

# Q2

## INVESTOR KIT

JANUARY-JUNE 2011

☆☆☆  
**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

Q2 2011

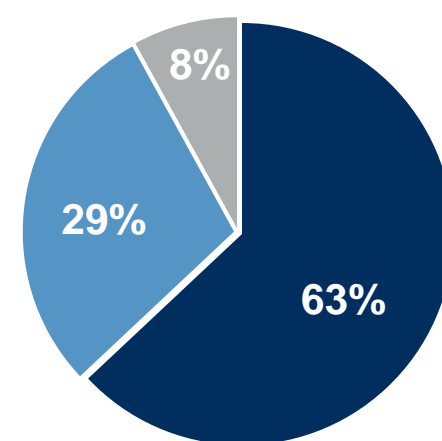
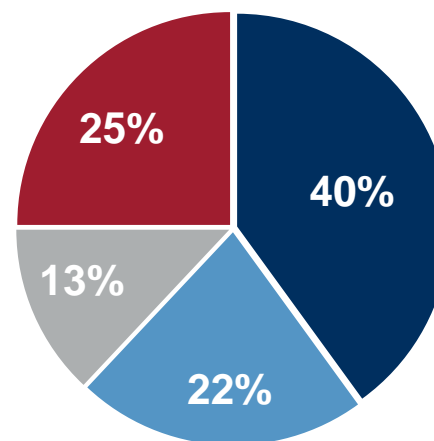
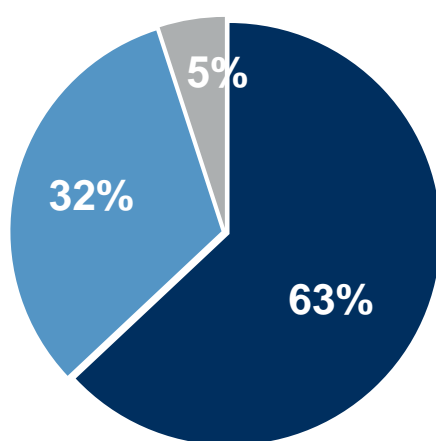
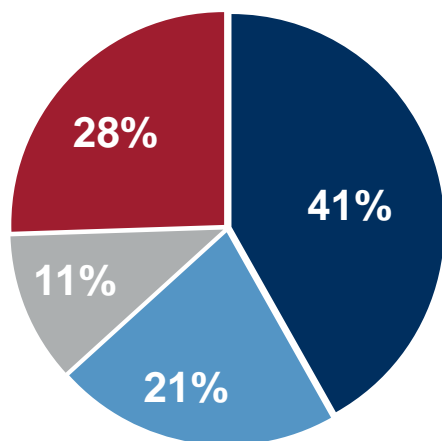
Full year 2010\*

Sales, SEK

Operating profit\*\*, SEK

Sales, SEK

Operating profit\*\*, SEK



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

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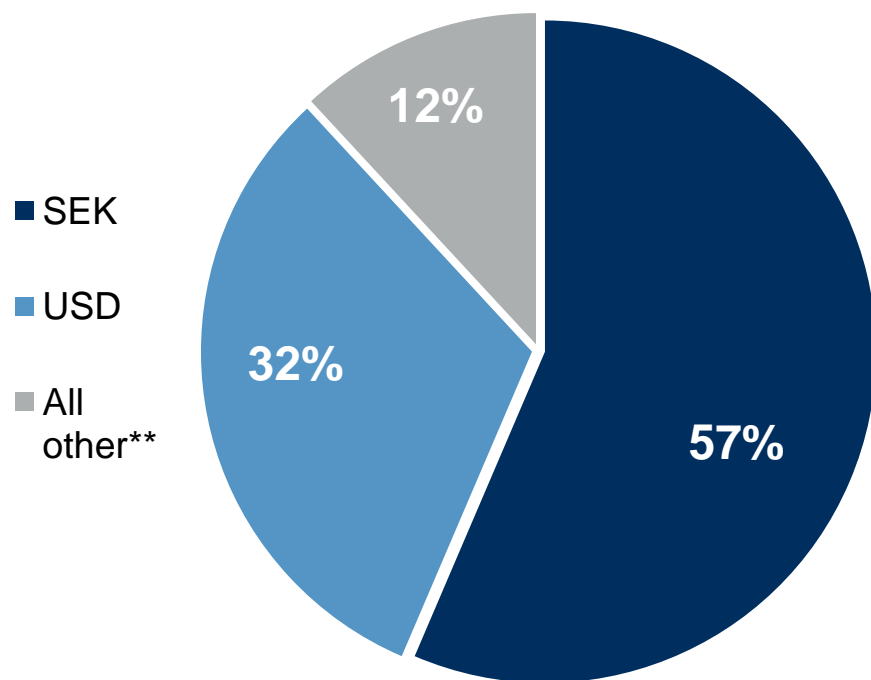
\* Excludes businesses transferred to STG, share of net loss from STG (loss of 60 MSEK in 2010) and larger one time items.

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

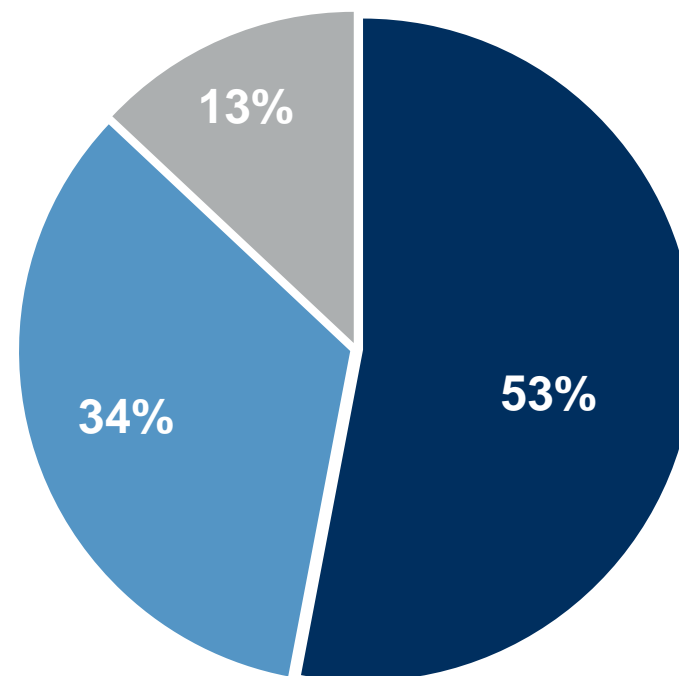
# Sales by currency block

Percent of sales, MSEK

Q2 2011



Full year 2010\*



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

\*\* Primarily NOK and BRL.

# Group results – second quarter 2011

- **Comparable sales** amounted to **2,944 MSEK (2,849)**
  - In local currencies, sales increased by 11 percent
- **Comparable operating profit** amounted to **829 MSEK (793)**
  - In local currencies, comparable operating profit increased by 13 percent
  - Operating profit was 904 MSEK (945) including businesses transferred to STG, share of net profit from STG, and larger one time items\*
- **Profit before income tax** amounted to **773 MSEK (816)**
- **Profit for the period** amounted to **616 MSEK (637)**
- **EPS (basic)** was **2.94 SEK (2.78)**



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

# Conclusions, second quarter – sales

- **Sales\*** up 11% in local currencies, up 3% in SEK
- **Scandinavian snus** sales up 12%
  - Volumes up 8%, up 4% when backing out Easter/trade loading effects
  - Price increase June 13
- **US snus and snuff** sales up 11% in USD
  - Higher volumes due to timing of promotional shipments for moist snuff
  - Mix effects on sales from a larger proportion of Longhorn volume
  - Sales and volume growth from snus
  - Price increase May 25 for moist snuff
- **US mass market cigar sales** were up more than 20% in local currency
  - US mass market cigar volumes up 42% led by growth in smaller cigars
- **US chewing tobacco** sales flat in USD, down 18% in SEK
  - Volume declines offset by improved pricing, product mix
- **Lights** sales down 2% in local currencies

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

# Conclusions, second quarter – operating profit

- **Operating profit\*** up 13% in local currencies, up 5% in SEK
- **Snus and Snuff:** operating profit up 14% in local currencies, up 11% in SEK
  - Operating margin 45.3%, vs. 43.6% previous year
  - List price increases in US for snuff (May 25), and in Sweden for snus (June 13)
  - Shifts in marketing and promotional spending in the US versus prior year for moist snuff products, partially offset by higher spending behind General snus
- **Other tobacco products:** operating profit up 20% in local currency, up 1% 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 margins up on portfolio mix. Also, Q2 2010 had a 10 MSEK one time charge
- **Lights:** operating profit down 30% in local currencies, down 36% in SEK
  - Negative currency effects and adverse development of raw materials prices

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

# Other items

- **Tax rate for the Group was 20.1% for the first half of 2011**
  - 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 1,801 MSEK vs. 3,275 MSEK as of December 31, 2010
  - 187 MSEK of interest bearing debt remains to be paid in 2011
- **Share repurchases during the first quarter amounted to 5.9 million shares. No share repurchases made during the second quarter**
- **18 million shares have been cancelled in accordance with AGM conclusion. Total number of registered shares after cancellation is 213.0 million**
- **AGM authorized continued mandate to buy back shares**



# Nielsen snus/moist snuff consumption data\*

- **Swedish Match total value market share Apr/May in Sweden was 87.4%**
  - 87.7% in Feb/Mar (88.2% in Apr/May 2010)
- **Swedish Match total volume market share Apr/May in Sweden was 85.2%**
  - 85.6% in Feb/Mar (85.9% in Apr/May 2010)
- **Low price segment is 25.5% in Apr/May of Swedish market**
  - 25.1% in Feb/Mar (24.5% in Apr/May 2010)
- **Swedish Match share Apr/May of low price segment in Sweden was 51.1%**
  - 52.1% in Feb/Mar (52.5% in Apr/May 2010)
- **US snuff market up 7.3% for the YTD ending June 11, 2011**
  - Nielsen 4 weeks consumption up 5.6% through June 11
  - Swedish Match consumption volume down 1.3% YTD ending June 11, down 1.8% 4 weeks to June 11
- **Swedish Match market shares in the US**
  - YTD ending April 16 was 11.3% vs. 12.3% YTD 2010
  - 4 weeks to June 11 Swedish Match share was 11.0%



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

# 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

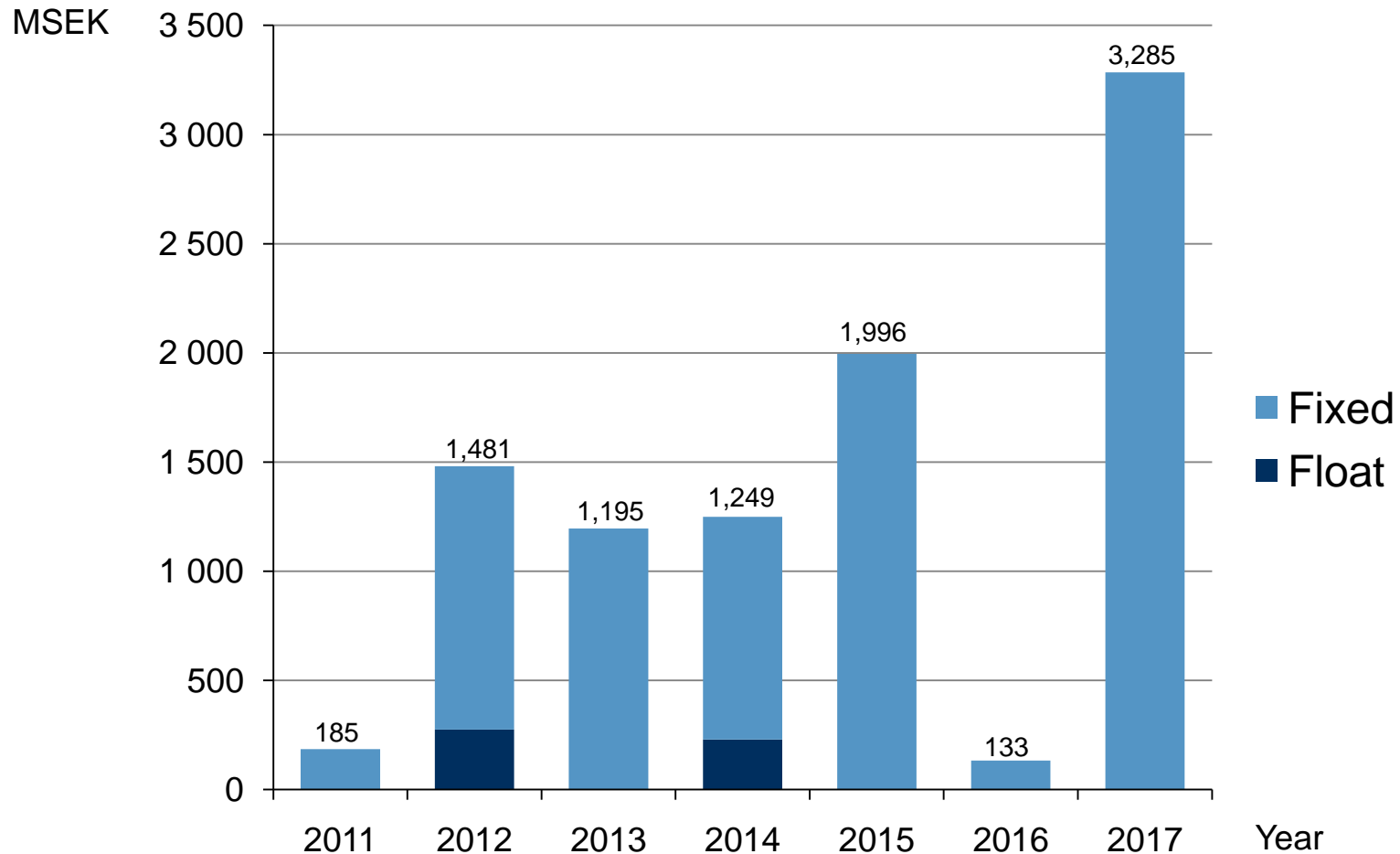
## ■ Financing and cash flow

- Cash flow from operating activities for second quarter amounted to 1,228 MSEK (1,116) with increase due primarily to lower taxes paid, timing of interest payments, and improved cash flow from changes in working capital
- Net finance cost increased to 131 MSEK (129), with the higher finance cost due to a higher net debt and higher interest rates
- Net debt/EBITA\* was 2.6 for the 12 months ended June 30

\* 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 June 30, 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 snus

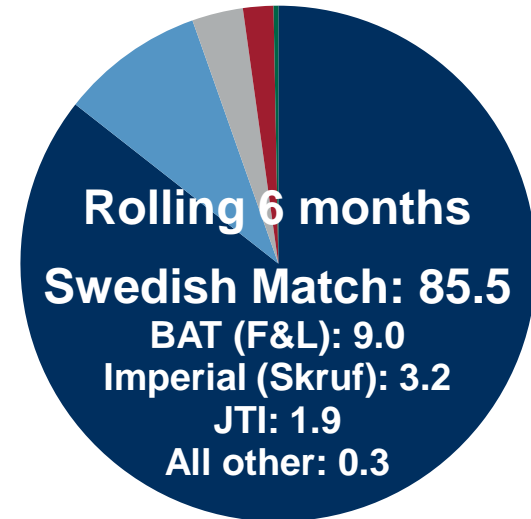
- Scandinavia snus sales up 12% in Q2
  - Scandinavian volumes up 8% in Q2
  - Volumes up 4% when backing out Easter/trade loading effects
- US snus and moist snuff sales up 11% in USD
  - US volumes significantly higher than prior year due to phased timing of promotions (minimal Q2 promotions in 2010)
  - Swedish Match consumption volume down 1.3% YTD June 11 (Nielsen)
  - Continued investments in Swedish snus with positive trends
- Q2 margins above year earlier levels
  - Higher margins in Scandinavia and US
  - Higher US margins due lack of sponsorships post FDA partially offset by increased General snus investments
  - Price increases in the US (May 25 of 6.8%) and Sweden (June 13 of approx. 4% list)



MSEK	Q2-2011	Q2-2010	chg	H1-2011	H1-2010	chg	July 2010 - June 2011	Full year 2010
Sales	1,193	1,116	7	2,261	2,170	4	4,613	4,522
Operating profit	540	487	11	1,010	921	10	2,168	2,080
Operating margin, %	45.3	43.6		44.6	42.4		47.0	46.0

# Swedish snus market shares

Volume share in Sweden, rolling 6 months through May 2011

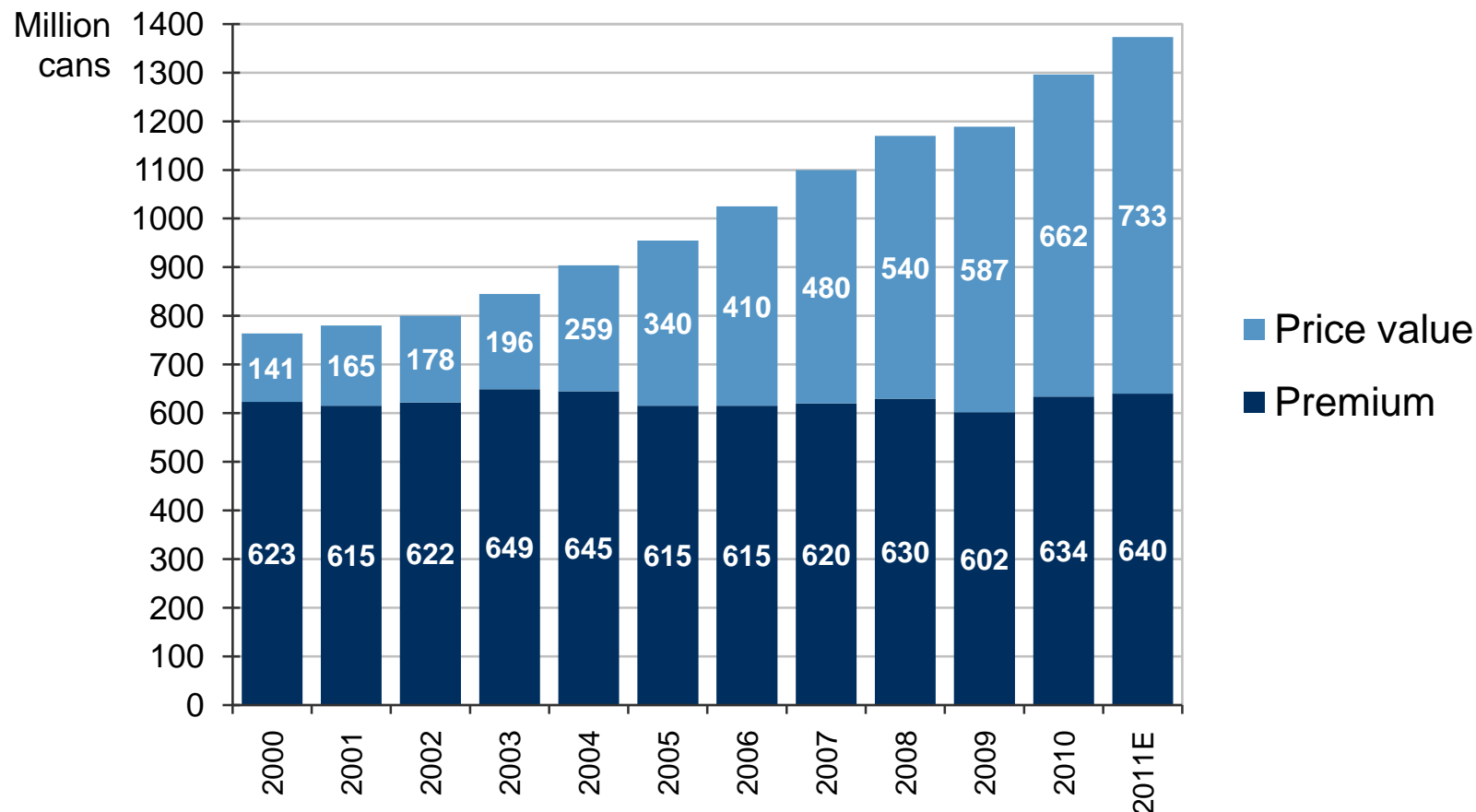


2 months Apr/May	value share	volume share
<b>Swedish Match</b>	<b>87.4</b>	<b>85.2</b>
BAT (F&L)	7.8	8.8
Imperial (Skruf)	3.0	3.8
JTI	1.5	1.9
All other	0.3	0.3

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

# Volume growth of moist snuff in the US

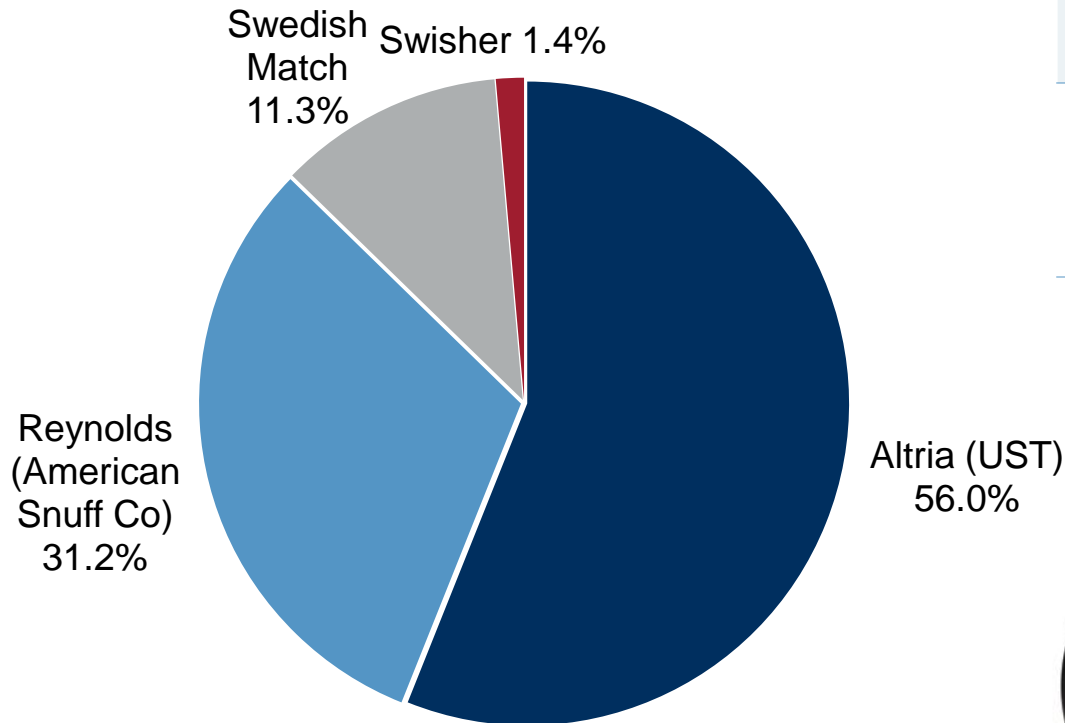
## US snuff market by segment



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 June 11



4 weeks to June 11	volume share
Altria	56.2
Reynolds	31.4
<b>Swedish Match</b>	<b>11.0</b>
Swisher	1.3



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



# Snus expansion

## Snus in the US

- *General* snus round cans now in more than 1,300 stores in the US
  - Good sell-through/rotation in stores
  - Distribution expansion continues
- New format also available in Classic Blend and Nordic Mint (15/10 pack)
  - Currently in limited distribution
- *Ettan* test markets



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

- Test launch of *General* in Taiwan started in September 2010
- Test launch of *General* in Canada started in December 2010
  - Feedback positive, doubled store count in test launch, adding Alberta stores (previously only Toronto area)
- At least one new test launch market planned in 2011

# 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 7.8% YTD to June 11, 2011 (Nielsen)



# Other tobacco products

## Second quarter sales up 11% 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 42% in Q2)
- In local currency, Q2 sales up 11% and operating profit up 20%
- Volume growth on cigars with extra production shifts/days per week. New capacity online in July
- Chewing tobacco sales flat in Q2 in local currency vs. YA
- Chewing tobacco volumes down 9% due in large part to lower contract manufacturing volumes - chewing tobacco volume of own brands down <5% YTD
- Q2 2010 operating profit included 10 MSEK charge (Piccanell)



MSEK	Q2-2011	Q2-2010	chg	H1-2011	H1-2010	chg	July 2010 - June 2011	Full year 2010
Sales	613	664	-8	1,196	1,252	-4	2,384	2,440
Operating profit	272	270	1	517	474	9	984	942
Operating margin, %	44.4	40.7		43.2	37.9		41.3	38.6

# Other tobacco products

## US mass market cigars

- US mass market sales show strong growth
  - Q2 sales increased more than 20% in local currency compared to previous year. Operating profit also significantly higher
  - Excluding little cigars, market share is 13.8% YTD, vs. 10.9% year ago (Nielsen, June 11)
- Continued success for FoilFresh™ cigars and successful introduction of White Owl Sweets, now also White Owl Green Sweets launched in Q1 2011
- Price increase of approximately 5% at the end of 2010

## Chewing tobacco

- Continued market decline
  - 2011 category down 7.8%, in line with previous trends (Nielsen, YTD June 11)
  - Swedish Match brands down 7.0% according to Nielsen
- Strong performance for Swedish Match brand portfolio
- Price increase of 5% in November/December 2010



# Lights

## Q2 sales down 2%, operating profit down 30% 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: Europe/EU, Brazil and Russia
- Production in Brazil, the Netherlands, the Philippines and Sweden

- Sales and operating profit down on adverse market mix, higher production costs, and many products sold in USD/EUR
- Bulgarian production unit sold in Q2, continue to source products from new owner
- Lights distribution by STG in several markets transfers some profit from Swedish Match to STG



MSEK	Q2-2011	Q2-2010	chg	H1-2011	H1-2010	chg	July 2010 - June 2011	Full year 2010
Sales	313	347	-10	649	698	-7	1,380	1,429
Operating profit	44	68	-36	102	134	-24	246	279
Operating margin, %	13.9	19.6		15.7	19.2		17.9	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 74 MSEK in Q2
  - Swedish Match share of net profit includes restructuring charges of 5 MSEK before taxes
- Q2 total STG operating profit, excluding Lane and restructuring charges, increased by 14% vs. pro forma estimate of Q2 2010. Reported operating profit includes Lane acquisition (acquired March 1)
  - Operating profit for premium cigars declined in MDKK on weaker USD, and for pipe/fine cut tobacco (excluding Lane) operating profit was in line with year ago. Operating profit for mass market cigars significantly higher due to realized synergies

\*NOTE: Prior year operating profit for businesses transferred to STG is reported at EBIT level, while quarterly reporting of STG operating profit in 2011 is net profit after finance costs and tax.



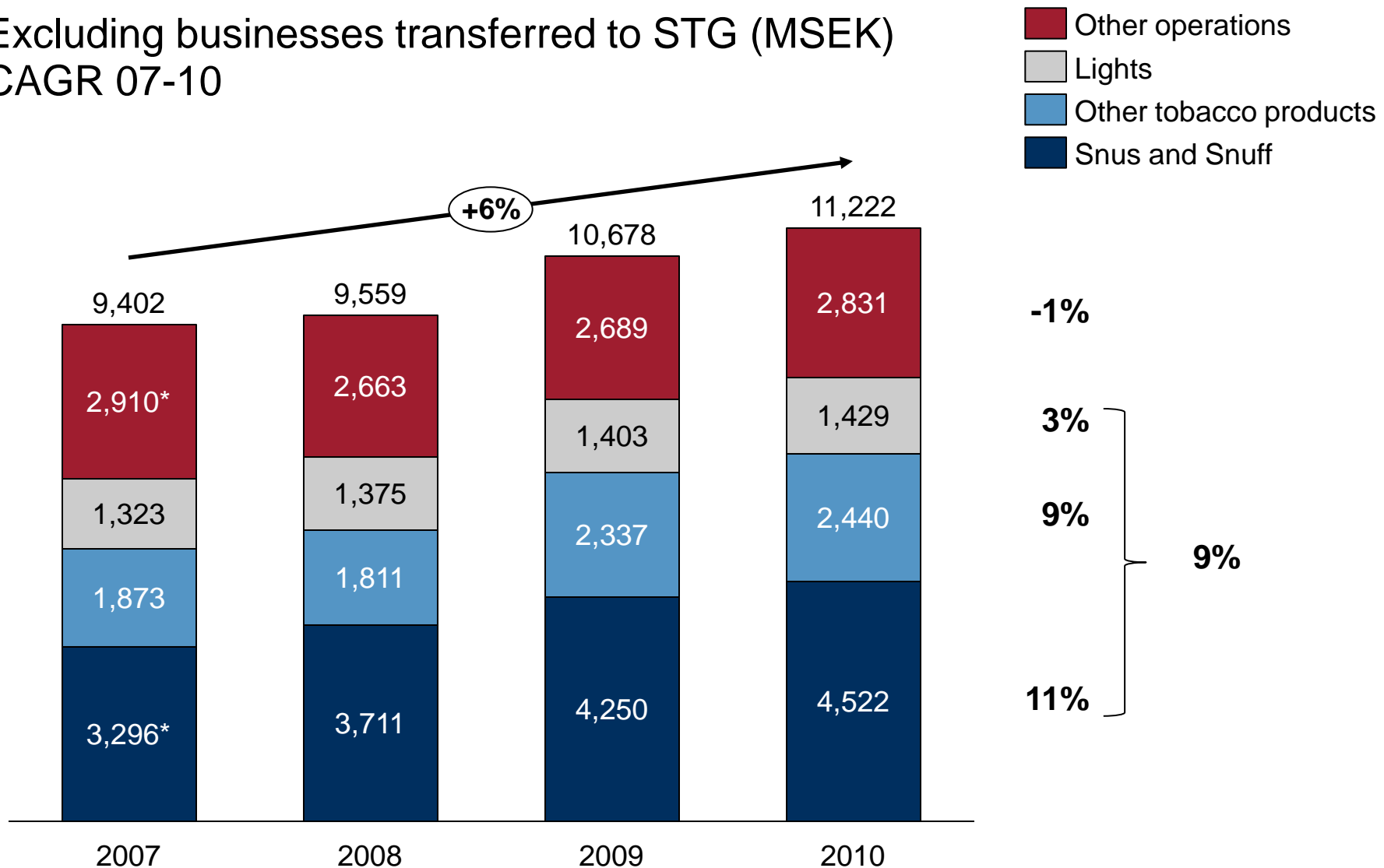
# Group strategy

- 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



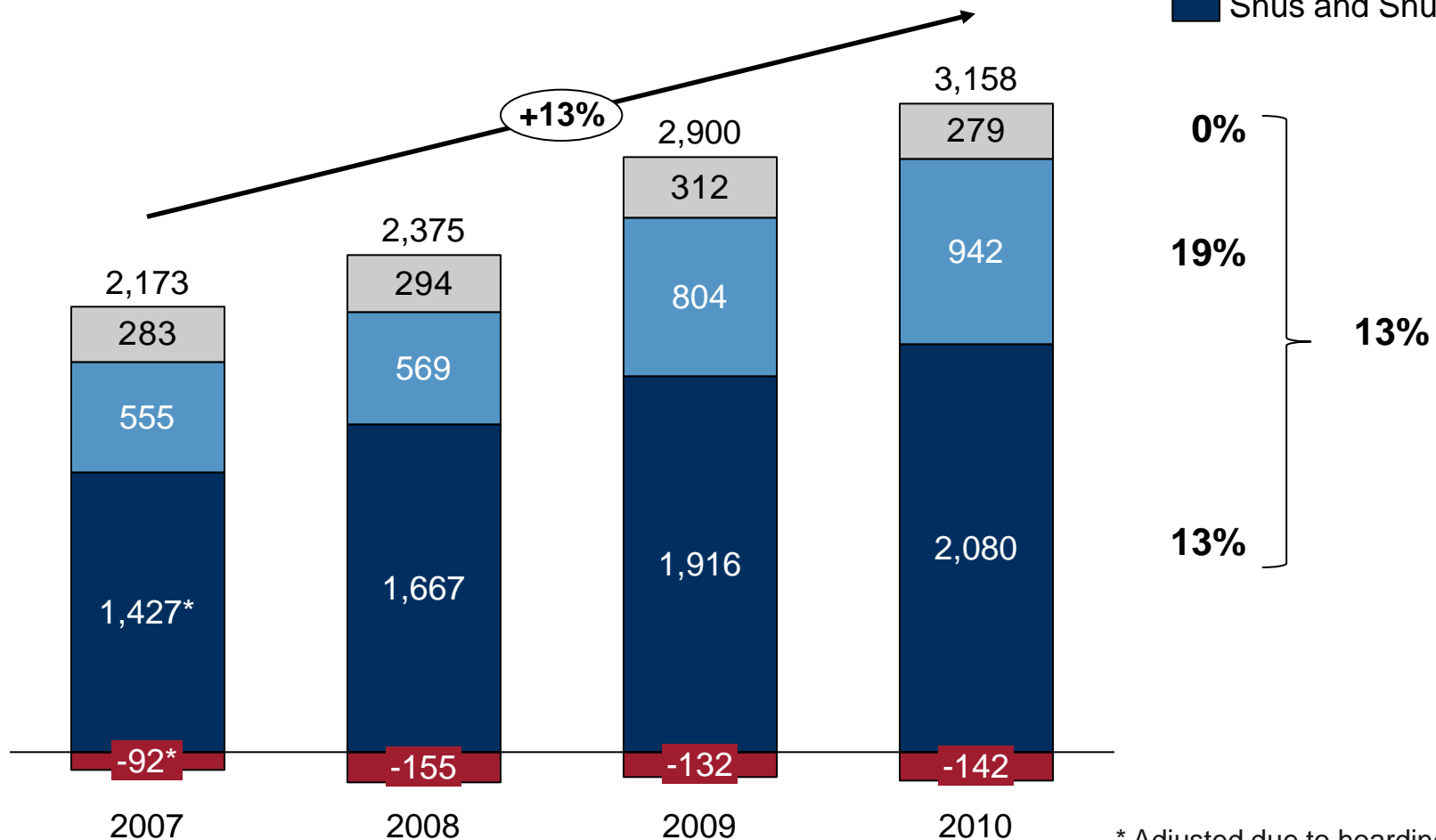
\* Adjusted due to hoarding in 2006.



# 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	Q2- 2011	Q2- 2010	chg	H1- 2011	H1- 2010	chg	July 2010- June 2011	Full year 2010	chg
<b>Sales</b>	<b>2,944</b>	<b>3,701</b>	<b>-20</b>	<b>5,591</b>	<b>6,983</b>	<b>-20</b>	<b>12,214</b>	<b>13,606</b>	<b>-10</b>
Cost of goods sold	-1,467	-1,805		-2,764	-3,429		-5,998	-6,662	
<b>Gross profit</b>	<b>1,478</b>	<b>1,896</b>	<b>-22</b>	<b>2,826</b>	<b>3,554</b>	<b>-20</b>	<b>6,216</b>	<b>6,944</b>	<b>-10</b>
Selling and administrative expenses	-647	-955		-1,265	-1,857		-2,764	-3,356	
Share of profit/loss in associated companies and joint ventures	74	4		136	2		72	-62	
Net gain from pension settlements	-	-		-	-		59	59	
Capital gain from transfer of businesses to STG	-	-		-	-		585	585	
<b>Operating profit</b>	<b>904</b>	<b>945</b>	<b>-4</b>	<b>1,698</b>	<b>1,700</b>	<b>0</b>	<b>4,167</b>	<b>4,169</b>	<b>0</b>
Finance income	9	5		18	13		32	27	
Finance costs	-140	-134		-277	-248		-619	-590	
Net finance cost	-131	-129		-259	-235		-587	-562	
<b>Profit before income tax</b>	<b>773</b>	<b>816</b>	<b>-5</b>	<b>1,438</b>	<b>1,465</b>	<b>-2</b>	<b>3,580</b>	<b>3,607</b>	<b>-1</b>
Income tax expense	-157	-180		-290	-309		-629	-649	
<b>Profit for the period</b>	<b>616</b>	<b>637</b>	<b>-3</b>	<b>1,148</b>	<b>1,155</b>	<b>-1</b>	<b>2,951</b>	<b>2,958</b>	<b>0</b>
EPS, basic, SEK	2.94	2.78		5.44	5.04		13.64	13.12	
EPS, diluted, SEK	2.92	2.78		5.41	5.03		13.58	13.09	

# Balance sheet in summary

MSEK	June 30, 2011	December 31, 2010
Intangible assets	968	1,027
Property, plant and equipment	2,084	2,097
Investments in associated companies and joint ventures	4,183	4,085
Other non-current financial receivables*	1,336	1,368
Current operating assets	2,869	2,886
Other current investments and current financial assets	1	1
Cash and cash equivalents	1,801	3,275
<b>Total assets</b>	<b>13,242</b>	<b>14,739</b>
Equity attributable to equity holders of the Parent	-1,803	-484
Non-controlling interests	2	2
<b>Total equity</b>	<b>-1,801</b>	<b>-482</b>
Non-current provisions	1,029	1,050
Non-current loans	8,374	9,209
Other non-current financial liabilities*	1,344	1,478
Current provisions	86	98
Current loans	1,108	525
Other current liabilities*	3,103	2,861
<b>Total equity and liabilities</b>	<b>13,242</b>	<b>14,739</b>

\* For full detail, please refer to notes in the January – June 2011 half year report.

# Cash flow in summary

MSEK	H1 - 2011	H1 - 2010
<b>Cash flow from operating activities before changes in working capital</b>	<b>1,185</b>	<b>1,171</b>
Cash flow from changes in working capital	43	-55
<b>Net cash from operating activities</b>	<b>1,228</b>	<b>1,116</b>
Purchase of property, plant and equipment	-132	-197
Proceeds from sale of property, plant and equipment	1	6
Purchase of intangible assets	-9	-20
Investments in associated companies and joint ventures*	-15	-110
Investments in other companies*	-4	-
Proceed from sales of subsidiaries, net of cash disposed of*	143	-
Changes in financial receivables etc.	1	0
<b>Net cash used in investing activities</b>	<b>-14</b>	<b>-322</b>
Changes in loans	-364	-392
Dividend paid to equity holders of the Parent	-1,152	-1,089
Repurchase of own shares	-1,180	-556
Stock options exercised	67	53
Other	-7	12
<b>Net cash used in financing activities</b>	<b>-2,636</b>	<b>-1,971</b>
<b>Net decrease in cash and cash equivalents</b>	<b>-1,422</b>	<b>-1,177</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	-52	-25
Less cash and cash equivalents reclassified as assets held for sale	-	-87
<b>Cash and cash equivalents at the end of the period</b>	<b>1,801</b>	<b>1,242</b>

\* For full detail, please refer to notes in the January – June 2011 half year report.

# Key data

	H1 - 2011	H1 - 2010
Operating margin, %	30.4	23.5
Operating capital, MSEK	7,024	8,928
Return on operating capital, % (12 months to June 30, 2011)	43.8	
EBITDA, MSEK*	1,836	1,843
EBITA, MSEK*	1,725	1,693
Net debt, MSEK	8,699	8,185
Net debt/EBITA* (12 months to June 30, 2011)	2.4	
Investments in property, plant and equipment, MSEK*	132	197
EBITA interest cover	7.0	8.5
<i>Excl. businesses transferred to STG and share of net profit/loss in STG</i>		
EBITA, MSEK*	1,586	1,473
Net debt/EBITA* (12 months to June 30, 2011)	2.6	
<b>Share data</b>		
Earnings per share, basic, SEK	5.44	5.04
Earnings per share, diluted, SEK	5.41	5.03
Average number of shares outstanding, basic (Mio)	211.1	229.1
Shares outstanding, end of period (Mio)	209.4	228.3

\* For full detail, please refer to notes in the January – June 2011 half year report.

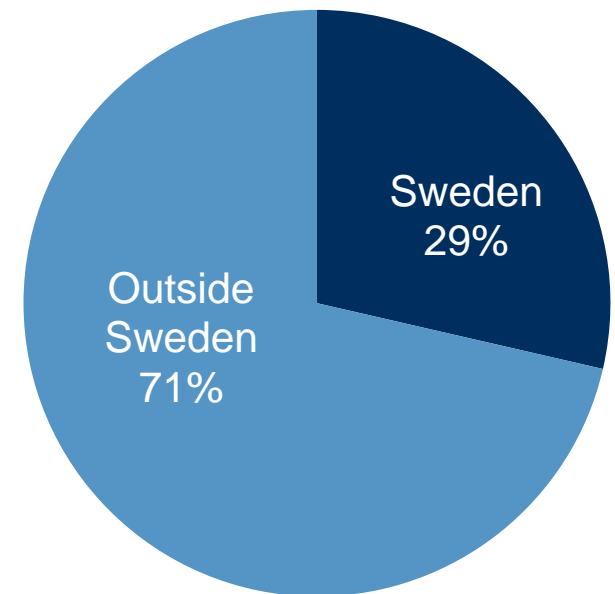
# Largest shareholders\*

As per June 30, 2011

## Largest shareholders

Morgan Stanley Investment Management	6.3%
Parvus Asset Management	5.5%
Swedbank Robur Funds	3.2%
AMF Insurance & Funds	2.9%
SEB Funds	1.6%
Standard Life Investment Funds	1.5%
Didner & Gerge Mutual Funds	1.5%
Fourth Swedish National Pension Fund	1.4%
SHB Funds	1.1%
Second Swedish National Pension Fund	1.0%
	<hr/>
	26.0%

52,742 shareholders



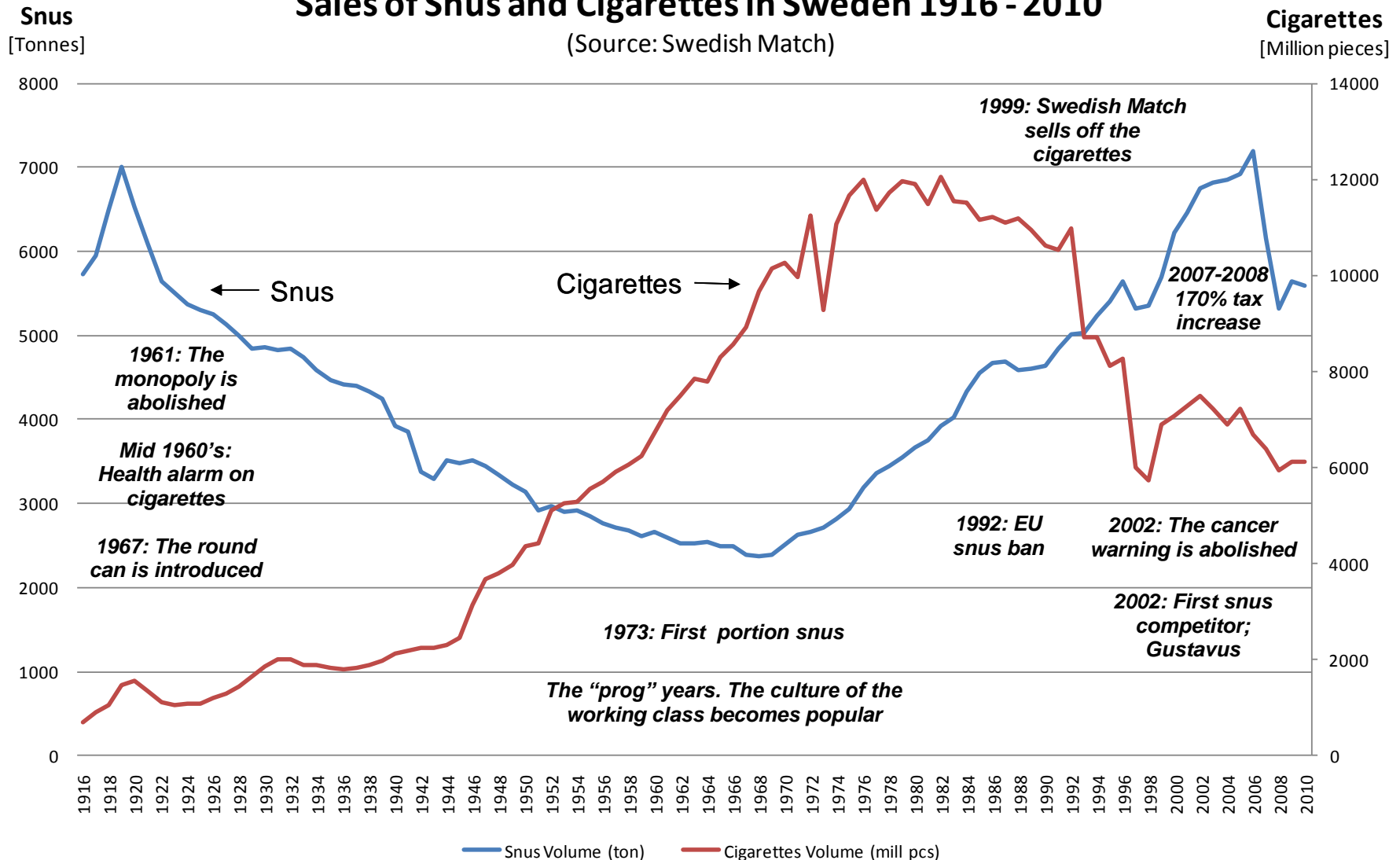
Source: Euroclear, official registry and SIS Ägaranalys.

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

# Snus vs. cigarettes in Sweden

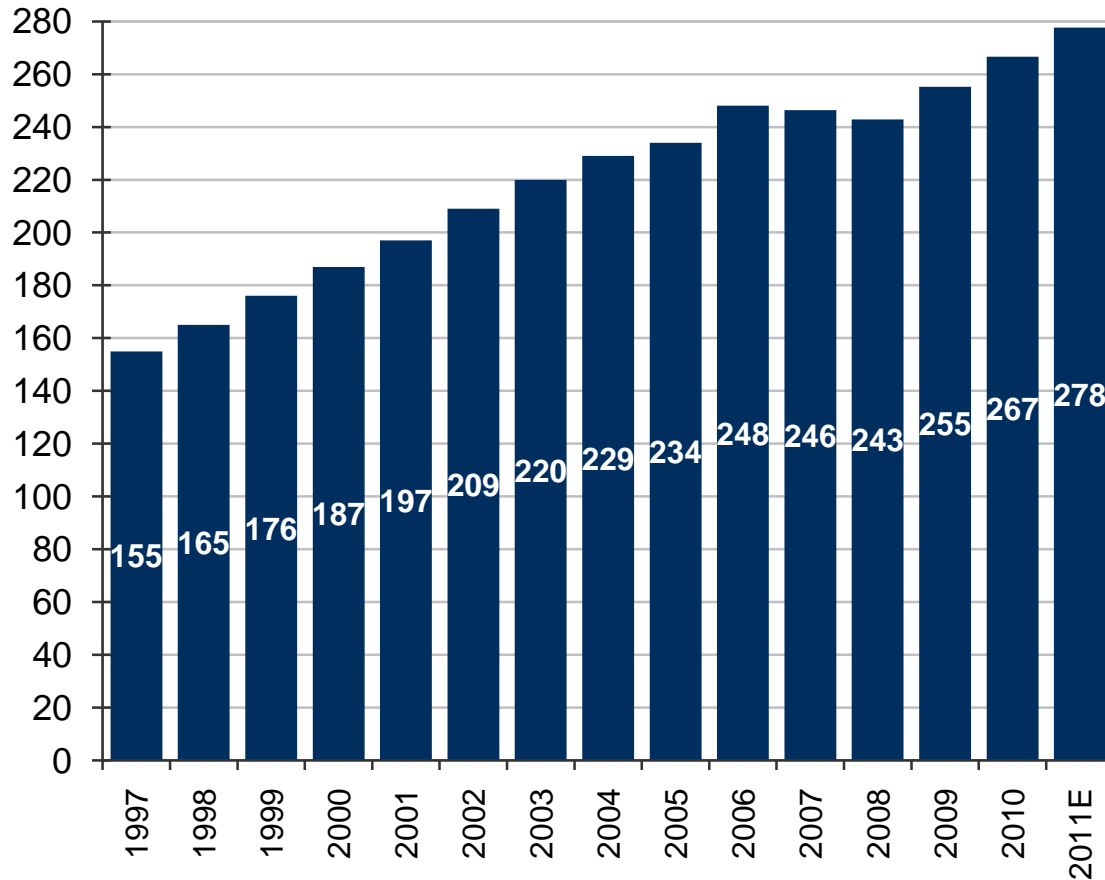
## Sales of Snus and Cigarettes in Sweden 1916 - 2010

(Source: Swedish Match)



# Estimated Scandinavian snus consumption

Cans/millions



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