

# Q4

## INVESTOR KIT

JANUARY-DECEMBER 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

Q4 2011

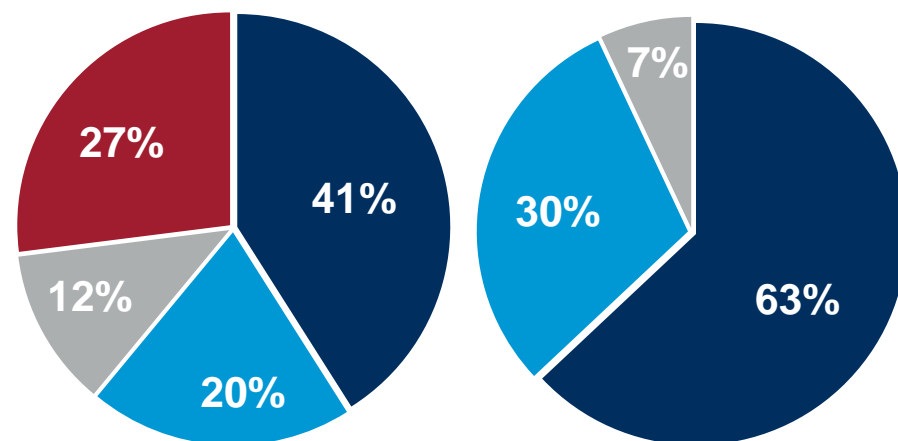
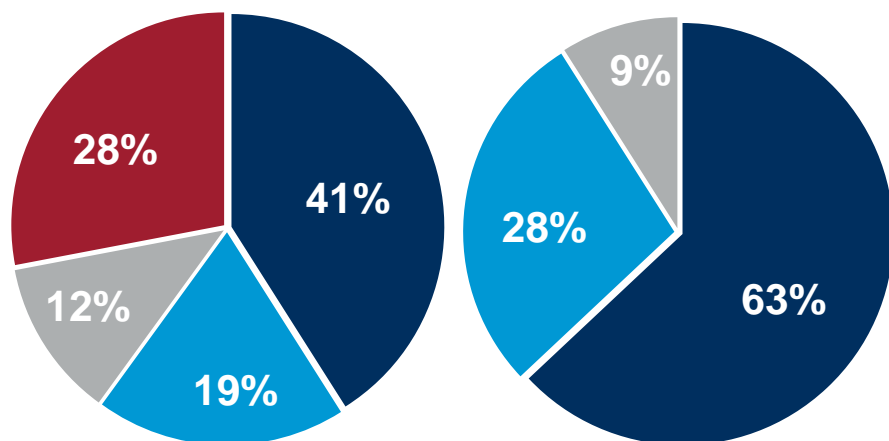
Full year 2011\*

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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Totals may not add to 100% due to rounding.

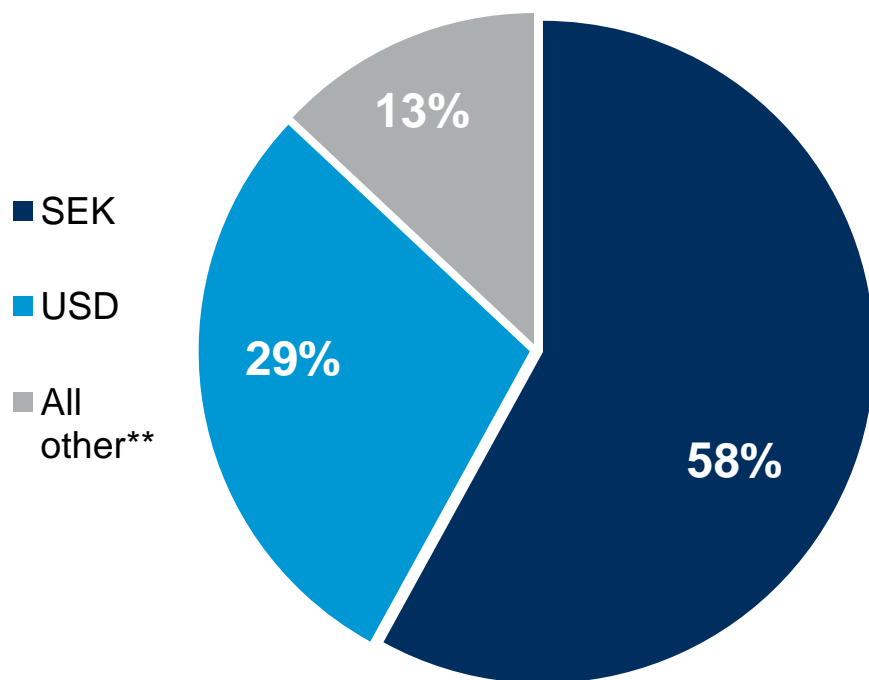
\* Excludes share of net profit from STG (profit of 337 MSEK in 2011) and larger one time items.

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

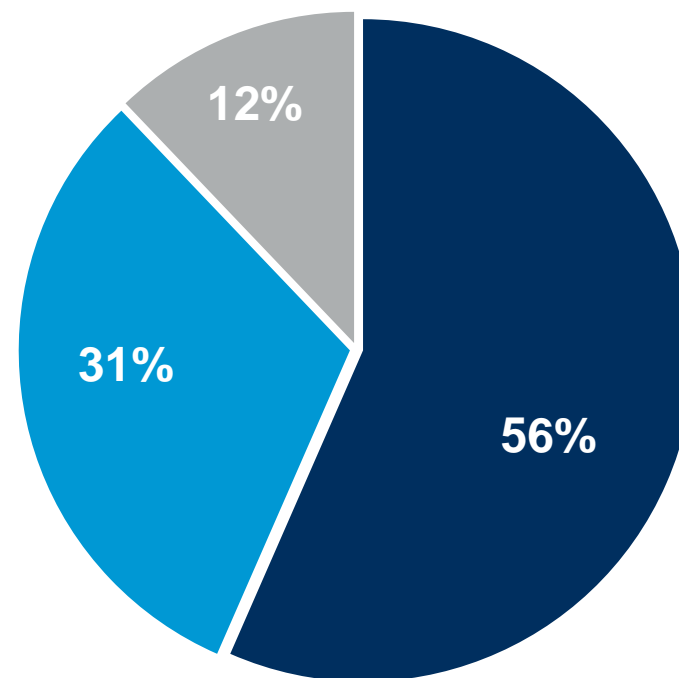
# Sales by currency block

Percent of sales, MSEK

Q4 2011



Full year 2011\*



Totals may not add to 100% due to rounding.

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

\*\* Primarily NOK and BRL.

# Group results – fourth quarter 2011

- **Comparable sales** amounted to **3,064 MSEK (2,801)**
  - In local currencies, sales increased by 10 percent
- **Comparable operating profit** amounted to **898 MSEK (836)**
  - In local currencies, comparable operating profit increased by 7 percent
  - Operating profit was 1,022 MSEK (1,421) including businesses transferred to STG, share of net profit from STG, and larger one time items\*
- **Profit before income tax** amounted to **888 MSEK (1,221)**
- **Profit for the period** amounted to **705 MSEK (1,074)**
- **EPS (basic)** was **3.42 SEK (2.06** or 4.85 including larger one time items)



\* Larger one time items include reversals of amortizations and depreciations relating to assets held for sale in 2010. In the fourth quarter 2010 it also includes a net gain from pension settlements as well as a capital gain from the transfer of businesses to STG.

# Group results – full year 2011

- **Comparable sales** amounted to **11,666 MSEK (11,222)**
  - In local currencies, sales increased by 8 percent
- **Comparable operating profit** amounted to **3,365 MSEK (3,158)**
  - In local currencies, comparable operating profit increased by 11 percent
  - Operating profit was 3,702 MSEK (4,169) including businesses transferred to STG, share of net profit from STG, and larger one time items\*
- **Profit before income tax** amounted to **3,180 MSEK (3,607)**
- **Profit for the period** amounted to **2,538 MSEK (2,958)**
- **EPS (basic)** was **12.14 SEK (9.92, or 13.12** including larger one time items)



\* Larger one time items include reversals of amortizations and depreciations relating to assets held for sale in 2010, as well as a net gain from pension settlements, and a capital gain from the transfer of businesses to STG.

# Conclusions, fourth quarter – sales

- **Sales\*** up 10% in local currencies, up 9% in SEK
- **Scandinavian snus sales** up 11%
  - Volumes up close to 5%
  - Underlying volume growth up 3% when backing out hoarding/destocking effects
- **US snus and snuff sales** down 4% in USD, on flat volumes
  - Mix effects on sales from a larger proportion of *Longhorn* volume and higher promotions
  - Sales and volume growth from snus, with expansion in Dallas, Philadelphia, and Chicago
- **US mass market cigar sales** up more than 10% in local currency
  - US mass market cigar volumes up 14% led by growth in FoilFresh® smaller cigars and sweets cigars
- **US chewing tobacco sales** down 7% in USD, down 7% in SEK
  - Declines most notable for contract manufacturing volumes
  - Volume decline of 11% on own brands, adversely affected by some forward buying in Q4 2010
- **Lights sales** down 1% in local currencies



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

# Conclusions, fourth quarter – operating profit

- **Operating profit\*** up 7% in local currencies and in SEK
- **Snus and snuff:** operating profit up 2% in local currencies, 3% in SEK
  - Operating margin 45.9%, vs. 48.1% previous year
  - Higher spending behind *General* snus in US, SMPM International JV
  - Write-downs of inventories 11 MSEK in quarter tied to lower than expected hoarding in Sweden as well as the abolishment of a US promotional program
  - Excluding increased international snus investments and year-end inventory write-downs the operating margin increased versus the same quarter of the previous year
- **Other tobacco products:** operating profit up 21% in local currency, up 22% 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 down on lower volumes
  - Operating margins up on portfolio mix
- **Lights:** operating profit down 5% in local currencies, down 9% in SEK
  - Lighters operating profit up in local currencies from strong volume performance
  - Matches operating profit declined somewhat in local currencies, from weaker country mix and negative currency transaction effects

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



# Other items

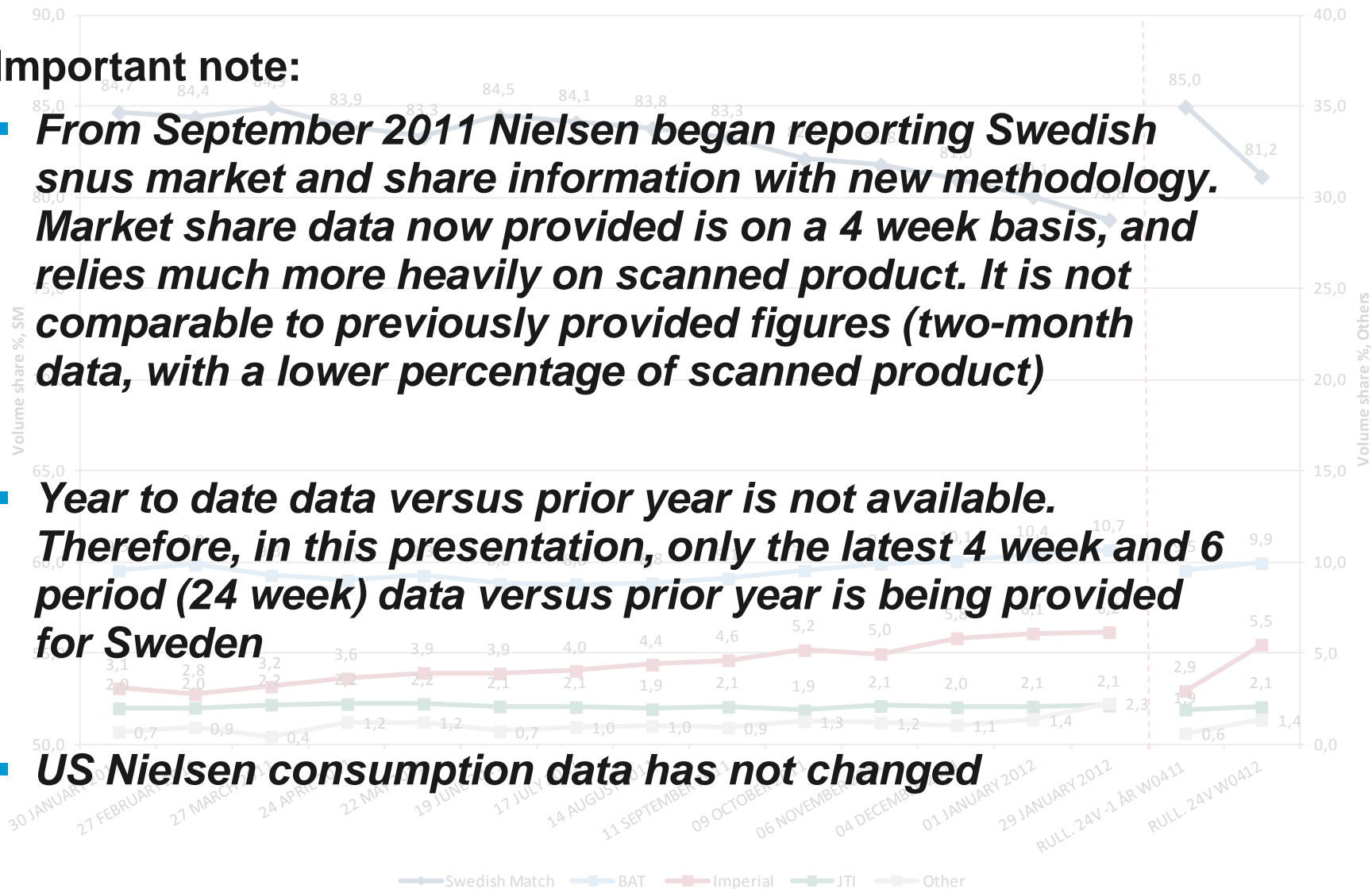
- Tax rate for the Group was 20.2% for 2011
  - Includes profit and loss impact from associated companies
  - Underlying tax rate was 22%
- Solid cash position, debt repayments of 1.3 billion SEK in 2012
  - Cash and cash equivalents were 2,533 MSEK at year end vs. 3,275 MSEK as of December 31, 2010
- Share repurchases during the year amounted to 11.1 million (2,371 MSEK)
- Total number of registered shares is 213.0 million
- Board will propose 6.50 SEK/share dividend at the Annual General Meeting



# Nielsen snus/moist snuff consumption data

## Important note:

- From September 2011 Nielsen began reporting Swedish snus market and share information with new methodology. Market share data now provided is on a 4 week basis, and relies much more heavily on scanned product. It is not comparable to previously provided figures (two-month data, with a lower percentage of scanned product)**
- Year to date data versus prior year is not available. Therefore, in this presentation, only the latest 4 week and 6 period (24 week) data versus prior year is being provided for Sweden**
- US Nielsen consumption data has not changed**



# Nielsen snus consumption data, Sweden\*

- **Total Swedish market volume up 7.7% rolling 24 weeks to January 29, 2012 vs. year ago**
- **Swedish Match total value market share 4 weeks to January 29, 2012 in Sweden was 83.2%**
  - 86.9% 4 weeks ending January 30, 2011
- **Swedish Match total volume market share 4 weeks to January 29, 2012 in Sweden was 78.8%**
  - 84.7% 4 weeks ending January 30, 2011
- **Value segment is 32.6% of Swedish market (4 weeks to January 29, 2012)**
  - 25.7% 4 weeks ending January 30, 2011
- **Swedish Match share of value segment in Sweden was 44.3%**
  - 50.2% 4 weeks ending January 30, 2011
- **Swedish Match share of premium segment in Sweden was 95.5%**
  - 96.6% 4 weeks ending January 30, 2011



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

# Nielsen moist snuff/cigar consumption data, US\*

## ■ Moist snuff

- **US snuff market up 6.0% for the YTD to December 24, 2011**
  - Swedish Match reported volume down 3.4% YTD to December 24
  - Nielsen 4 weeks consumption up 4.7% to January 21, 2012 vs. year ago
- **Swedish Match market share in the US**
  - YTD to December 24 was 10.9% vs. 12.0% YTD 2010
  - 4 weeks to January 21, 2012 Swedish Match share was 10.0%



## ■ Cigars (excluding littles)

- **US mass market for cigars down 3.4% for the YTD to December 24, 2011**
  - Swedish Match consumption volume up 20.4% YTD to Dec. 24
  - Market consumption volume down 0.9% 4 weeks to Jan. 21, 2012
  - Swedish Match consumption volume up 20.8% 4 weeks to Jan. 21, 2012
- **Swedish Match market shares in the US**
  - YTD to December 24 was 14.5% vs. 11.6% YTD 2010
  - 4 weeks to January 21, 2012 Swedish Match share was 15.6%



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

# Financial policy and financing needs

## ■ Financial policy

- Dividend policy: 40 - 60% of earnings per share
- Proposed 2011 dividend 6:50 SEK per share (5:50)
- Net debt not to exceed 3 times EBITA\*

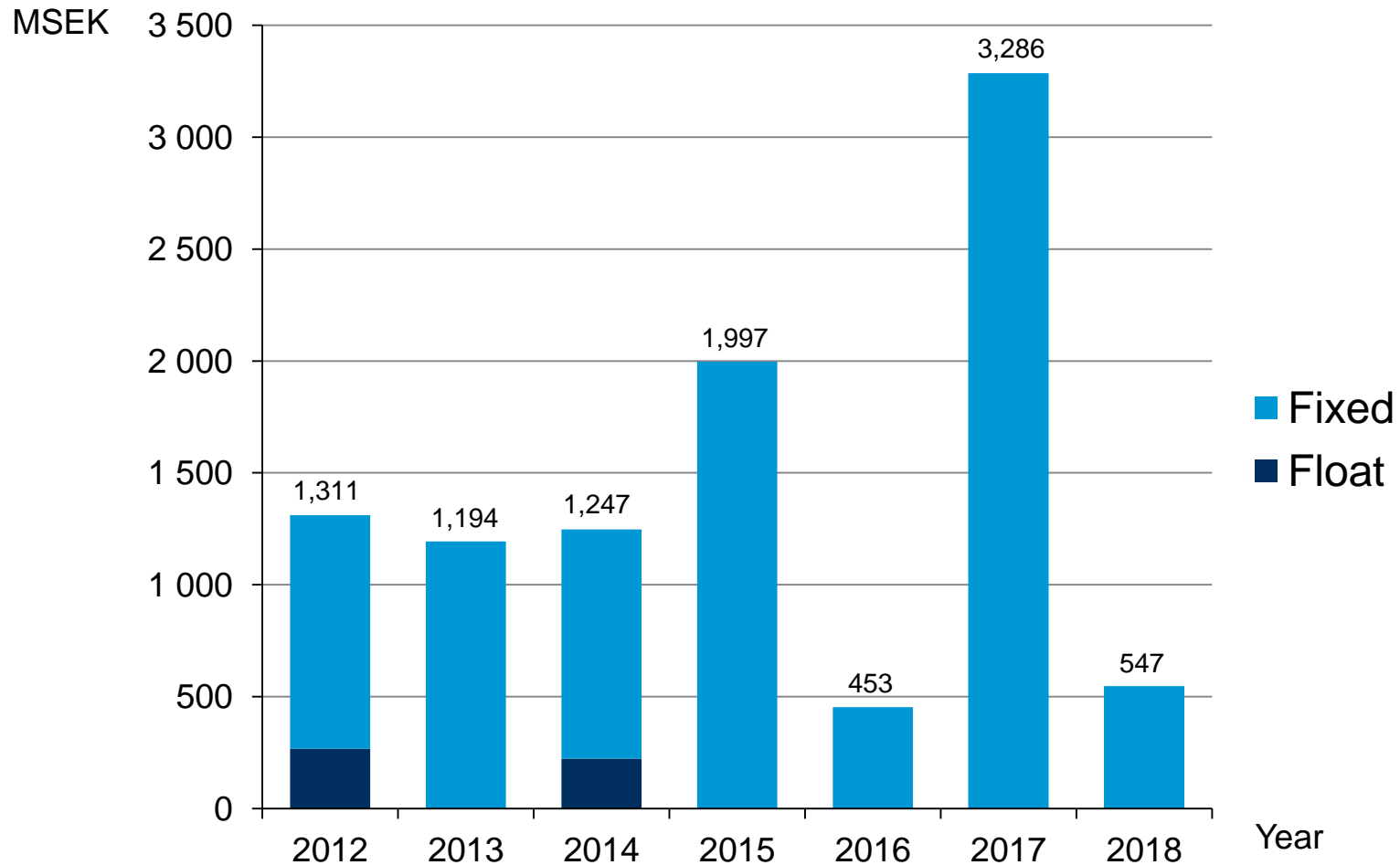
## ■ Financing and cash flow

- Cash flow from operating activities for the year amounted to 2,608 MSEK (2,616, including cash flow from businesses transferred to STG)
- Net finance cost for the fourth quarter was 134 MSEK (199, including 77 MSEK of realized value of discounted interest as a result of the repurchase of bond loans)
  - The higher underlying finance cost due to a higher net debt and higher interest rates on longer maturity of the bond portfolio, partially offset by higher interest earned on cash
- Net debt/EBITA\* was 2.6 for the year

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

# Maturity profile of interest bearing liabilities\*

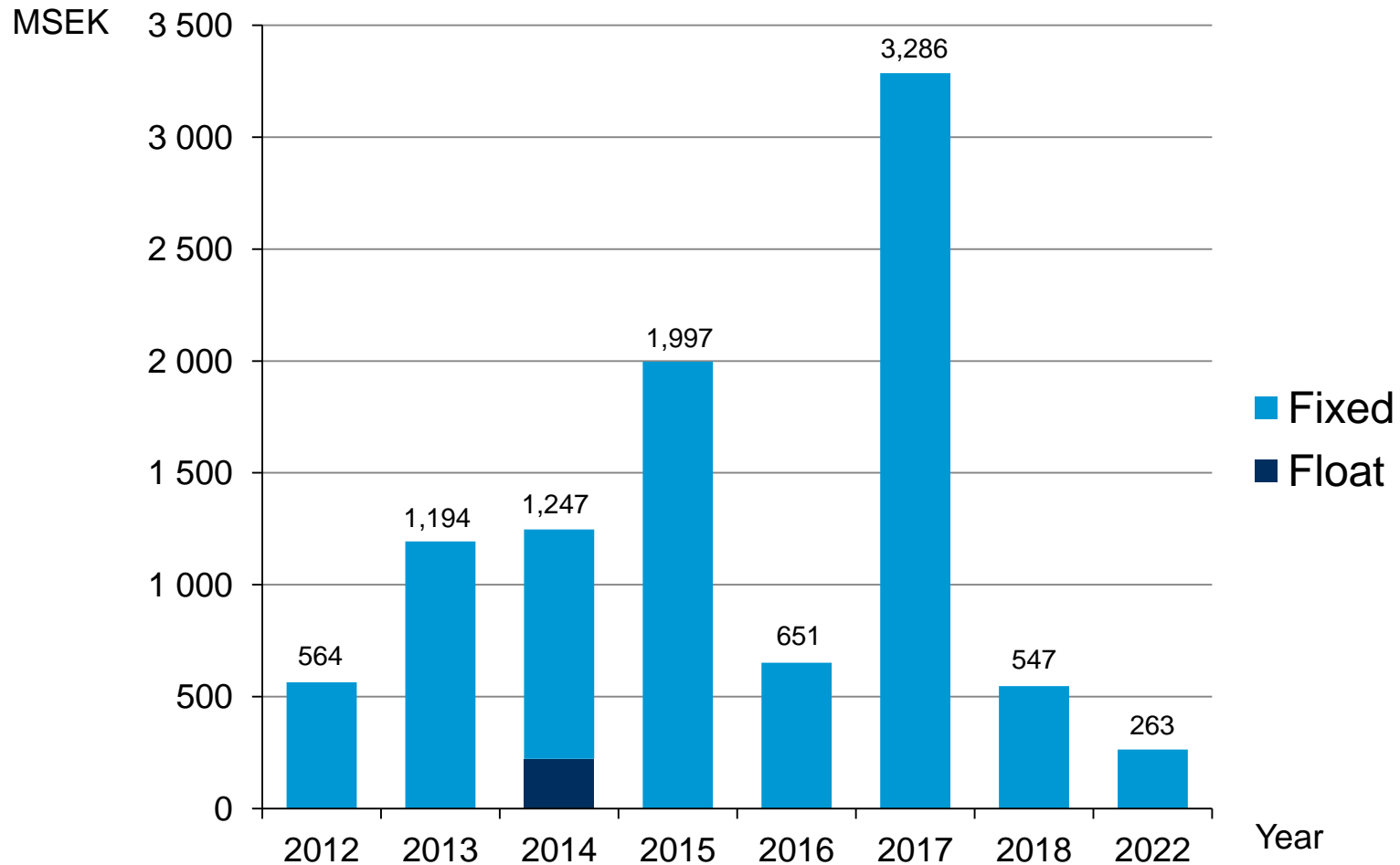
As of December 31, 2011



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

# Maturity profile of interest bearing liabilities\*

As of February 21, 2012



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

# Snus - Scandinavia

Selection of launches / new designs in Scandinavia the past 6 months

Sweden



Norway





# 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

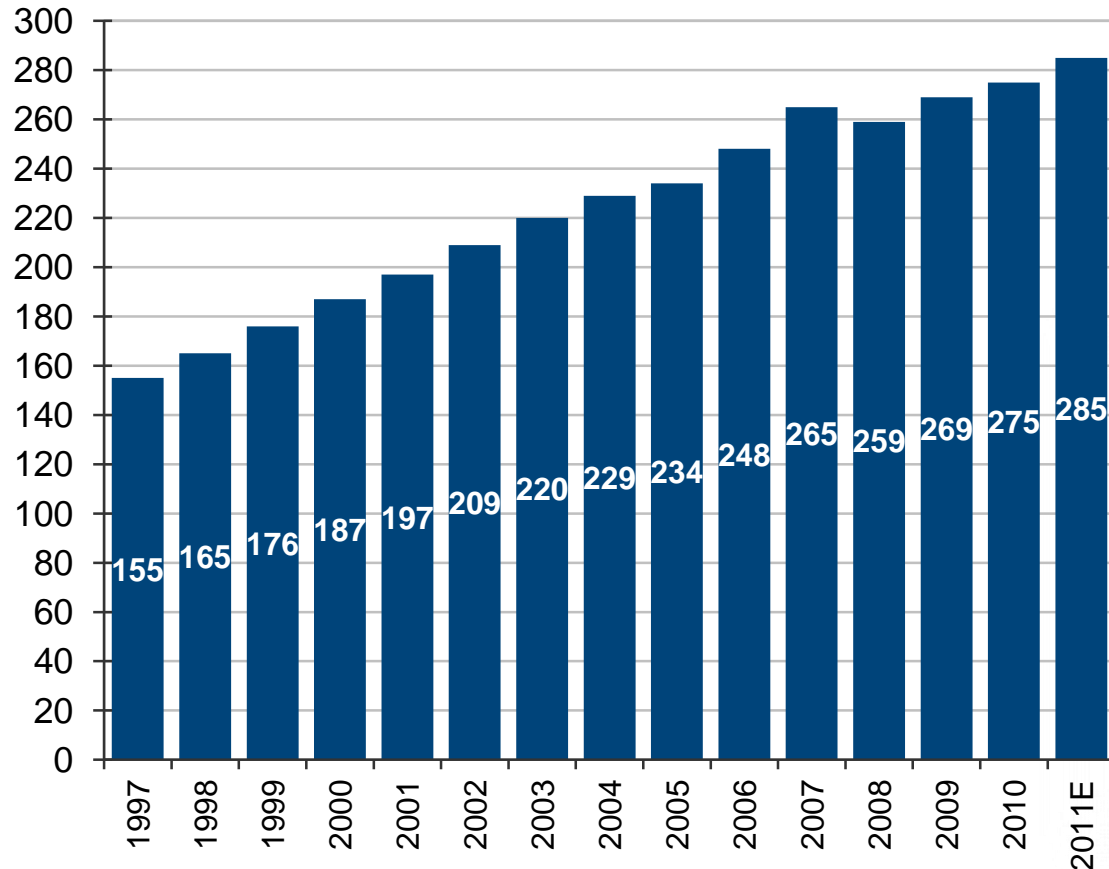
- Scandinavia snus sales up 11% in Q4
  - Scandinavian volumes up close to 5% in Q4
  - Underlying volume estimated to be up 3%
  - Hoarding volume of 2 million cans in Sweden in December
  - Tax increase of 13.7% in Sweden on January 1
  - Weight adjustments and price increases in Sweden January 1
- US snus and moist snuff sales down 4% in USD in Q4
  - US moist snuff volumes flat versus prior year in Q4
  - Sales and volumes for moist snuff flat for the year to date
  - Continued investments in Swedish snus with positive trends
- Q4 margins impacted by higher spending behind US/international snus expansion, and write-downs
  - Expansion of General snus in US
  - St. Petersburg test of Parliament snus
  - Write-downs of inventory in Sweden (6 MSEK) and US (5 MSEK)
  - Q4 margins above year ago levels when backing out above effects



MSEK	Q4-2011	Q4-2010	chg	Full year 2011	Full year 2010	chg
Sales	1,266	1,178	8	4,726	4,522	5
Operating profit	581	567	3	2,181	2,080	5
Operating margin, %	45.9	48.1		46.1	46.0	

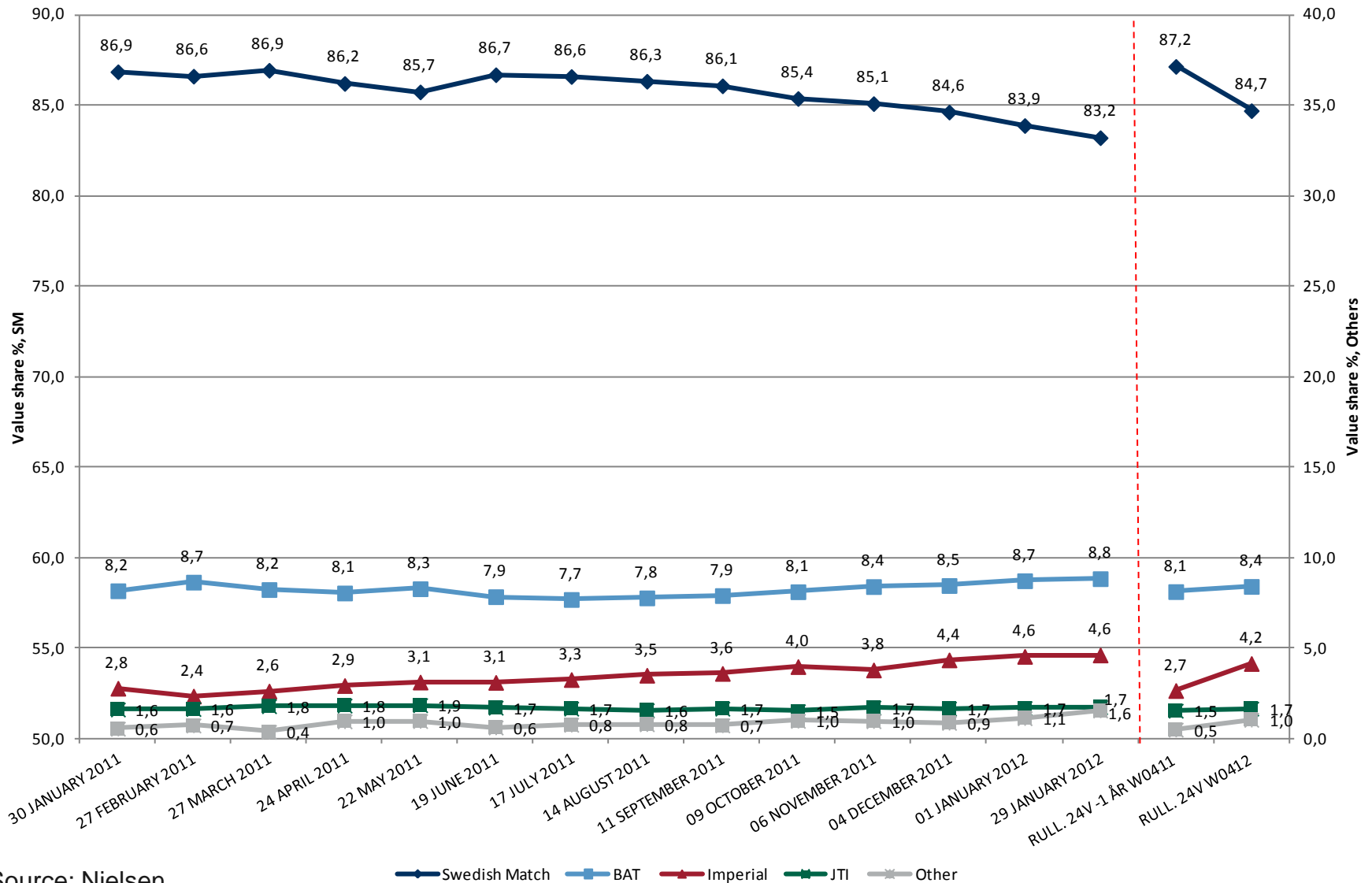
# Estimated Scandinavian snus consumption

## Cans/millions



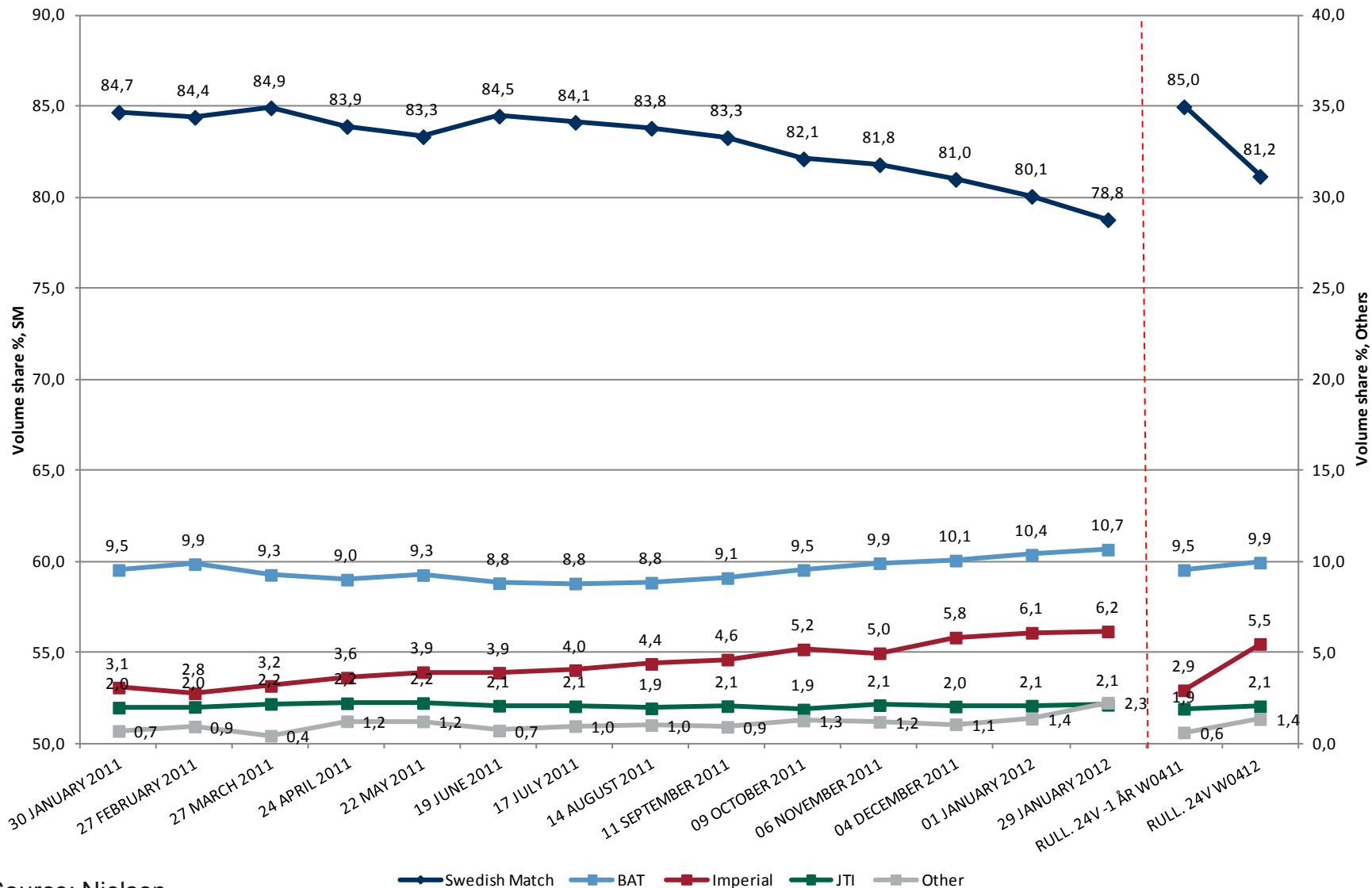
Source: Swedish Match estimates, adjusted for hoarding in Sweden (estimated hoarding volumes Q4 2006 and Q4 2007 moved to 2007 and 2008 to more accurately reflect consumption).

# Value shares, snus, Sweden



Source: Nielsen

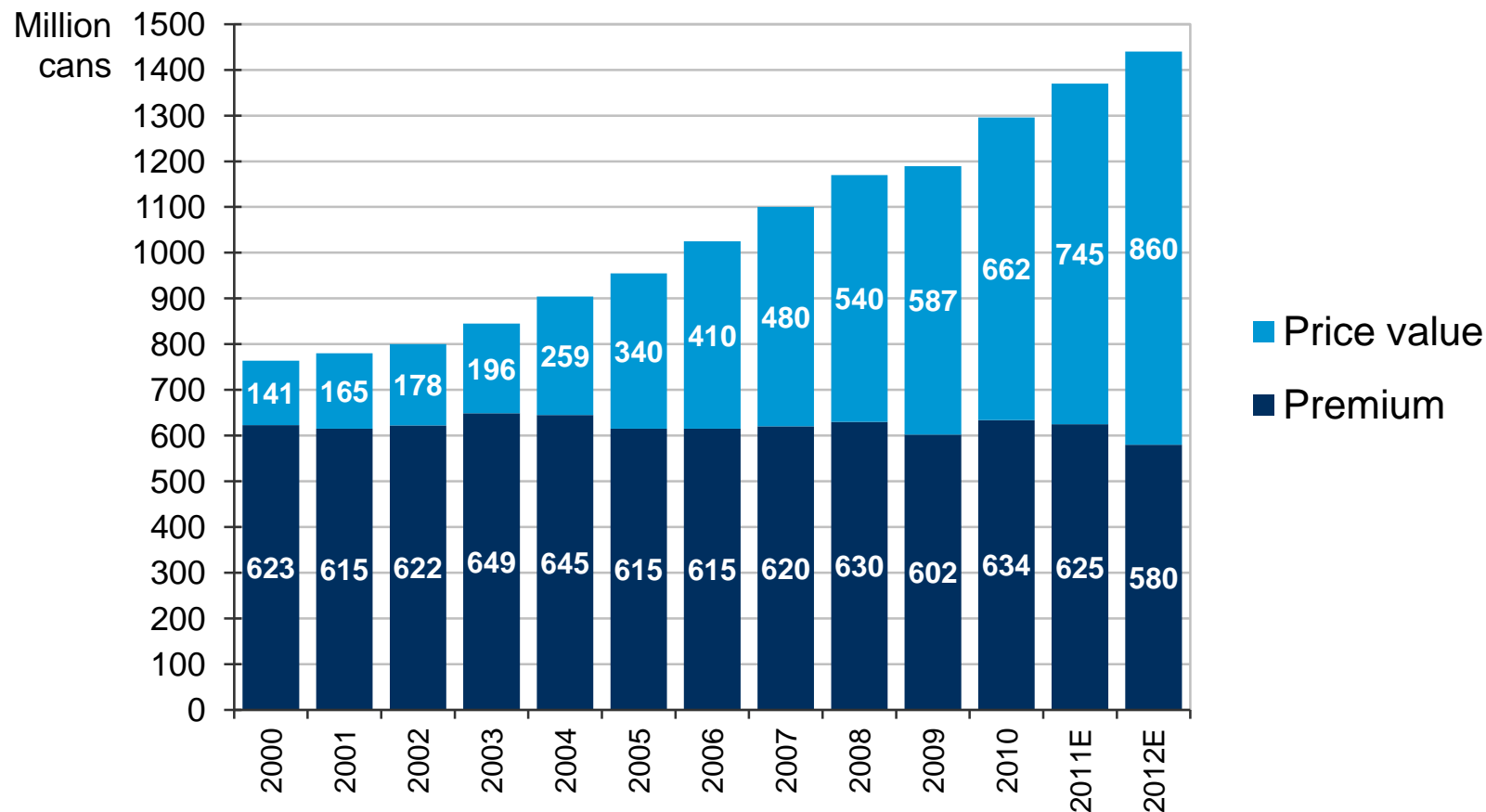
# Volume shares, snus, Sweden



Source: Nielsen

# Volume growth of moist snuff in the US

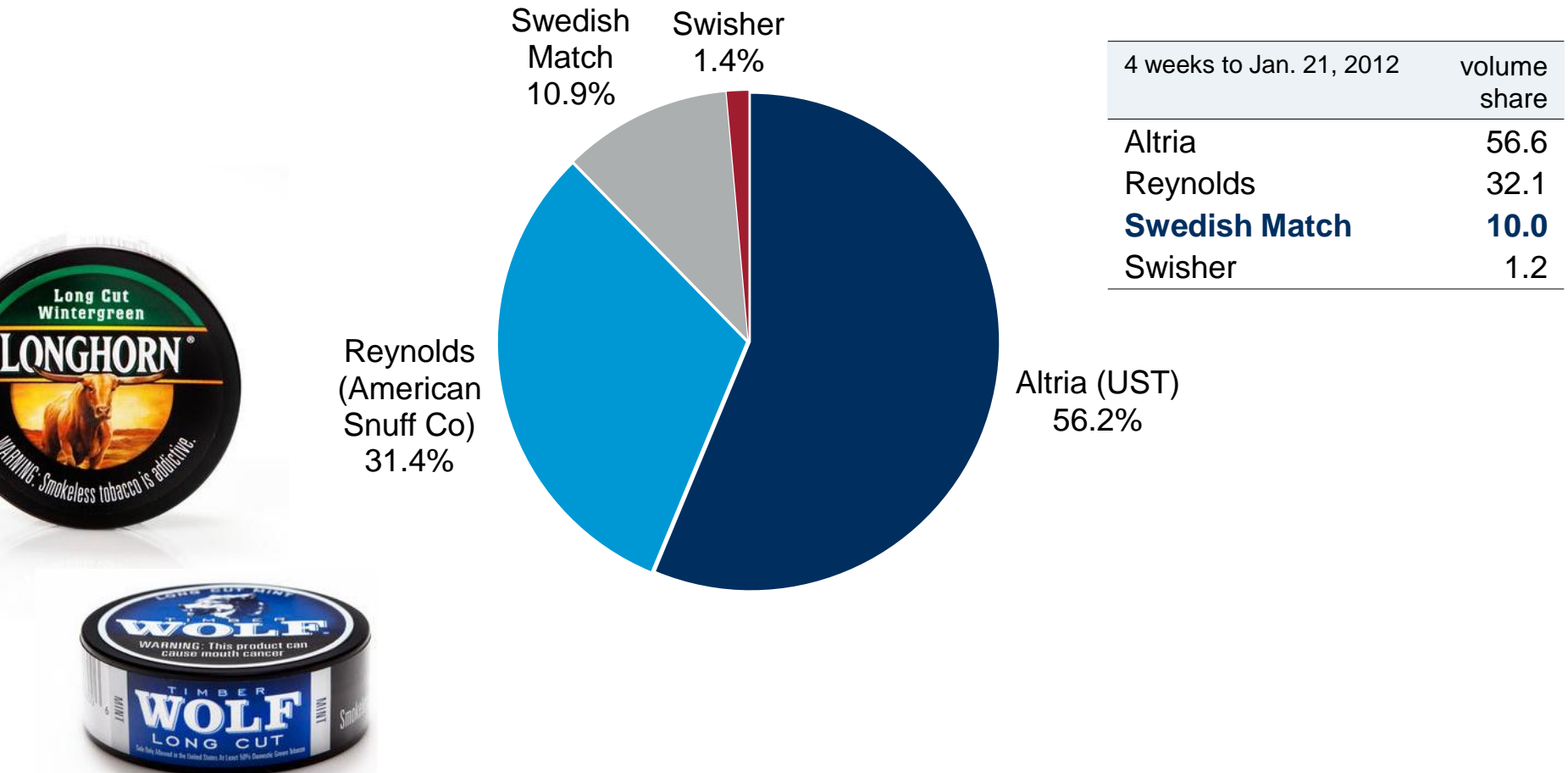
## US snuff market by segment



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 December 24, 2011



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

# Snus expansion

## Snus in the US

- *General* snus now in more than 3,500 stores in the US
  - Good sell-through/rotation in stores
  - Distribution expansion continues
  - New packaging format also available in Classic Blend and Nordic Mint (10/15 count)
    - Most stores began selling products in Sept/Oct
    - Placed into broader distribution in Chicago, Dallas and Philadelphia during the fourth quarter



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

- New test launch under the *Parliament* brand in St. Petersburg, Russia, started in December 2011
- 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)
- Test launch of *General* in Taiwan started in September 2010



# 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 6.8% YTD to December 24, 2011 (Nielsen)



# Other tobacco products

## Fourth quarter sales up 3% 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 14% in Q4)
- In local currency, Q4 sales up 3% and operating profit up 21%
- Volume growth on cigars from increased consumption, added distribution of new products, as well as promotional activity
- Chewing tobacco sales and operating profit down in local currency vs. year ago in Q4, on 14% lower volumes
- Chewing tobacco volumes down 12% YTD, due in large part to lower contract manufacturing volumes - chewing tobacco volume of own brands down <7% YTD
- Q2 2010 operating profit included 10 MSEK charge (Piccanell)



MSEK	Q4-2011	Q4-2010	chg	Full year 2011	Full year 2010	chg
Sales	578	557	4	2,388	2,440	-2
Operating profit	255	208	22	1,049	942	11
Operating margin, %	44.1	37.4		44.0	38.6	

# Other tobacco products

## US mass market cigars

- US mass market sales show strong growth
  - Q4 sales increased more than 10% in local currency compared to previous year. Operating profit also significantly higher – more than sales growth
  - Excluding little cigars, market share is 14.5% YTD, vs. 11.6% year ago (Nielsen, Dec. 24, 2011)
    - Share 15.6% 4 weeks to January 21, 2012 (Nielsen)
- Continued success for FoilFresh® cigars and strong growth for White Owl (Sweets, Green Sweets, and new launch of White Owl Silver)
- Mix shift since 2009 from larger cigars to smaller, less expensive cigars

## Chewing tobacco

- Continued market decline
  - 2011 category down 6.8% YTD to Dec. 24 (Nielsen)
  - Swedish Match brands down 6.7% to Dec. 24, 2011 (Nielsen)
- Price increase of 5% in November/December 2010



# Lights

## Q4 sales down 1%, operating profit down 5% 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

- Operating profit up for lighters on stronger volumes and sales
- Operating profit down for matches, impacted by currency translation and transaction effects
- Cricket lighters show good momentum in Asia
- Bulgarian production unit sold in Q2, continue to source products from new owner
- Lights distribution by STG in several markets



MSEK	Q4-2011	Q4-2010	chg	Full year 2011	Full year 2010	chg
Sales	364	379	-4	1,346	1,429	-6
Operating profit	80	87	-9	240	279	-14
Operating margin, %	21.9	23.0		17.9	19.5	

# Scandinavian Tobacco Group (STG)

- Swedish Match share of STG net profit after interest and tax\* amounted to 124 MSEK in Q4
  - Swedish Match share of net profit includes the reversal of a provision of 11 MSEK
- Excluding Lane, restructuring costs and one time costs, EBITDA increased by 17 percent compared to the fourth quarter of 2010
  - EBITDA increased for all product groups of Scandinavian Tobacco Group compared to Q4 year ago, primarily due to realized synergies and lower operating expenses
  - Premium cigar sales up on higher volumes, but some shift to smaller, less expensive cigars
  - Mass market cigar sales down on lower volumes
  - Strong volume performance for fine cut tobacco
  - Lane volumes relatively low during the quarter, resulting in lower EBITDA than expected

\*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.



# P & L summary

MSEK	Q4- 2011	Q4-2010	chg	Full year 2011	Full year 2010	chg
<b>Sales</b>	<b>3,064</b>	<b>2,801</b>	<b>9</b>	<b>11,666</b>	<b>13,606</b>	<b>-14</b>
Cost of goods sold	-1,515	-1,338		-5,774	-6,662	
<b>Gross profit</b>	<b>1,549</b>	<b>1,463</b>	<b>6</b>	<b>5,892</b>	<b>6,944</b>	<b>-15</b>
Selling and administrative expenses	-648	-621		-2,516	-3,356	
Share of profit/loss in associated companies and joint ventures	120	-65		327	-62	
Net gain from pension settlements	-	59		-	59	
Capital gain from transfer of businesses to STG	-	585		-	585	
<b>Operating profit</b>	<b>1,022</b>	<b>1,421</b>	<b>-28</b>	<b>3,702</b>	<b>4,169</b>	<b>-11</b>
Finance income	8	8		37	27	
Finance costs	-142	-207		-560	-590	
Net finance cost	-134	-199		-523	-562	
<b>Profit before income tax</b>	<b>888</b>	<b>1,221</b>	<b>-27</b>	<b>3,180</b>	<b>3,607</b>	<b>-12</b>
Income tax expense	-183	-148		-642	-649	
<b>Profit for the period</b>	<b>705</b>	<b>1,074</b>	<b>-34</b>	<b>2,538</b>	<b>2,958</b>	<b>-14</b>
EPS, basic, SEK	3.42	4.85		12.14	13.12	
EPS, diluted, SEK	3.40	4.83		12.07	13.09	

# Balance sheet in summary

MSEK	Dec 31, 2011	Dec 31, 2010
Intangible assets	992	1,027
Property, plant and equipment	2,076	2,097
Investments in associated companies and joint ventures	4,481	4,085
Other non-current financial receivables*	1,395	1,368
Current operating assets	3,031	2,886
Other current investments and current financial assets	-	1
Cash and cash equivalents	2,533	3,275
<b>Total assets</b>	<b>14,507</b>	<b>14,739</b>
Equity attributable to equity holders of the Parent	-1,602	-484
Non-controlling interests	2	2
<b>Total equity</b>	<b>-1,599</b>	<b>-482</b>
Non-current provisions	1,070	1,050
Non-current loans	8,535	9,209
Other non-current financial liabilities*	1,787	1,478
Current provisions	84	98
Current loans	1,283	525
Other current liabilities*	3,347	2,861
<b>Total equity and liabilities</b>	<b>14,507</b>	<b>14,739</b>

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

# Cash flow in summary

MSEK	Full year 2011	Full year 2010
<b>Cash flow from operating activities before changes in working capital</b>	<b>2,445</b>	<b>2,576</b>
Cash flow from changes in working capital	163	40
<b>Net cash from operating activities</b>	<b>2,608</b>	<b>2,616</b>
Purchase of property, plant and equipment	-245	-311
Proceeds from sale of property, plant and equipment	3	6
Purchase of intangible assets	-22	-51
Net proceeds from businesses transferred to STG*	-	1,439
Investments in associated companies and joint ventures*	-28	-123
Investments in other companies*	-4	-
Proceed from sales of subsidiaries, net of cash disposed of*	143	-
Changes in financial receivables etc.	1	-1
Changes in other current investments	1	-
<b>Net cash used in investing activities</b>	<b>-151</b>	<b>959</b>
Changes in loans	149	1,281
Dividend paid to equity holders of the Parent	-1,152	-1,089
Repurchase of own shares	-2,371	-3,014
Stock options exercised	67	53
Other	88	122
<b>Net cash used in financing activities</b>	<b>-3,219</b>	<b>-2,646</b>
<b>Net decrease in cash and cash equivalents</b>	<b>-763</b>	<b>928</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	21	-183
<b>Cash and cash equivalents at the end of the period</b>	<b>2,533</b>	<b>3,275</b>

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



# Key data

MSEK	Full year 2011	Full year 2010
Operating margin, %	31.7	25.2
Operating capital, MSEK	7,224	7,099
Return on operating capital, %	51.7	44.0
EBITDA, MSEK*	3,992	3,813
EBITA, MSEK*	3,759	3,527
Net debt, MSEK	8,886	7,650
Net debt/EBITA*	2.4	2.2
Investments in property, plant and equipment, MSEK*	245	311
EBITA interest cover	7.4	7.0
<i>Excl. businesses transferred to STG and share of net profit/loss in STG</i>		
EBITA, MSEK*	3,422	3,209
Net debt/EBITA*	2.6	2.4
<b>Share data</b>		
Earnings per share, basic, SEK	12.14	13.12
Earnings per share, diluted, SEK	12.07	13.09
Average number of shares outstanding, basic (Mio)	209.0	225.3
Shares outstanding, end of period (Mio)	204.2	214.8

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

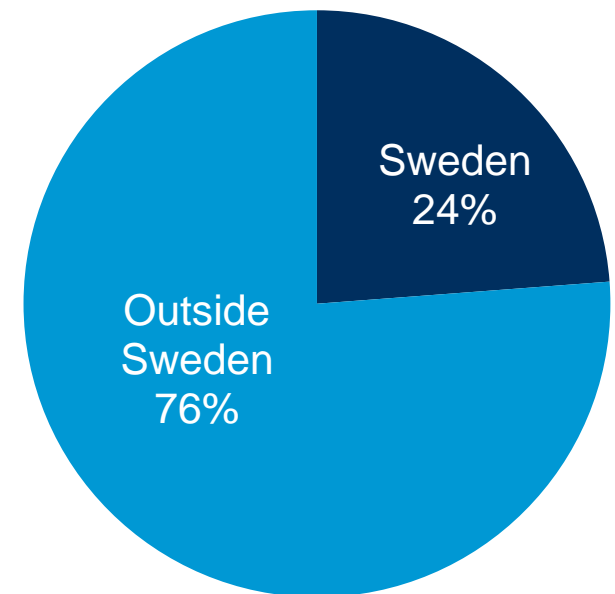
# Largest shareholders\*

As per December 31, 2011

## Largest shareholders

Morgan Stanley Investment Management	6.2%
Swedbank Robur Funds	2.9%
Standard Life Investment Funds	2.1%
AMF Insurance & Funds	2.0%
Fidelity Funds	1.4%
SEB Funds	1.2%
Second Swedish National Pension Fund	1.0%
Parvus Asset Management	0.9%
SHB Funds	0.8%
Fourth Swedish National Pension Fund	0.7%
	<hr/>
	19.2%

51,646 shareholders



Source: Euroclear, official registry and SIS Ägaranalys.

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

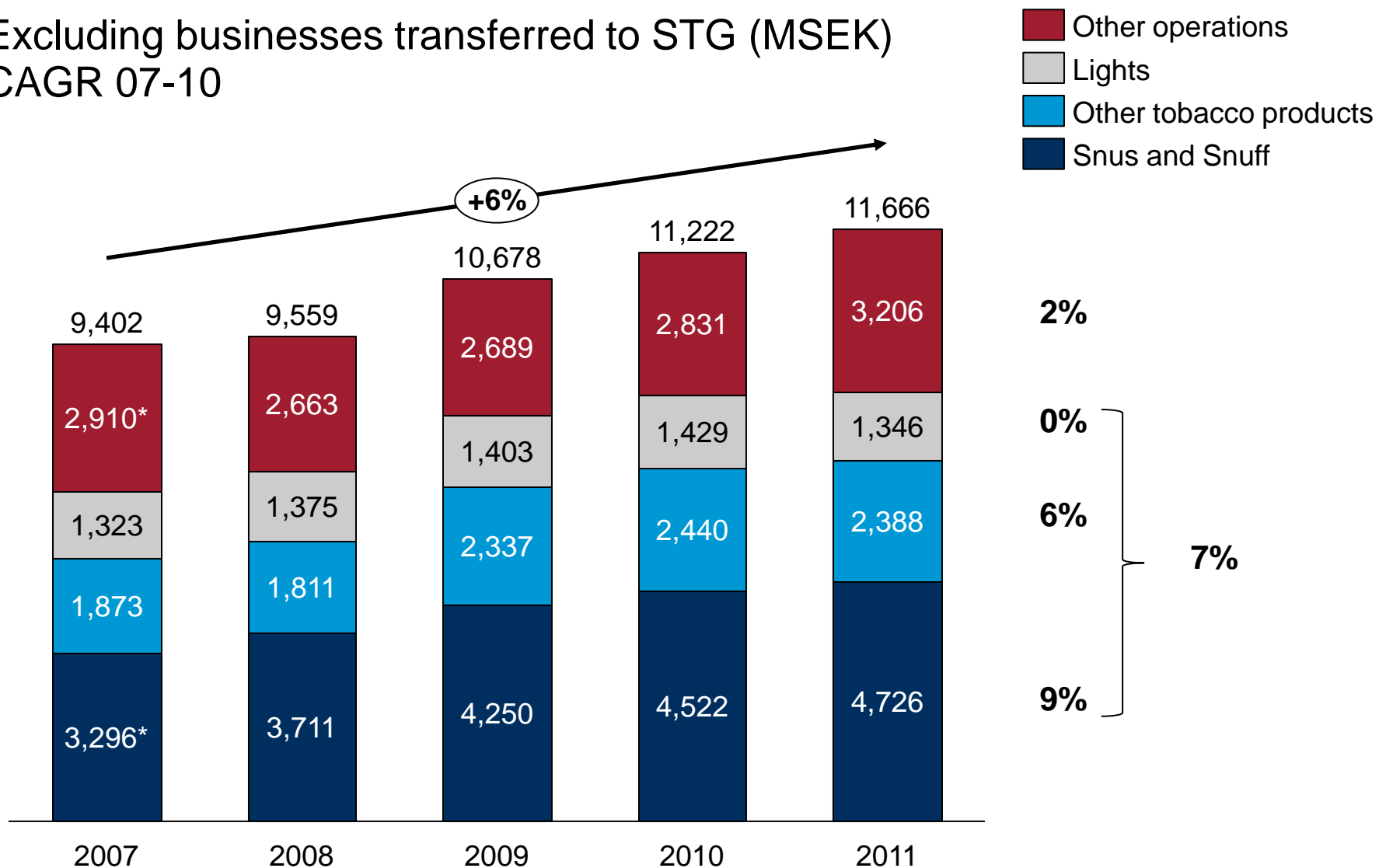
# Group strategy

- 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

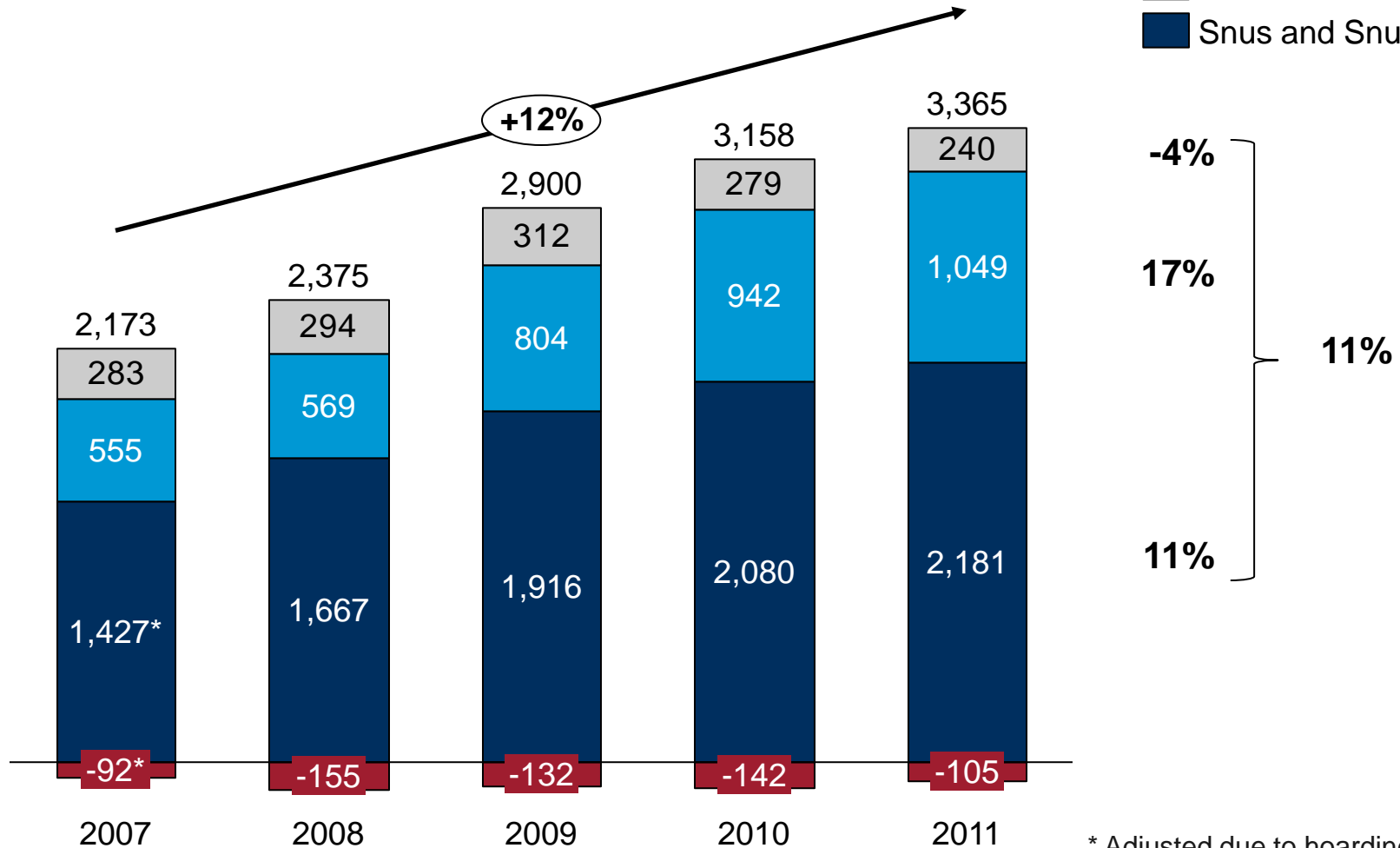


\* Adjusted due to hoarding in 2006.

# Comparable operating profit

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

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



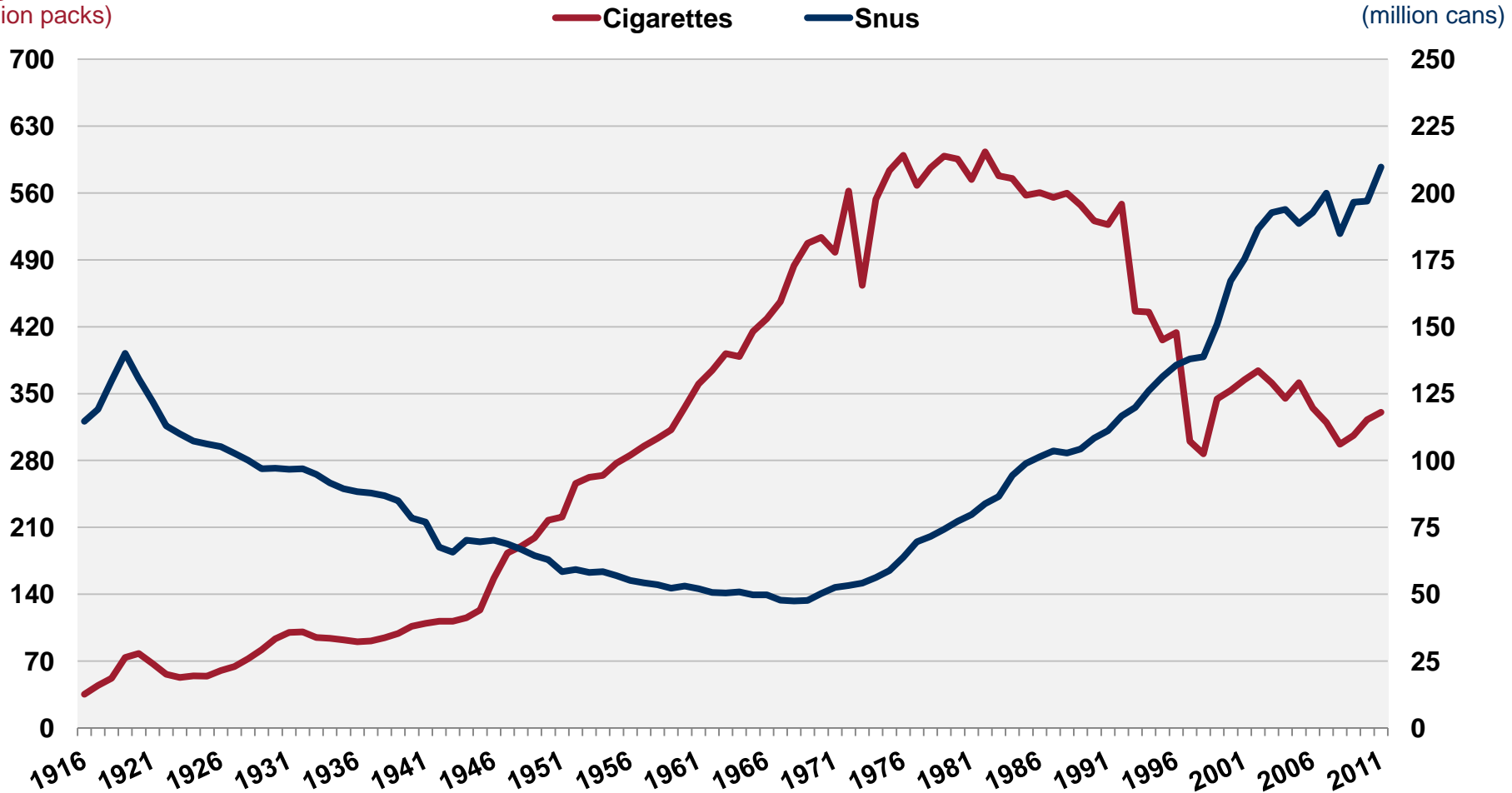
\* Adjusted due to hoarding in 2006.

# Snus vs. cigarettes in Sweden

## Volume of snus and cigarettes in Sweden 1916-2011

**Cigarettes**  
(million packs)

**Snus**  
(million cans)



\* Adjusted for estimated snus hoarding 1996, 1997, 2006, 2007, 2008, and 2011.

Source: Swedish Match Distribution AB and Swedish Match estimates.