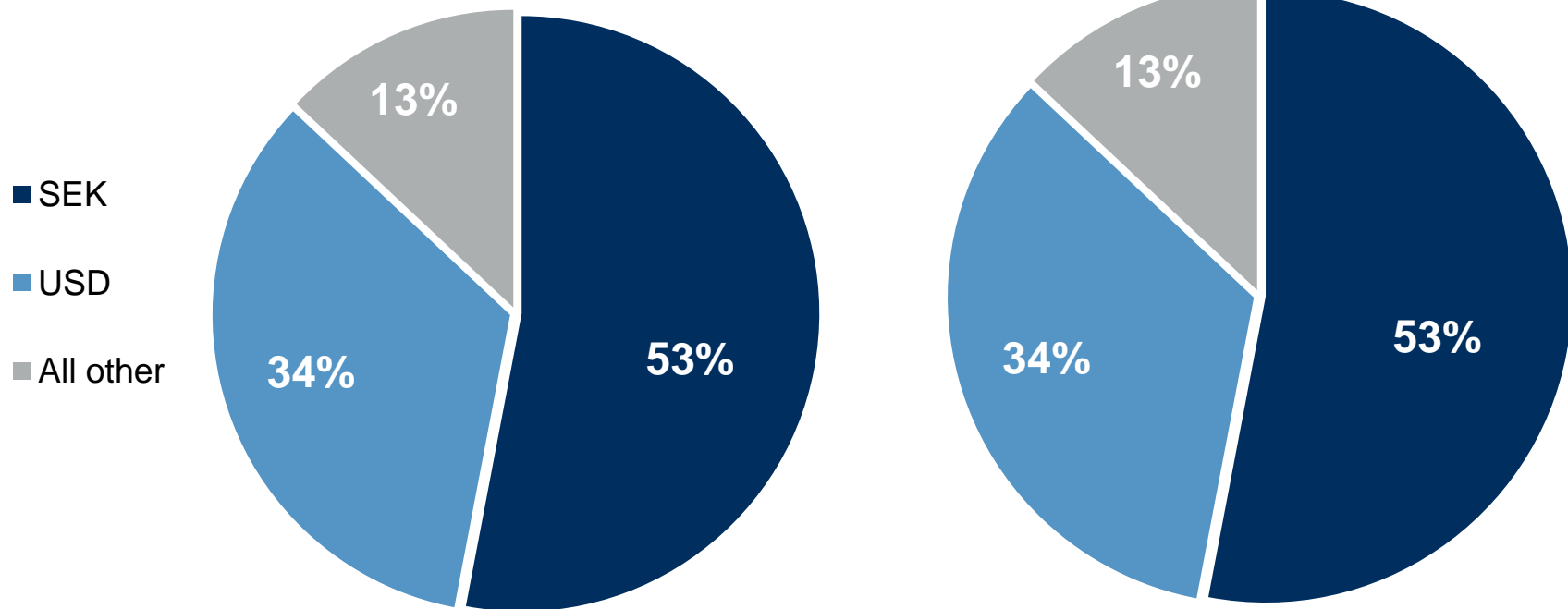
\*\* Excluding Other operations and share of net profit/loss from STG.

# Sales by currency block

Percent of sales, MSEK

Q1 2011

Full year 2010\*



\* Comparable sales from continuing operations, excluding businesses transferred to STG.

# Group results - first quarter 2011

- **Comparable sales** amounted to **2,646 MSEK (2,608)**
  - ↪ In local currency, sales increased by 6 percent
- **Comparable operating profit** amounted to **729 MSEK (655)**
  - ↪ Comparable operating profit increased by 17 percent in local currencies
  - ↪ Operating profit was 793 MSEK (755) including businesses transferred to STG, share of net profit from STG, and larger one time items\*
- **Profit before income tax** amounted to **665 MSEK (649)**
- **Profit for the period** amounted to **533 MSEK (519)**
- **EPS (basic)** was **2.50 SEK (2.26)**

\* Larger one time items include and reversals of amortizations and depreciations relating to assets held for sale in 2010.

# Conclusions from the first quarter – sales

- **Sales\*** up 6% in local currencies, up 1% in SEK
- **Scandinavian snus** sales up 6%, volumes up marginally versus prior year
  - Volumes up more than 2%, when backing out Easter/trade loading effects
- **US snuff** sales up 3% in USD, on slightly higher volume
  - Mix effects on sales from a larger proportion of Longhorn volume
- **US chewing tobacco** sales down 1% in USD, down 11% in SEK
  - Volume declines offset by improved pricing
- **US mass market cigar sales** were up 22% in local currencies
  - US mass market cigar volumes up 46% led by growth in smaller cigars
- **Lights** sales up 1% in local currencies

\* Comparable sales from continuing operations, excluding businesses transferred to STG.

# Conclusions from the first quarter – op. profit

- **Operating profit\* up 17% in local currencies, up 11% in SEK**
  - Snus/Snuff operating margin was 44.0%, vs. 41.2% previous year
    - List price increases in the US on May 25, 2010 (6.7%), and in Sweden on June 7, 2010 (approximately 4%)
    - Lower marketing spending in the US versus prior year for traditional moist snuff products, partially offset by higher spending behind General snus
  - Operating profit for Other tobacco products up 32% in local currency, up 10% in SEK
    - Cigar operating profit increased significantly in local currency with continued solid underlying performance for US mass market cigars
    - Operating profit for chewing tobacco was also higher in local currency
  - Operating profit for Lights down 11%, down 7% in local currencies

\* Comparable operating profit, which in 2010 excludes businesses transferred to STG, share of net loss from STG, and larger one time items.

# Other items

- **Tax rate for the Group was 19.9% for the first quarter**
  - Includes profit and loss impact from associated companies
  - Underlying tax rate was 22%
- **Solid cash position and limited debt repayments during 2011**
  - Cash and cash equivalents are 2,295 MSEK vs. 3,275 MSEK as of December 31, 2010
  - 307 MSEK of interest bearing debt remains to be paid in 2011
- **Share repurchases during the first quarter amounted to 5.9 million shares**
- **18 million shares to be cancelled, with total registered shares standing at 213.0 million**



# Nielsen snus/moist snuff consumption data\*

- **Swedish Match total value market share Feb/Mar in Sweden was 87.7%**
  - 88.1% in Dec/Jan 2010/2011 (88.1% in Feb/Mar 2010)
- **Swedish Match total volume market share Feb/Mar in Sweden was 85.6%**
  - 85.8% in Dec/Jan 2010/2011 (85.8% in Feb/Mar 2010)
- **Low price segment is 25.1% in Feb/Mar of Swedish market**
  - 25.2% in Dec/Jan 2010/2011 (24.4% in Feb/Mar 2010)
- **Swedish Match share Feb/Mar of low price segment in Sweden was 52.1%**
  - 52.9% in Dec/Jan 2010/2011 (51.9% in Feb/Mar 2010)
- **US snuff market up 7.8% for the YTD ending April 16, 2011**
  - Nielsen 4 weeks consumption up 5.1% through April 16
  - Swedish Match consumption volume down 0.9% YTD ending April 16, down 4.4% 4 weeks to April 16
- **Swedish Match market shares in the US**
  - YTD ending April 16 was 11.5% vs. 12.5% YTD 2010
  - 4 weeks to April 16 Swedish Match share was 11.3%



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

# Other items

- **Annual General Meeting**
  - Shareholders approved a dividend increase to 5.50 SEK per share
  - Shareholders approved that 18 million shares be cancelled
  - Shareholders approved authorization to buy shares to be held in treasury, up to a level not exceeding 10 percent of outstanding shares
  - Robert F. Sharpe and Joakim Westh elected as new members of the Board of Directors



# Financial policy and financing needs

## ■ Financial policy

- Dividend policy: 40 - 60% of earnings per share
  - 2010 dividend of 5.50 SEK per share, an increase of 16% from the 2009 level of 4.75 SEK/share
- Net debt not to exceed 3 times EBITA

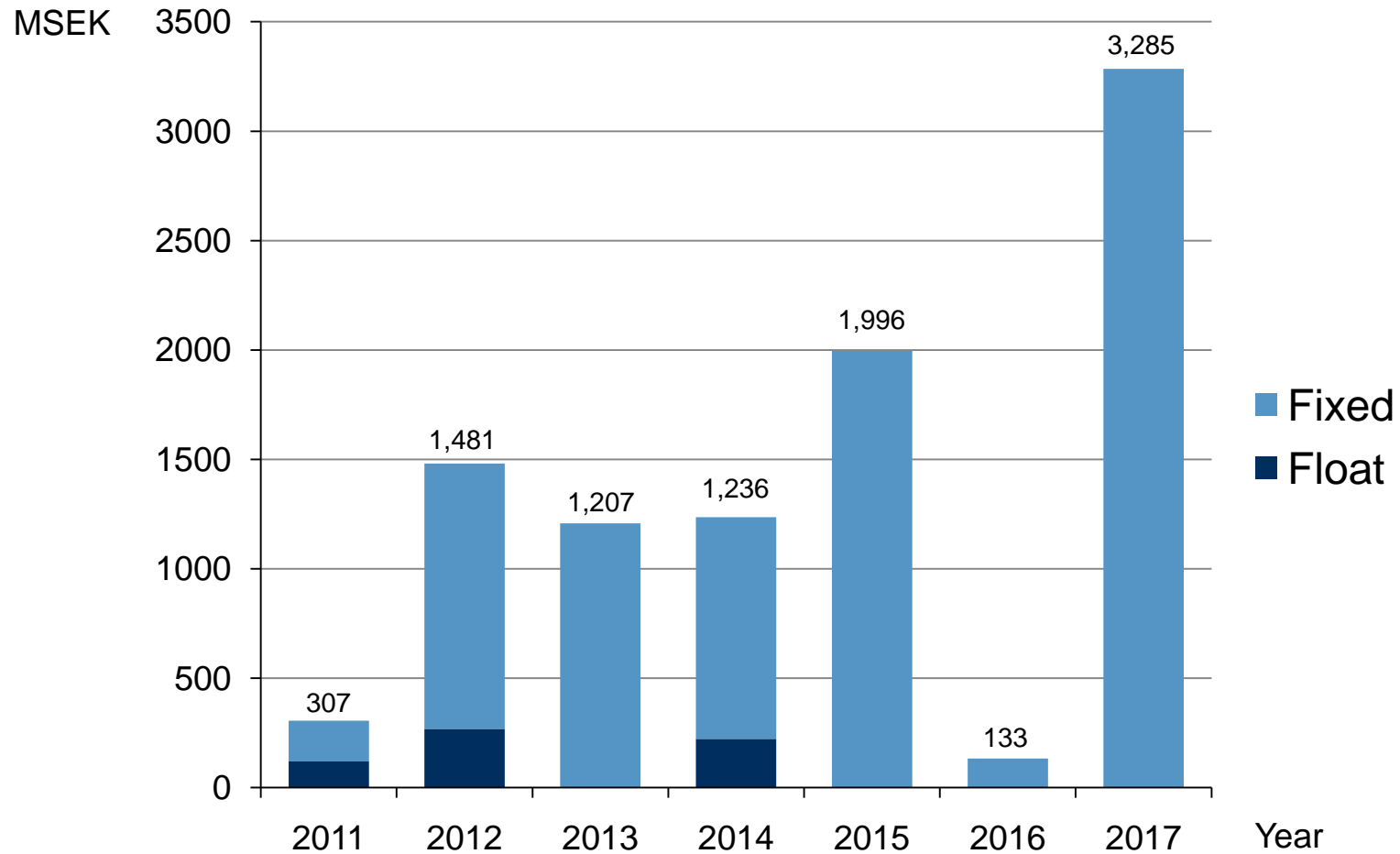
## ■ Financing and cash flow

- Cash flow from operating activities for first quarter amounted to 523 MSEK (344) with increase due primarily to lower taxes paid and improved cash flow from changes in working capital
- Net finance cost increased to 128 MSEK (106), with the higher finance cost due to a higher net debt and higher interest rates
- Net debt/EBITA\* was 2.5

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

# Maturity profile of interest bearing liabilities\*

As of March 31, 2011



\* Includes Swedish (SEK) and Global (EUR) MTN programs.

# Snus and snuff

- Leading position in **Scandinavia**
- The third largest producer of moist snuff in **the US**
- Production in **Sweden** and **the US**
- **Joint venture with Philip Morris International** for markets outside Scandinavia and US



# Snus and snuff

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

- Scandinavia snus sales up 6% in Q1
  - Scandinavian volumes up marginally in Q1
  - Volumes up more than 2% when backing out Easter/trade loading effects
- US sales up 3% in USD
  - US volumes slightly higher than prior year
  - Swedish Match consumption volume down 0.9% YTD April 16, and down 4.4% for four weeks to April 16 (Nielsen)
- Q1 margins above year earlier levels
  - Higher margins in Scandinavia
  - Higher US margins due to phased timing of promotions, lack of NASCAR spending, partially offset by increased General snus investments
  - Price increases in the US (May 25, 2010 of 6.7%) and Sweden (June 7, 2010 of approximately 4% list)

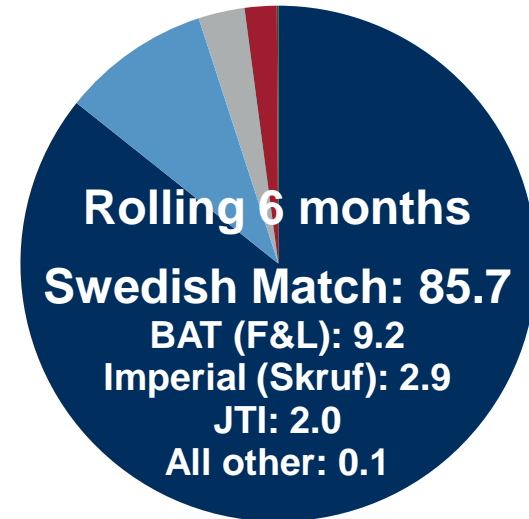


MSEK	Q1-2011	Q1-2010	chg	April 2010 – March 2011	Full year 2010	chg
Sales	1,068	1,054	1	4,536	4,522	0
Operating profit	469	434	8	2,115	2,080	2
Operating margin, %	44.0	41.2		46.6	46.0	



# Swedish snus market shares

Volume share in Sweden, rolling 6 months through March 2011

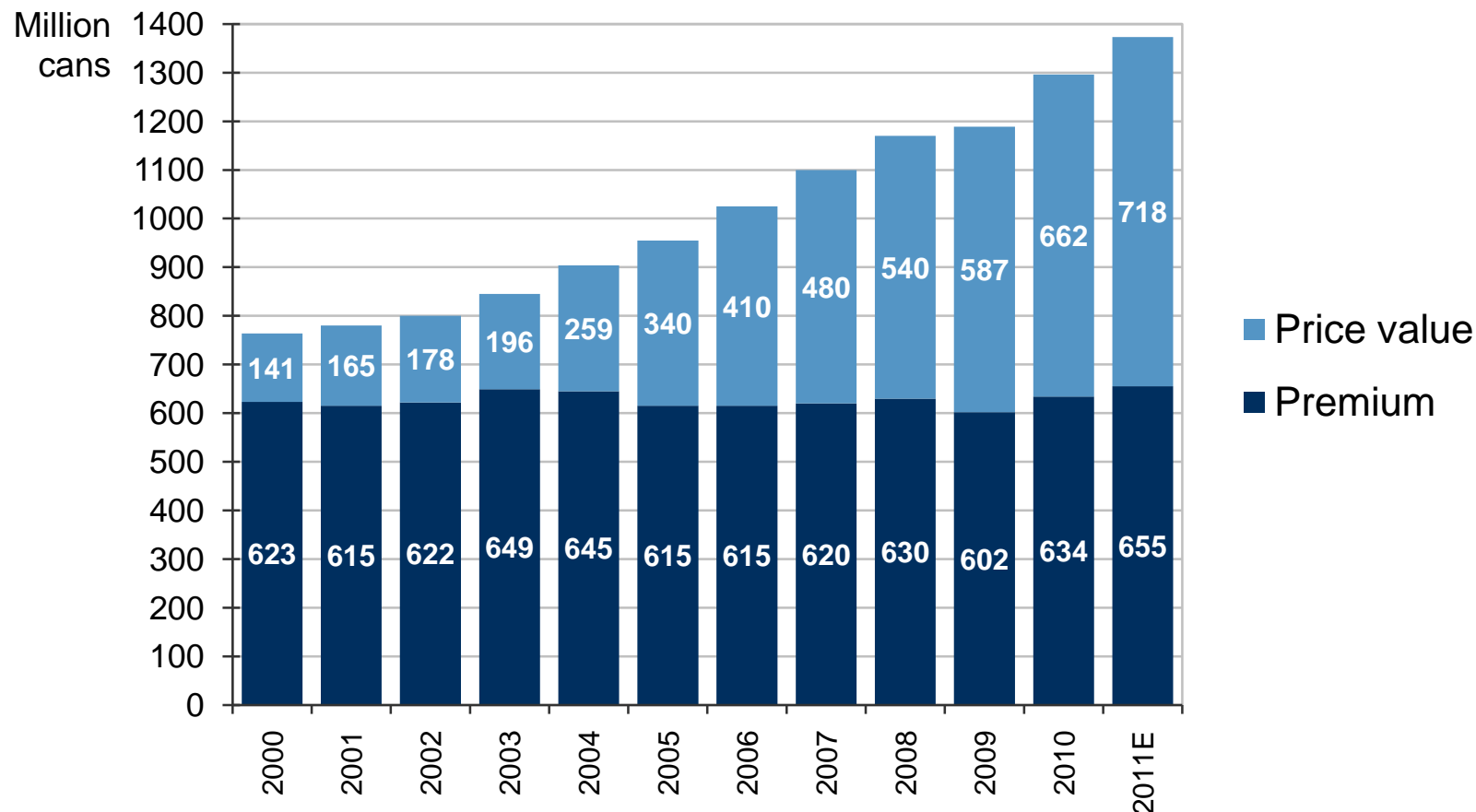


2 months Feb/Mar	value share	volume share
<b>Swedish Match</b>	<b>87.7</b>	<b>85.6</b>
BAT (F&L)	7.9	9.0
Imperial (Skruf)	2.6	3.1
JTI	1.6	2.0
All other	0.2	0.3

Source: Nielsen. Totals may not add to 100% due to rounding.

# Volume growth of moist snuff in the US

## US snuff market by segment

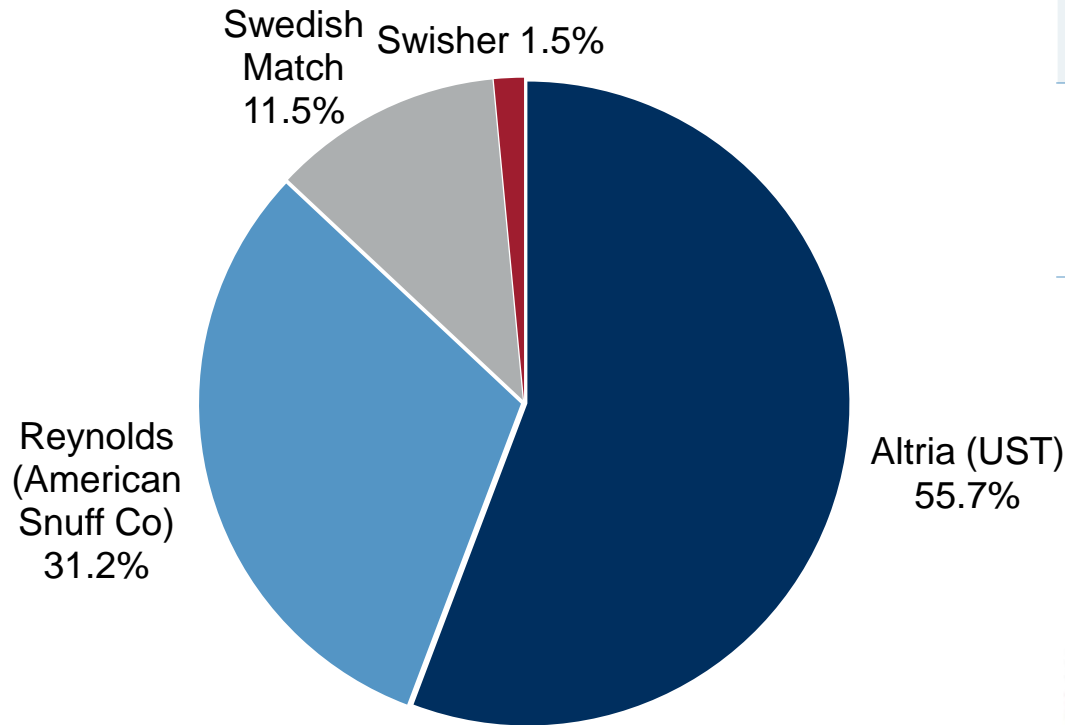


Market size estimated by Swedish Match using Nielsen estimates as well as industry data and estimates. Note that the value segment includes competitive “premium brand” line extensions launched at price value level.



# US moist snuff market shares

Volume share US, YTD April 16



4 weeks to April 16	volume share
Altria	55.6
Reynolds	31.5
<b>Swedish Match</b>	<b>11.3</b>
Swisher	1.5



Source: Nielsen. Totals may not add to 100% due to rounding.

# General snus

## General snus in the US

- *General* snus now in approximately 1,300 stores in the US
  - Available in Original, Wintergreen, and Mint
  - Good sell-through/rotation in stores
  - Distribution expansion continues

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

- Test launch of *General* in Taiwan started in September 2010
  - Available in Original and Mint
- Test launch of *General* in Canada started in December 2010
  - Available in Original, Mint, and Smooth
  - Early feedback positive, expanding store count in test launch



# Other tobacco products

## US mass market cigars

- Swedish Match is a major player in the US mass market cigar market
- Production takes place in Santiago, Dominican Republic and Dothan, Alabama

## Chewing tobacco

- Nearly all chewing tobacco sales are in the US. Swedish Match is the largest producer and production takes place in Owensboro, Kentucky
- The market typically declines by 5-10% per year in volume, down 8.5% YTD to April 16, 2011 (Nielsen)



# Other tobacco products

## First quarter sales up 10% in local currency vs. previous year

- Sales and operating profit growth in local currency driven by increased volume of US mass market cigars (volumes up 46% in Q1)
- In local currency, Q1 sales up 10% and operating profit up 32%
- Second quarter a more difficult comparison period (initial launch of White Owl Sweet cigarillos and significant pipeline volume in the prior year quarter)
- Chewing tobacco sales down 1% in Q1 in local currency, operating profit was higher due to improved pricing



MSEK	Q1-2011	Q1-2010	chg	April 2010 – March 2011	Full year 2010	chg
Sales	583	588	-1	2,435	2,440	0
Operating profit	245	204	20	982	942	4
Operating margin, %	41.9	34.7		40.3	38.6	

# Other tobacco products

## US mass market cigars

- US mass market sales show strong growth
  - Q1 sales increased 22% in local currency compared to previous year. Operating profit up significantly
  - Market share YTD is 6.8% vs. 5.1% year ago; Excluding little cigars, market share is 13.4% YTD, vs. 10.6% year ago (Nielsen April 16)
- Continued success for FoilFresh™ cigars and successful introduction of new line of White Owl Sweets
- Price increase of approximately 5% at the end of 2010

## Chewing tobacco

- Continued market decline
  - 2011 category down 8.5%, in line with previous trends (Nielsen YTD April 16)
  - Swedish Match brands down 7.5% according to Nielsen
- Q1 shipment volume declines modest, indicating Nielsen may not be fully reflecting market dynamics
- Price increase of 5% in November/December 2010

# Lights

## Q1 sales up 1%, operating profit down 7% in local currencies

- Swedish Match is market leader in many markets. The brands are mostly local and hold a strong position in their respective markets
- Main markets are [Australia](#), [Europe](#), [Latin America](#) and [Russia](#)
- Production in [Brazil](#), [Bulgaria](#), the [Netherlands](#), the [Philippines](#) and [Sweden](#)
- Lighter sales and operating profit up
- Matches sales and operating profit down on lower volumes and higher production costs



MSEK	Q1-2011	Q1-2010	chg	April 2010 – March 2011	Full year 2010	chg
Sales	336	351	-4	1,415	1,429	-1
Operating profit	58	66	-11	271	279	-3
Operating margin, %	17.3	18.7		19.2	19.5	

# Scandinavian Tobacco Group (STG)

A leading, global company – with focus on cigars

- On October 1, 2010, Swedish Match and Scandinavian Tobacco Group formed a new company. Swedish Match owns 49 percent of the new STG
- Swedish Match share of STG net profit after interests and tax amounted to 65 MSEK in Q1
  - Swedish Match share of net profit includes restructuring charges of 5 MSEK
- Q1 total STG operating profit, excluding restructuring charges, increased by 18 percent vs. pro forma estimate of Q1 2010, to 167 MDKK. Result includes one month from Lane acquisition
  - Sales increased for premium cigars and for pipe/fine cut tobacco, while sales for machine made cigars declined modestly
- On March 1, 2011, STG acquired Lane Limited in the US from Reynolds American for 205 MUSD
  - Lane produces pipe tobacco, fine cut tobacco, and little cigars





# Group strategy

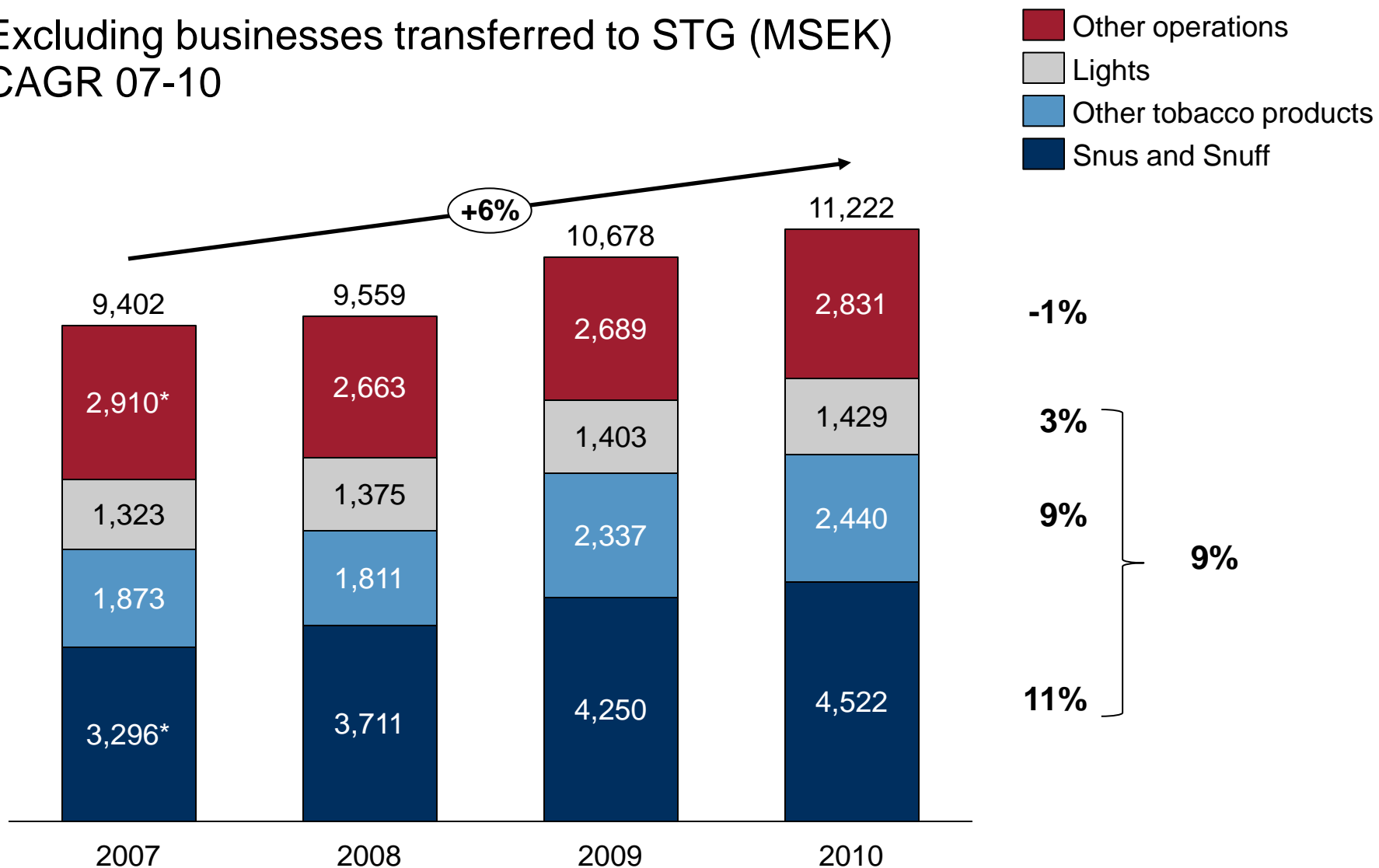
- Position the Company as the global smokefree leader
- Leverage strong platforms to maximize long term profitability in Other tobacco products
- Continue to focus on operational excellence and profitability in Lights
- Realize the potential of STG through active ownership





# Comparable sales

Excluding businesses transferred to STG (MSEK)  
CAGR 07-10

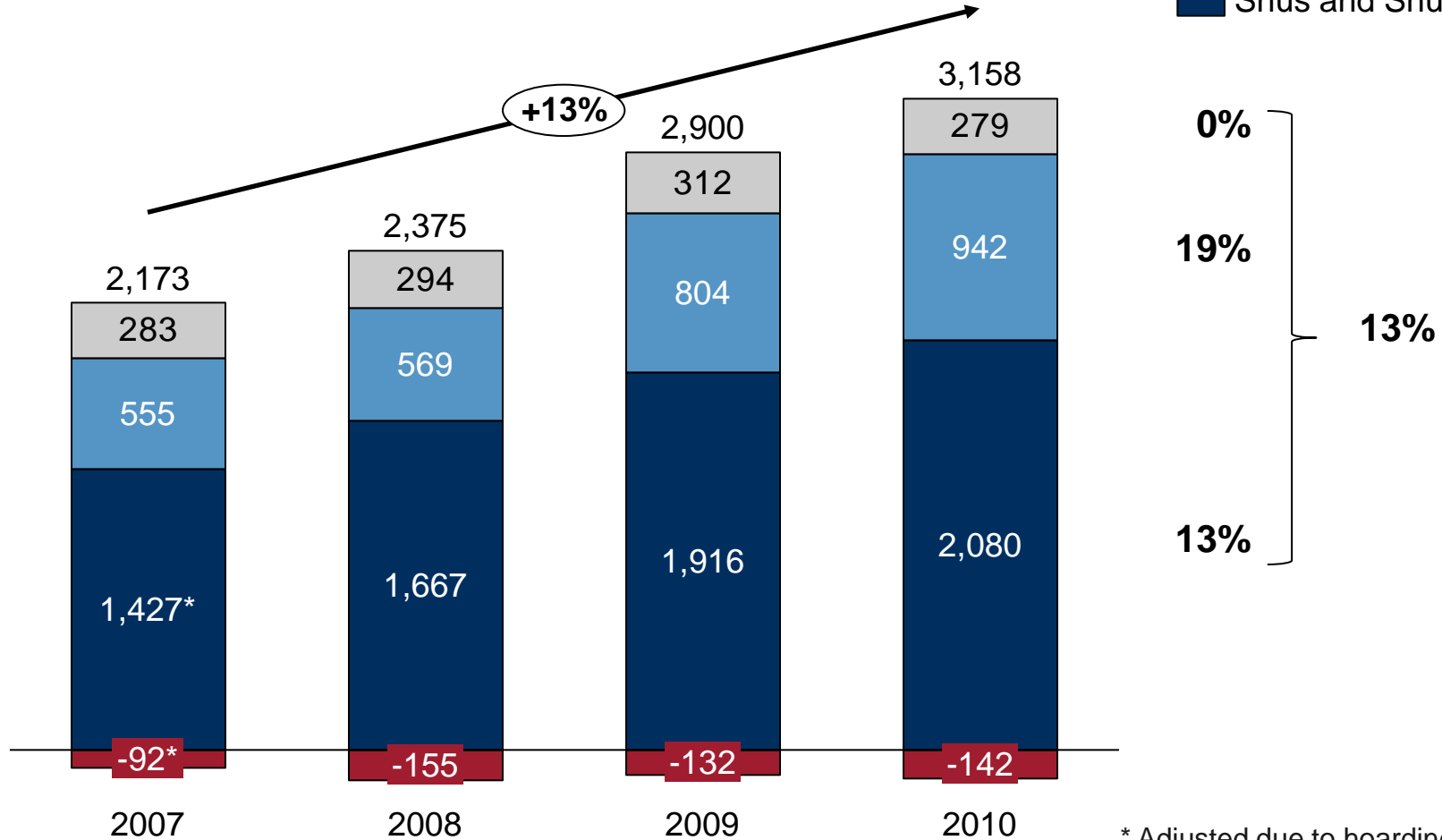


\* Adjusted due to hoarding in 2006.

# Comparable operating profit

Excluding businesses transferred to STG (MSEK)  
CAGR 07-10

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



\* Adjusted due to hoarding in 2006.

# P & L summary

MSEK	Q1-2011	Q1-2010	chg	April 2010 – March 2011	Full year 2010	chg
<b>Sales</b>	<b>2,646</b>	<b>3,282</b>	<b>-19</b>	<b>12,970</b>	<b>13,606</b>	<b>-5</b>
Cost of goods sold	-1,298	-1,624		-6,337	-6,662	
<b>Gross profit</b>	<b>1,348</b>	<b>1,658</b>	<b>-19</b>	<b>6,634</b>	<b>6,944</b>	<b>-4</b>
Selling and administrative expenses	-617	-902		-3,072	-3,356	
Share of profit/loss in associated companies and joint ventures	62	-2		2	-62	
Net gain from pension settlements	-	-		59	59	
Capital gain from transfer of businesses to STG	-	-		585	585	
<b>Operating profit</b>	<b>793</b>	<b>755</b>	<b>5</b>	<b>4,208</b>	<b>4,169</b>	<b>1</b>
Finance income	10	8		30	27	
Finance costs	-138	-115		-614	-590	
Net finance cost	-128	-106		-584	-562	
<b>Profit before income tax</b>	<b>665</b>	<b>649</b>	<b>3</b>	<b>3,624</b>	<b>3,607</b>	<b>0</b>
Income tax expense	-132	-130		-652	-649	
<b>Profit for the period</b>	<b>533</b>	<b>519</b>	<b>3</b>	<b>2,972</b>	<b>2,958</b>	<b>0</b>
EPS, basic, SEK	2.50	2.26		13.44	13.12	
EPS, diluted, SEK	2.49	2.25		13.39	13.09	

# Balance sheet in summary

MSEK	March 31, 2011	December 31, 2010
Intangible assets	973	1,027
Property, plant and equipment	2,052	2,097
Investments in associated companies and joint ventures	4,027	4,085
Other non-current financial receivables*	1,290	1,368
Current operating assets	2,766	2,886
Other current investments and current financial assets	1	1
Cash and cash equivalents	2,295	3,275
<b>Total assets</b>	<b>13,404</b>	<b>14,739</b>
Equity attributable to equity holders of the Parent	-1,349	-484
Non-controlling interests	2	2
<b>Total equity</b>	<b>-1,347</b>	<b>-482</b>
Non-current provisions	1,004	1,050
Non-current loans	8,232	9,209
Other non-current financial liabilities*	1,380	1,478
Current provisions	89	98
Current loans	1,216	525
Other current liabilities*	2,831	2,861
<b>Total equity and liabilities</b>	<b>13,404</b>	<b>14,739</b>

\* For full detail, please refer to notes in the January - March 2011 interim report.

# Cash flow in summary

MSEK	Q1 - 2011	Q1 - 2010
<b>Cash flow from operating activities before changes in working capital</b>	<b>602</b>	<b>524</b>
Cash flow from changes in working capital	-78	-180
<b>Net cash from operating activities</b>	<b>523</b>	<b>344</b>
Purchase of property, plant and equipment	-52	-107
Proceeds from sale of property, plant and equipment	0	0
Purchase of intangible assets	-8	-4
Investments in associated companies and joint ventures*	-	-110
Investments in other companies*	-4	-
Changes in financial receivables etc.	1	0
<b>Net cash used in investing activities</b>	<b>-62</b>	<b>-221</b>
Changes in loans	-244	-293
Repurchase of own shares	-1,180	-398
Stock options exercised	67	53
Other	-2	-63
<b>Net cash used in financing activities</b>	<b>-1,360</b>	<b>-701</b>
<b>Net decrease in cash and cash equivalents</b>	<b>-899</b>	<b>-578</b>
Cash and cash equivalents at the beginning of the period	3,275	2,530
Effect of exchange rate fluctuations on cash and cash equivalents	-81	-50
Less cash and cash equivalents reclassified as assets held for sale	-	-173
<b>Cash and cash equivalents at the end of the period</b>	<b>2,295</b>	<b>1,728</b>

\* For full detail, please refer to notes in the January - March 2011 interim report.

# Key data

	Q1 - 2011	Q1 - 2010
Operating margin, %	30.0	22.2
Operating capital, MSEK	6,966	8,704
Return on operating capital, % (12 months to March 31, 2011)	44.6	
EBITDA, MSEK*	862	829
EBITA, MSEK*	807	755
Net debt, MSEK	8,223	7,434
Net debt/EBITA* (12 months to March 31, 2011)	2.3	
Investments in property, plant and equipment, MSEK*	52	107
EBITA interest cover	6.7	7.7
<i>Excl. businesses transferred to STG and share of net profit/loss in STG</i>		
EBITA, MSEK*	742	667
Net debt/EBITA* (12 months to March 31, 2011)	2.5	
<b>Share data</b>		
Earnings per share, basic, SEK	2.50	2.26
Earnings per share, diluted, SEK	2.49	2.25
Average number of shares outstanding, basic (Mio)	212.8	229.5
Shares outstanding, end of period (Mio)	209.4	229.3

\* For full detail, please refer to notes in the January - March 2011 interim report.

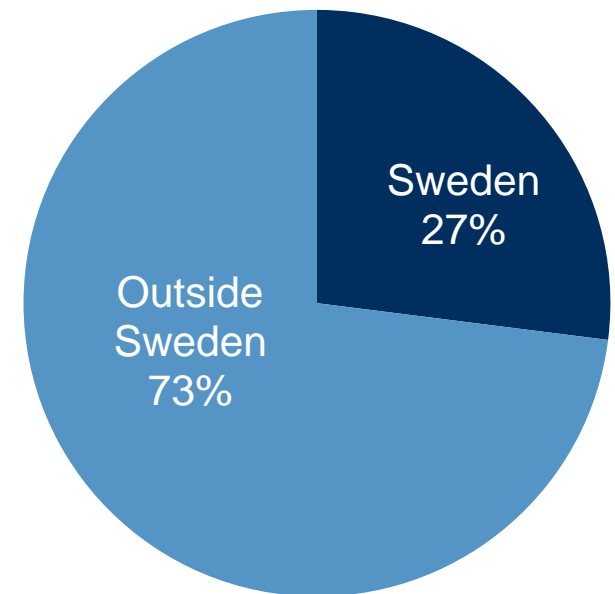
# Largest shareholders\*

As per March 31, 2011

## Largest shareholders

Morgan Stanley Investment Management	6.3%
Parvus Asset Management	5.5%
Swedbank Robur Funds	3.2%
AMF Insurance & Funds	2.6%
Didner & Gerge Mutual Funds	1.5%
Standard Life Investment Funds	1.5%
SHB Funds	1.1%
Cantillon Funds	1.1%
SEB Funds	1.1%
Third Swedish National Pension Fund	1.0%
	<hr/>
	24.9%

**52,921 shareholders**



Source: Euroclear, official registry and SIS Ägaranalys.

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

# Snus vs. cigarettes in Sweden

## Sales of Snus and Cigarettes in Sweden 1916 - 2010

(Source: Swedish Match)

