

# Q2 2014

## Investor Kit

### JANUARY-JUNE 2014



# Swedish Match reporting segments

## ■ Snus and moist snuff

- Snus (Scandinavia and US)
- Moist snuff (US)
- SMPM International

## ■ Other tobacco products

- Cigars (US)
- Chewing tobacco (US)

## ■ Lights

- Lighters
- Matches
- Complementary and fire related products

## ■ Other operations

- Distribution
- Central costs

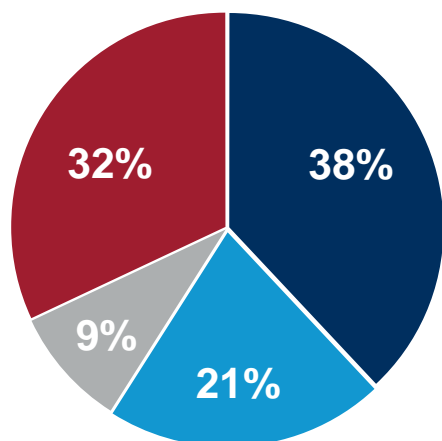


# Sales and operating profit

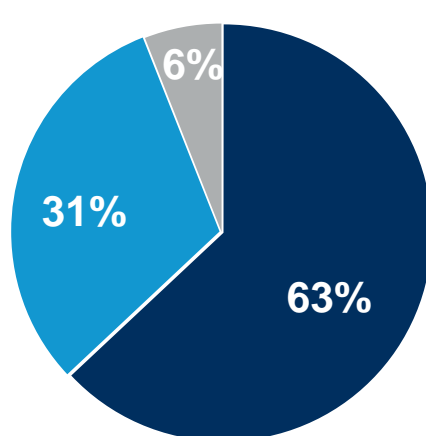
## Sales and operating profit by product area

Q2 2014

Sales, SEK



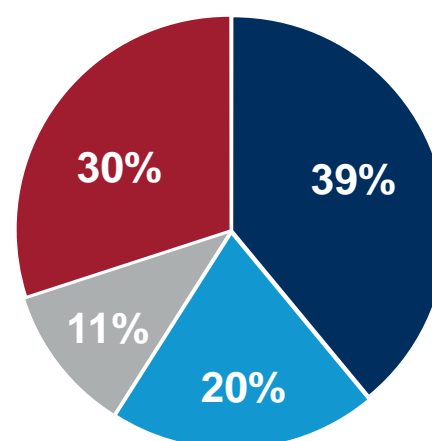
Operating profit\*, SEK



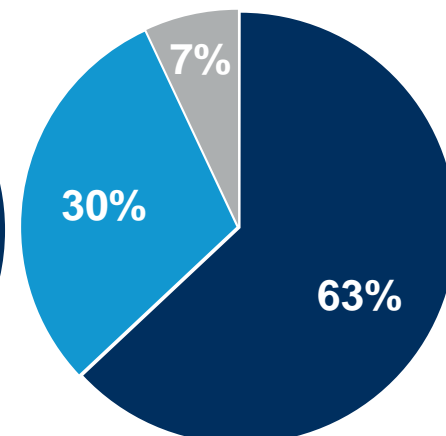
- Snus and moist snuff
- Other tobacco products
- Lights
- Other operations

Full year 2013

Sales, SEK



Operating profit\*, SEK



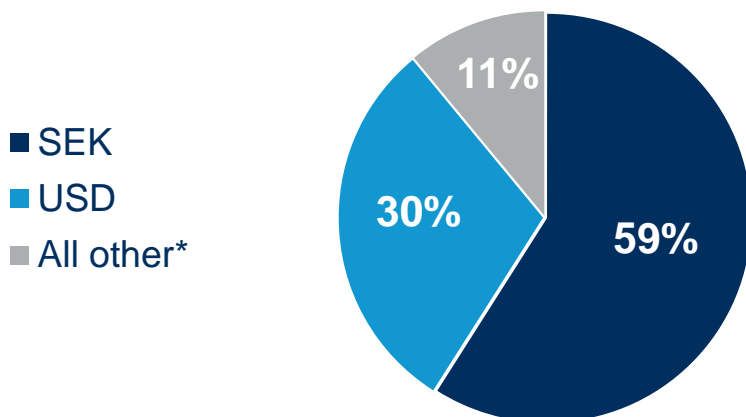
- Snus and moist snuff
- Other tobacco products
- Lights
- Other operations

\* Excluding Other operations, share of net profit in STG and larger one-time items.

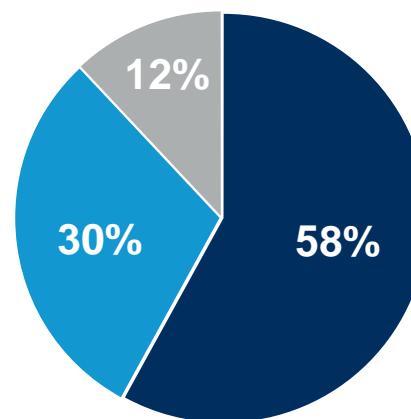
# Sales by currency block

## Percent of sales, MSEK

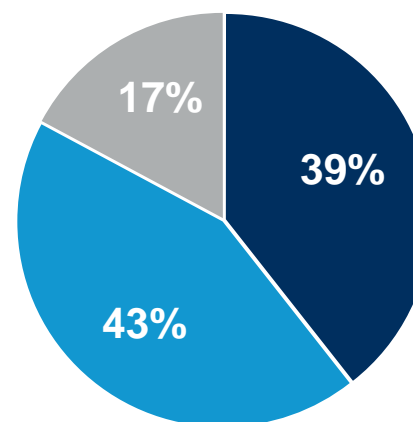
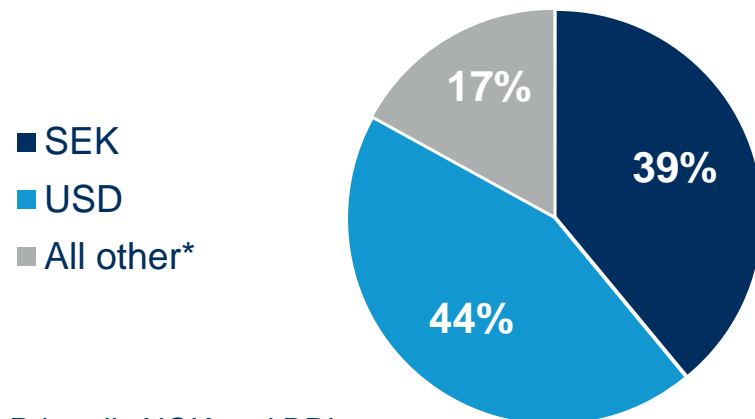
Q2 2014



Full year 2013



## Excluding Other operations



\* Primarily NOK and BRL.

# Group results – second quarter 2014

- **Sales amounted to 3,339 MSEK (3,220)**
  - In local currencies, sales increased by 4%
- **Operating profit from product areas amounted to 862 MSEK (871)**
  - Operating profit from product areas declined by 1%, adversely impacted by price/mix effects for cigars, lower volumes for moist snuff, and volume/mix effects from Lights
  - Operating margin from product areas, excluding other operations, was slightly down to 39.3% vs 39.8%
  - Operating profit, including share of net profit in STG, declined to 941 MSEK (968, including 2 MSEK capital gain on sale of land)
- **Profit before income tax amounted to 816 MSEK (830)**
  - Q2 2013 included a one-time gain on sale of land of 2 MSEK (total of 161 MSEK in the first six months)
- **Profit for the period amounted to 651 MSEK (667)**
- **EPS (basic) excluding one-time items was 3.27 SEK (3.33)**
- **EPS (basic) was 3.27 SEK (3.34)**



# Conclusions, second quarter – sales

- **Sales up 4% in local currencies and in SEK**
- **Snus sales in Scandinavia increased by 5%**
  - Shipment volumes for Scandinavia up by close to 5% vs. Q2 prior year
  - Adjusted for different timing of Easter between years, underlying shipment volumes estimated to have been 2% higher than Q2 prior year
  - Underlying volumes increased in Sweden, Norway and in Travel Retail
- **Moist snuff and snus sales in the US declined by 5% in USD**
  - Moist snuff volumes down 7% vs. Q2 prior year on lower volumes for traditional loose varieties, partly as a result of timing of promotions
  - Growth in volumes for pouches and tubs
- **Other tobacco products sales up 1% in USD**
  - Cigar sales up on 9% higher volumes, driven by strong growth for natural cigars
  - Average price per cigar adversely affected by increased promotions and negative product mix
  - Chewing tobacco sales in USD down with favorable pricing partially offsetting volume declines
  - Chewing tobacco volumes for own brands down by close to 8% following an exceptionally strong Q1
- **Lights sales down 7% in local currencies**
  - Lower sales for both lighters and matches in local currencies

# Conclusions, second quarter – operating profit

- **Operating profit from product areas\* declined by 1% in local currencies and in SEK**
- **Snus and moist snuff: operating profit up 3%**
  - Operating profits were up for Scandinavia snus, down for US moist snuff
  - Operating loss for international snus expansion (US, SMPM International) was 72 MSEK (82)
- **Other tobacco products: operating profit down 6% in local currency, down 5% in SEK**
  - Chewing tobacco operating profit slightly higher in local currency, with higher average prices
  - Cigar operating profit declined on a more promotional mix
- **Lights: operating profit down 7% in local currencies and in SEK**
  - Operating profit marginally higher for lighters and lower for matches in local currencies



\* Excluding share of net profit in STG and larger one-time items.

- **Tax rate for the Group was 20.4% for the first half of 2014**
  - Includes profit and loss impact from associated companies
  - The reported tax rate, excluding one-time items, associated companies, and joint ventures was 22% (22)
  - The tax rate in 2014, excluding one-time items, associated companies, and joint ventures is estimated to be around 22%
- **Cash flow from operations**
  - Cash and cash equivalents were 3,022 MSEK on June 30, 2014 vs. 3,164 MSEK as of December 31, 2013
  - Cash flow from operating activities for the first six months was 1,921 MSEK (1,199), positively affected by timing of cash flow from changes in working capital
- **Share repurchases during the first six months amounted to 0.3 million shares totaling 68 MSEK**
  - No shares were repurchased during Q2
  - During the first six months, the Company sold 0.4 million treasury shares at an average price of 141.24 SEK, totaling 53 MSEK, as a result of option holders exercising options



# Financial policy and financing needs

## ■ Financial policy

- Dividend policy: 40 - 60% of earnings per share
- 2013 dividend: 7.30 SEK per share (7.30)
- Net debt not to exceed 3 times EBITA\*

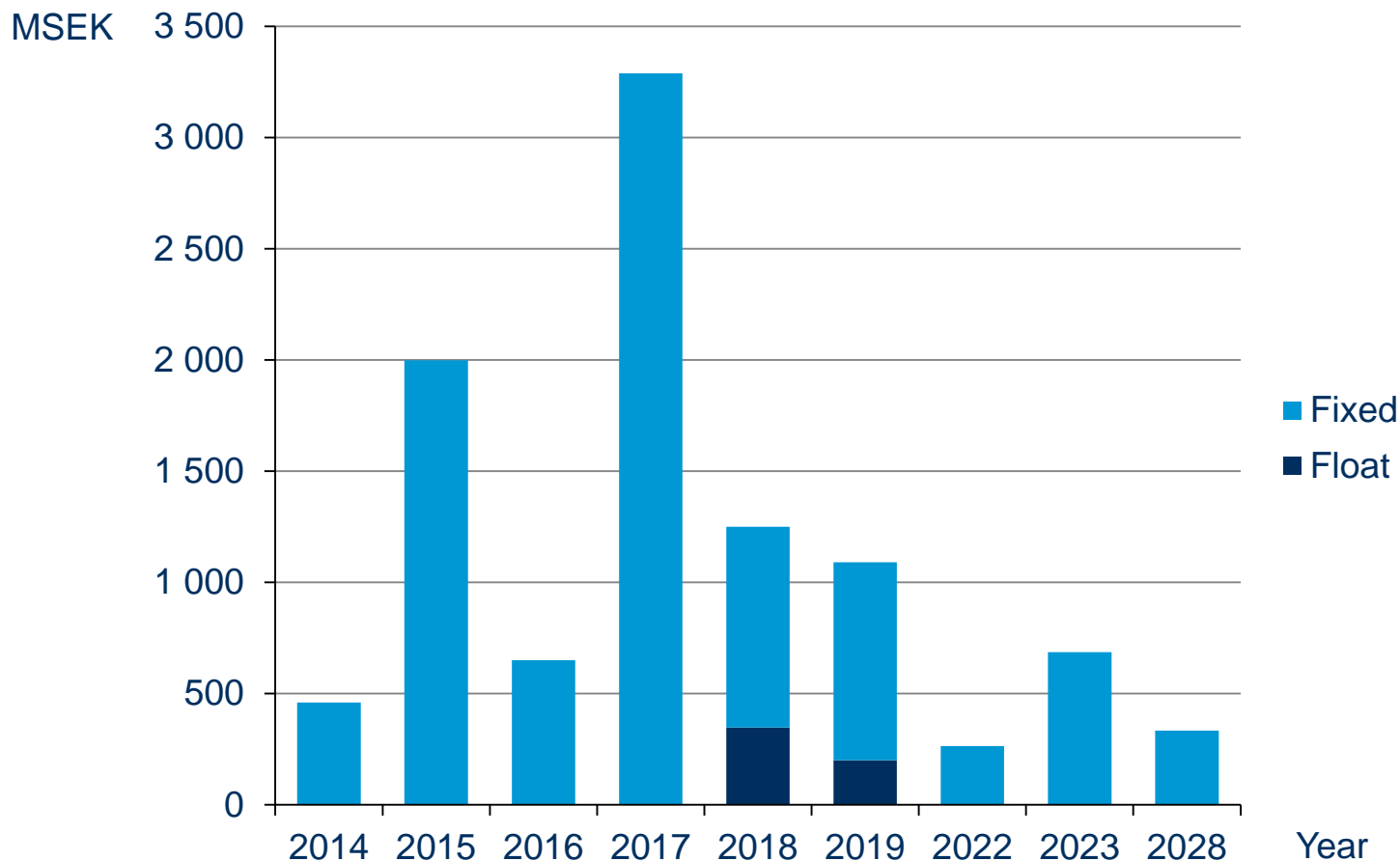
## ■ Financing and cash flow

- Cash flow from operating activities for the first six months amounted to 1,921 MSEK (1,199)
  - Positive change in working capital, mainly due to timing of payables/receivables
- Net finance cost for the first six months was 251 MSEK (274)
  - Decreased debt, lower average interest rates
- Net debt/EBITA\* was 2.4 for the 12 months ending June 30, 2014

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

# Maturity profile of interest bearing liabilities

As of June 30, 2014



# Snus and moist snuff

- Leading position for snus 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 the US**



# Snus and moist snuff

## Sales and operating profit up in Scandinavia

- **Scandinavia snus sales up 5% in Q2, operating profit also higher**
  - Volumes up 5%, up 2% when adjusting for Easter timing effects
  - Volumes up in Sweden and Norway, and for Travel Retail
  - Price reduction on *Kronan* implemented during the quarter
- **US snus and moist snuff sales down and operating profit up**
  - Moist snuff sales and operating profit were down
    - Lower moist snuff volume, but higher for pouches and tubs
  - Snus sales up, despite lower net shipment volumes, on price/mix
    - Slower pace of store expansion year on year
    - Gross shipments up year on year, net shipments somewhat lower
    - Net shipments negatively affected by product returns of old stock
  - Somewhat lower net investment behind US snus vs. prior year
- **Continued investment behind snus internationally**
  - Operating loss for international snus expansion was 72 MSEK (82)



MSEK	Q2-2014	Q2-2013	chg	H1-2014	H1-2013	chg	July 2013- June 2014	Full year 2013
Sales	1,267	1,230	3	2,421	2,403	1	4,886	4,868
Operating profit	562	546	3	1,067	1,080	-1	2,183	2,195
Operating margin, %	44.4	44.4		44.1	44.9		44.7	45.1

# Nielsen snus consumption data, Sweden\*

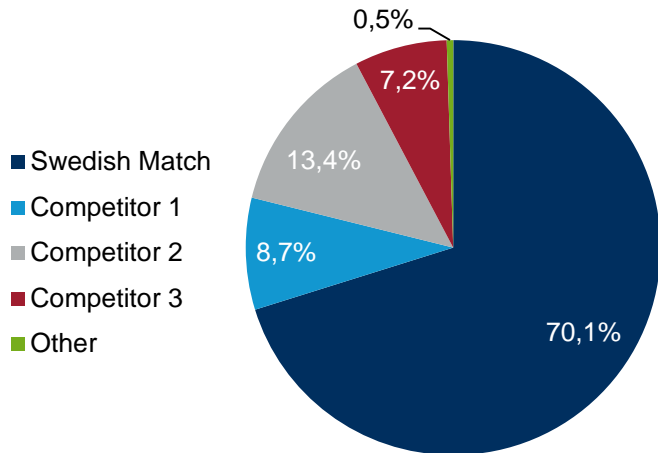
- **Swedish Match market share in value terms 4 weeks to June 15, 2014 was 76.9%; 24 week share was 76.9%**
  - 78.7% for 4 weeks to June 16, 2013; 79.2% for 24 weeks to June 16, 2013
- **Swedish Match total volume market share 4 weeks to June 15, 2014 was 69.9%; 24 week share was 70.1%**
  - 72.4% for 4 weeks to June 16, 2013; 72.9% for 24 weeks to June 16, 2013
- **Value segment\*\* was 42.8% of Swedish market 4 weeks to June 15, 2014; 24 week share was 42.4%**
  - 39.9% for 4 weeks to June 16, 2013; 38.6% for 24 weeks to June 16, 2013
- **Swedish Match share of value segment\*\* 4 weeks to June 15, 2014 was 37.5%; 24 week share was 37.4%**
  - 37.6% for 4 weeks to June 16, 2013; 36.7% for 24 weeks to June 16, 2013
- **Swedish Match share of premium segment\*\* 4 weeks to June 15, 2014 was 94.1%; 24 week share was 94.2%**
  - 95.5% for 4 weeks to June 16, 2013; 95.6% for 24 weeks to June 16, 2013

\* Source: Nielsen (excluding tobacconists). Volume basis, unless stated otherwise.

\*\* Segmentation by segment: premium and value (mid and low priced combined), made by Swedish Match, not Nielsen.

# Manufacturer share by price segment, Sweden

## Total volume shares



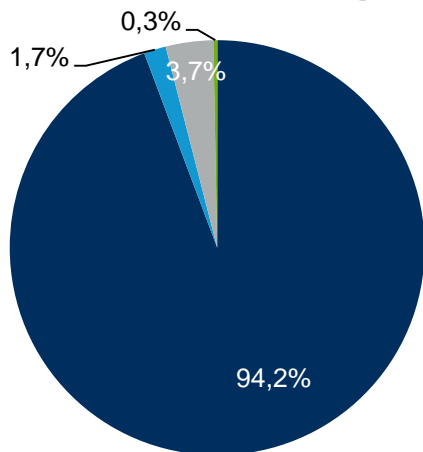
15 June 2014 (4 weeks ending),  
Swedish Match share of:

Premium segment was: 94.1%

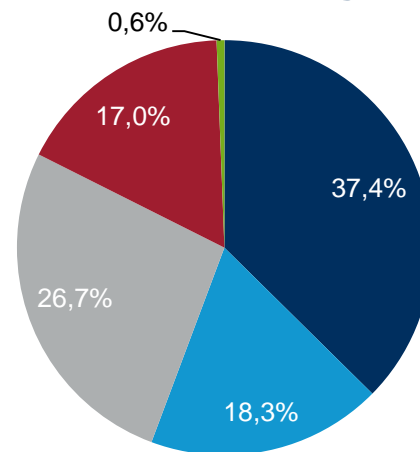
Value segment was: 37.5%

Total market was: 69.9%

## Share of premium segment



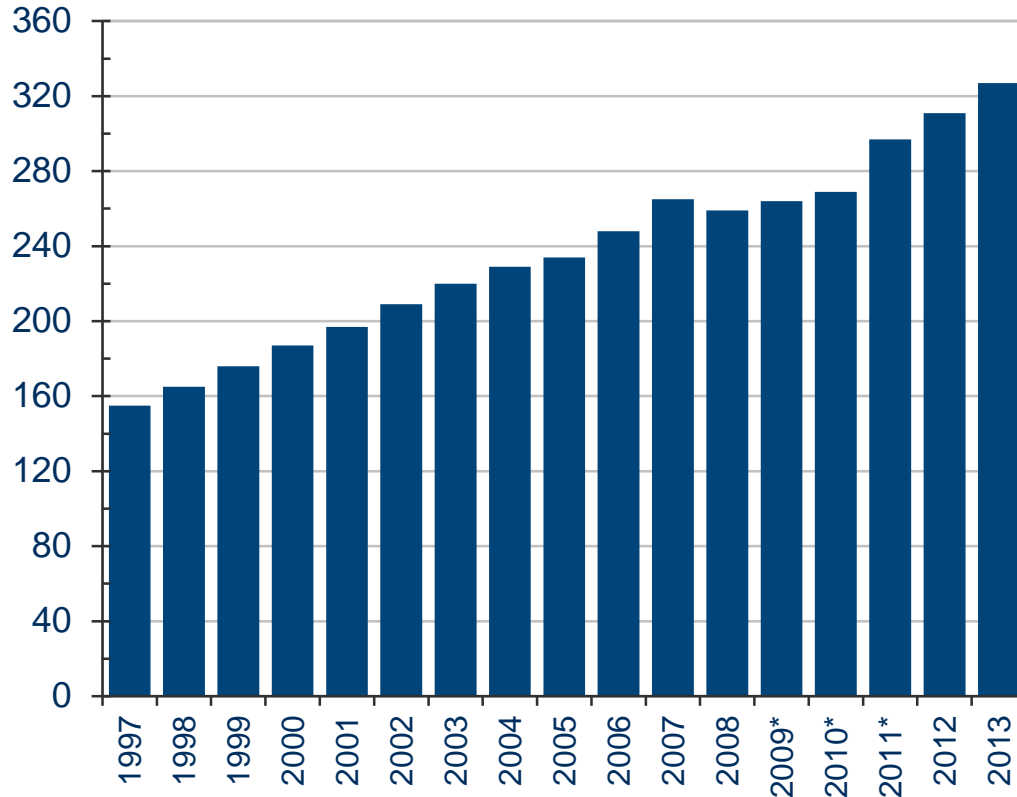
## Share of value segment



Source: Nielsen (excluding tobacconists), 24 weeks ending 15 June 2014.

# Estimated snus consumption, Scandinavia

## Million cans



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).

\* 2009 to 2011 figures rebased.

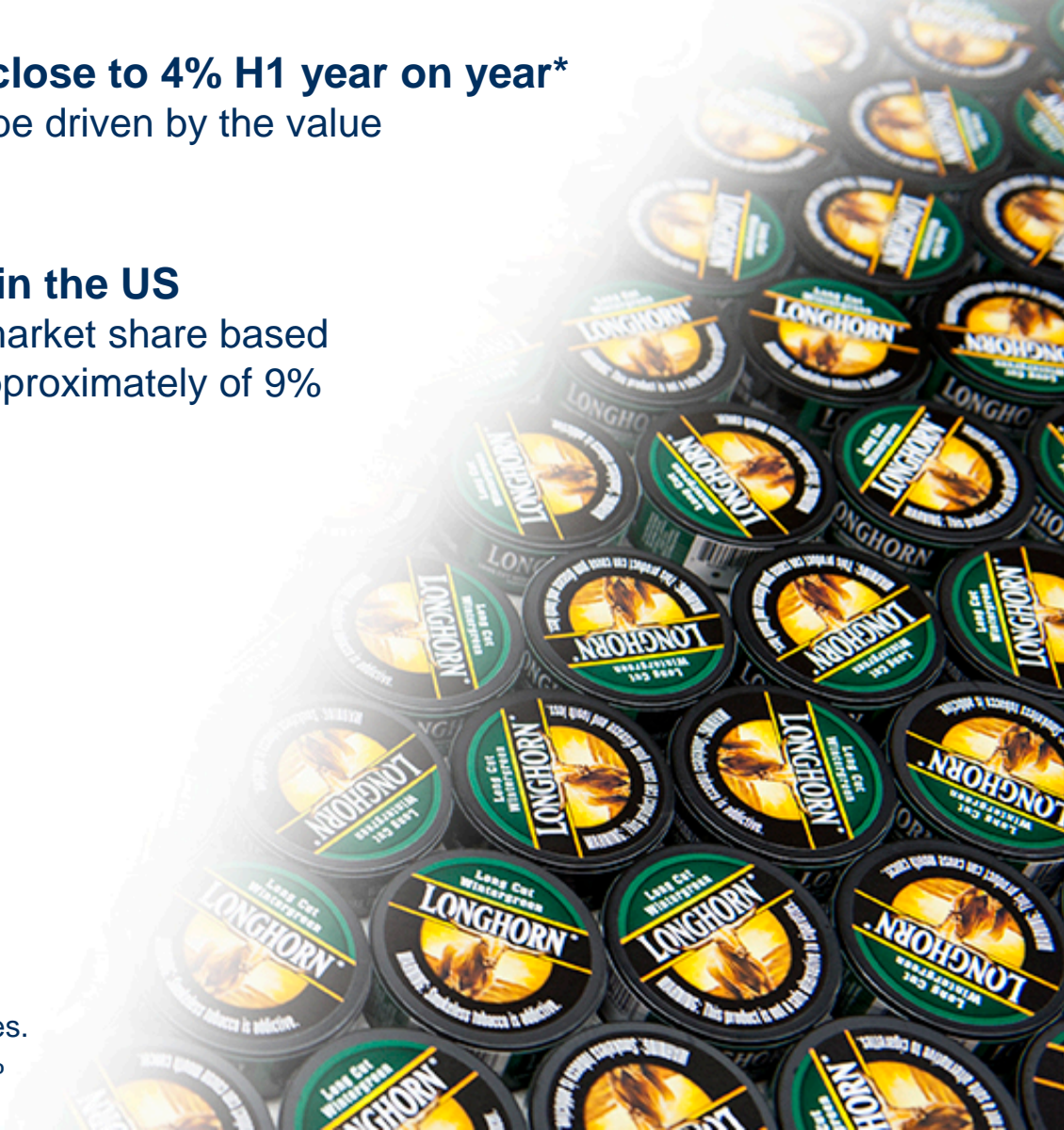




# Nielsen moist snuff consumption data, US

- **US moist snuff market up by close to 4% H1 year on year\***
  - Category growth continues to be driven by the value segment and pouches
- **Swedish Match market share in the US**
  - Swedish Match estimates its market share based on industry shipments to be approximately of 9% of the market

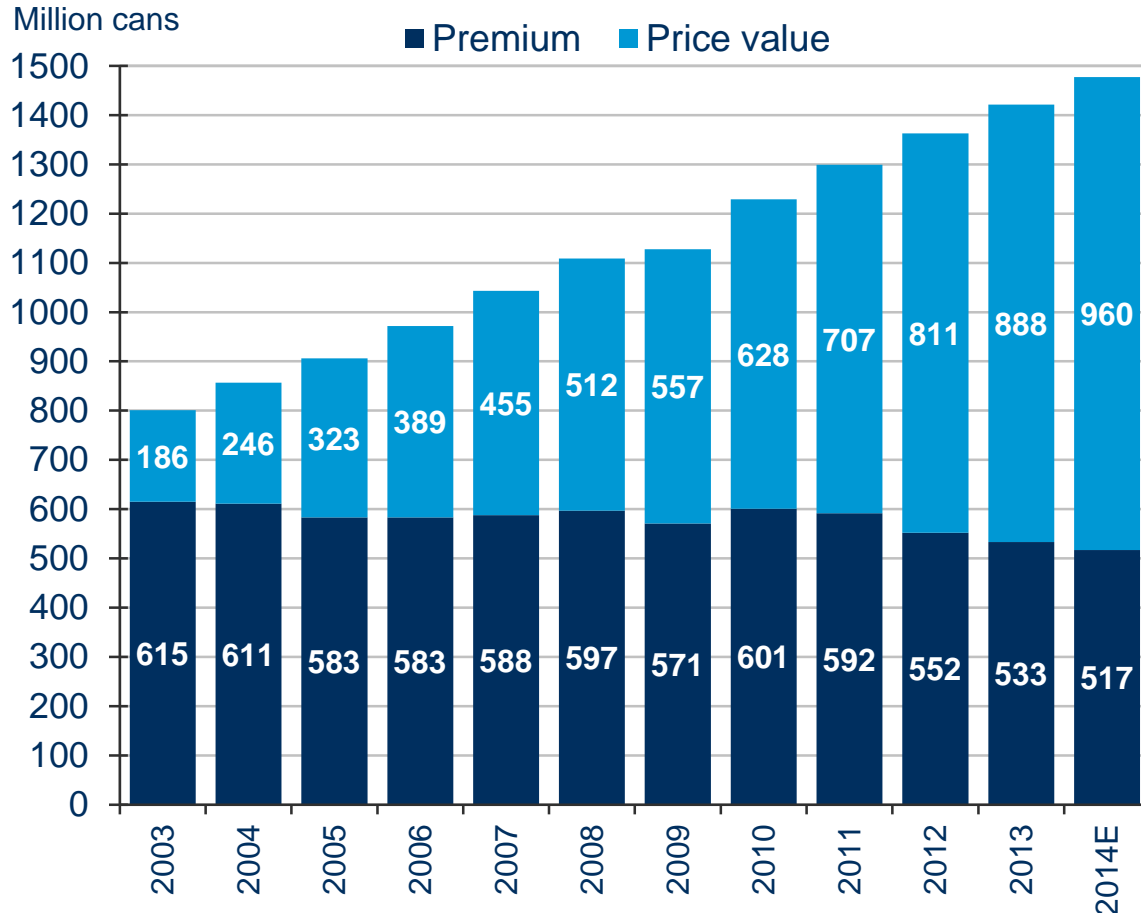
- Source: Swedish Match and industry estimates. Nielsen has a slightly faster growth rate of 5%





# Volume growth for moist snuff in the US

## US moist snuff market by segment



Market size estimated by Swedish Match using Nielsen estimates as well as industry data and estimates.

Estimates for 2012 and 2013 have been restated.

Note that the value segment includes competitive “premium brand” line extensions launched at price value level.

# Snus expansion

## Snus in the US

- **Continued investments for future growth**
- **General snus currently in more than 24,000 stores in the US**
  - Higher level of consumer engagement activities
  - Distribution expansion continued but at a slower pace than in Q2 2013
- **Market share approximately 11% in the latest periods\***
  - Consumption growth for *General*, faster than market growth rate
- **Snus sales up year on year in Q2**
  - Net shipment volumes down year on year in Q2, while gross shipments were up
  - Product returns in Q2 from heavy promotion shipments in 2013
  - Higher level of pipeline for new store expansion in 2013 than in 2014



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

- **Test markets continue, Chesterfield brand now being tested in Russia**

\* Source: Swedish Match estimates, based on Nielsen convenience store sample.

# Other tobacco products

## US 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 has declined by 4-7% per year in volume terms in recent years (4% decline in 2013)



# Other tobacco products

## Growth for natural wrapper cigars

- **Q2 sales up for cigars, down for chewing tobacco in USD**
  - Cigar sales impacted by promotional pricing /mix, volumes were higher
  - Chewing tobacco sales down on volume declines following an exceptionally strong Q1
- **Q2 operating profit down for cigars, up for chewing tobacco in USD**
  - Operating profit for cigars declined on promotional pricing/mix
  - Operating profit for chewing tobacco up on price/mix and lower overhead costs
- **Shipment volumes up 9% for cigars in Q2**
  - Mix skewed to promotional items
  - Growth of *Game by Garcia y Vega* naturals
  - *Jackpot* launch in September/November 2013
- **Chewing tobacco volumes (own brands) down 8%**
  - Declines for both own brands and contract manufacturing
  - Volume declines modest for own brands in H1 down 3%
  - Price increase in September 2013



MSEK	Q2-2014	Q2-2013	chg	H1-2014	H1-2013	chg	July 2013- June 2014	Full year 2013
Sales	699	687	2	1,385	1,352	2	2,598	2,564
Operating profit	279	295	-5	546	555	-2	1,020	1,029
Operating margin, %	39.9	42.9		39.4	41.1		39.3	40.1

# Other tobacco products

## Cigars

- YTD category growth (excl. little cigars) estimated to be up by more than 5% based on distributor shipments to retail
  - Larger format varieties continued to decline
  - Cigarillo and other small format varieties make up over 90% of the category
  - Net Swedish Match factory shipments up 9% in Q2



## Chewing tobacco

- Category has declined year to date by 3% based on distributor shipments to retail
  - Swedish Match distributor shipments to retail down less than 2%

## Q2 sales and operating profit down 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 EU, Brazil, Asia and East Europe
- Production in Brazil, the Netherlands, the Philippines and Sweden

- Q2 sales down for both matches and lighters in local currencies
- Operating profit marginally up for lighters and down for matches
- Both match and lighter volumes declined
- Relatively soft performance in Brazil, with higher costs affecting profitability



MSEK	Q2-2014	Q2-2013	chg	H1-2014	H1-2013	chg	July 2013- June 2014	Full year 2013
Sales	299	326	-8	614	654	-6	1,292	1,332
Operating profit	49	53	-7	104	112	-6	223	230
Operating margin, %	16.4	16.2		17.0	17.1		17.3	17.3



- **STG sales up 2% in local currencies for the second quarter**
- **Gross profit down due to currency impact and lower result from machine made cigars**
  - Machine made cigar sales flat in local currencies, but gross profit down on product mix and costs of a temporary nature
  - Handmade cigar sales and gross profit up in local currencies on higher volumes in the US
  - Fine cut sales and gross profit up on higher volumes and positive country mix
  - Pipe tobacco sales and gross profit down slightly on lower volumes
- **Reported EBITDA amounted to 286 MDKK (341)**
  - The decrease was due to currency effects, negative product mix and costs of a temporary nature
  - Underlying EBITDA, adjusted for currency effects and costs of a temporary nature, declined by 12%
- **Total STG net finance cost for the second quarter amounted to 11 MDKK (32)**
  - The decrease was due to exchange gains and realized gains on financial instruments
- **Net profit for the second quarter for STG amounted to 132 MDKK (168)**
- **Swedish Match share of STG net profit after interest and tax for the second quarter amounted to 78 MSEK (95)**

# P&L in summary

MSEK	Q2- 2014	Q2-2013	chg	H1-2014	H1- 2013	chg	July 2013- June 2014	Full year 2013	chg
<b>Sales</b>	<b>3,339</b>	<b>3,220</b>	<b>4</b>	<b>6,353</b>	<b>6,202</b>	<b>2</b>	<b>12,761</b>	<b>12,610</b>	
Cost of goods sold	-1,784	-1,673		-3,345	-3,201		-6,792	-6,647	
<b>Gross profit</b>	<b>1,555</b>	<b>1,546</b>	<b>1</b>	<b>3,007</b>	<b>3,001</b>	<b>0</b>	<b>5,969</b>	<b>5,963</b>	
Selling and administrative expenses	-681	-668		-1,318	-1,286		-2,589	-2,556	
Share of profit/loss in associated companies and joint ventures	67	87		109	122		274	287	
Capital gain from sale of land	-	2		-	161		-	161	
<b>Operating profit</b>	<b>941</b>	<b>968</b>	<b>-3</b>	<b>1,798</b>	<b>1,999</b>	<b>-10</b>	<b>3,654</b>	<b>3,855</b>	
Finance income	8	8		16	16		33	34	
Finance costs	-133	-146		-267	-290		-555	-578	
Net finance cost	-125	-138		-251	-274		-522	-544	
<b>Profit before income tax</b>	<b>816</b>	<b>830</b>	<b>-2</b>	<b>1,547</b>	<b>1,725</b>	<b>-10</b>	<b>3,133</b>	<b>3,310</b>	
Income tax expense	-165	-163		-316	-317		-599	-600	
<b>Profit for the period</b>	<b>651</b>	<b>667</b>	<b>-2</b>	<b>1,231</b>	<b>1,408</b>	<b>-13</b>	<b>2,534</b>	<b>2,711</b>	
EPS, basic, SEK, incl. larger one-time items	3.27	3.34		6.18	7.05		12.72	13.63	
EPS, basic, SEK, excl. larger one-time items	3.27	3.33		6.18	6.24		12.72	12.82	
EPS, diluted, SEK, incl. larger one-time items	3.27	3.33		6.18	7.04		12.71	13.61	
EPS, diluted, SEK, excl. larger one-time items	3.27	3.32		6.18	6.23		12.71	12.80	



# Balance sheet in summary

MSEK	June 30, 2014	December 31, 2013
Intangible assets	970	973
Property, plant and equipment	2,069	2,027
Investments in associated companies and joint ventures	4,566	4,506
Other non-current financial receivables*	1,288	1,165
Current operating assets	2,837	3,038
Other current investments and current financial assets*	1	8
Cash and cash equivalents	3,022	3,164
<b>Total assets</b>	<b>14,753</b>	<b>14,881</b>
Equity attributable to equity holders of the Parent	-812	-786
Non-controlling interests	1	1
<b>Total equity</b>	<b>-811</b>	<b>-785</b>
Non-current provisions	1,021	1,031
Non-current loans	8,573	9,420
Other non-current financial liabilities*	1,542	1,440
Current provisions	92	103
Current loans	1,460	920
Other current liabilities*	2,876	2,751
<b>Total equity and liabilities</b>	<b>14,753</b>	<b>14,881</b>

\* For full detail, please refer to notes in the January-June 2014 report.

# Cash flow in summary

MSEK	Jan-Jun 2014	Jan-Jun 2013
<b>Cash flow from operating activities before changes in working capital</b>	<b>1,655</b>	<b>1,550</b>
Cash flow from changes in working capital	266	-351
<b>Net cash from operating activities</b>	<b>1,921</b>	<b>1,199</b>
Purchase of property, plant and equipment	-134	-160
Proceeds from sale of property, plant and equipment	0	0
Purchase of intangible assets	0	-19
Investments in associated companies and joint ventures	-25	-20
Proceeds from sale of subsidiaries, net of cash disposed of*	-	166
Changes in financial receivables etc.	0	3
<b>Net cash used in investing activities</b>	<b>-158</b>	<b>-30</b>
Changes in loans	-484	22
Dividend paid to equity holders of the Parent	-1,453	-1,459
Repurchase of own shares	-68	-138
Stock options exercised	53	165
Other	-1	-11
<b>Net cash used in financing activities</b>	<b>-1,953</b>	<b>-1,420</b>
<b>Net increase in cash and cash equivalents</b>	<b>-190</b>	<b>-252</b>
Cash and cash equivalents at the beginning of the period	3,164	2,824
Effect of exchange rate fluctuations on cash and cash equivalents	48	27
<b>Cash and cash equivalents at the end of the period</b>	<b>3,022</b>	<b>2,599</b>

\* For full detail, please refer to notes in the January-June 2014 report.

# Key data\*

MSEK	Jan-Jun 2014	Jan-Jun 2013
Operating margin, %	28.3	29.6
Operating capital, MSEK	7,596	7,704
Return on operating capital, % (12 months rolling from July 2013)	47.8	
EBITDA, MSEK**	1,942	1,969
EBITA, MSEK**	1,819	1,850
Net debt, MSEK	8,214	9,229
Net debt/EBITA** (12 months rolling from July 2013)	2.2	
Investments in property, plant and equipment, MSEK**	134	160
EBITA interest cover	7.3	6.9
<i>Excluding share of net profit in STG</i>		
EBITA, MSEK**	1,692	1,717
Net debt/EBITA** (12 months rolling from July 2013)	2.4	
<b>Share data</b>		
EPS, basic, SEK, incl. larger one-time items	6.18	7.05
EPS, basic, SEK, excl. larger one-time items	6.18	6.24
EPS, diluted, SEK, incl. larger one-time items	6.18	7.04
EPS, diluted, SEK, excl. larger one-time items	6.18	6.23
Shares outstanding, end of period (Mio)	199.1	199.8
Average number of shares outstanding, basic (Mio)	199.1	199.5

\* All key data, unless otherwise stated, have been calculated excluding larger one-time items.

\*\* For full detail, please refer to notes in the January-June 2014 report.

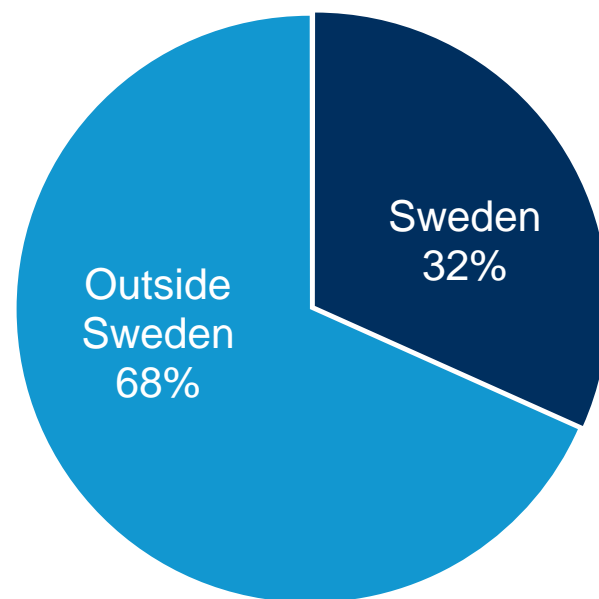
# Largest shareholders\*

As per June 30, 2014

## Largest shareholders

Morgan Stanley Investment Management	5.1%
Didner & Gerge Funds	4.3%
Nordea Funds	2.9%
SEB Funds	2.5%
Standard Life Investment Funds	2.5%
Second Swedish National Pension Fund	2.0%
SHB Funds	1.8%
Fidelity Funds	1.6%
Fourth Swedish National Pension Fund	1.2%
Swedbank Robur Funds	1.1%
	<hr/>
	25.0%

49,544 shareholders



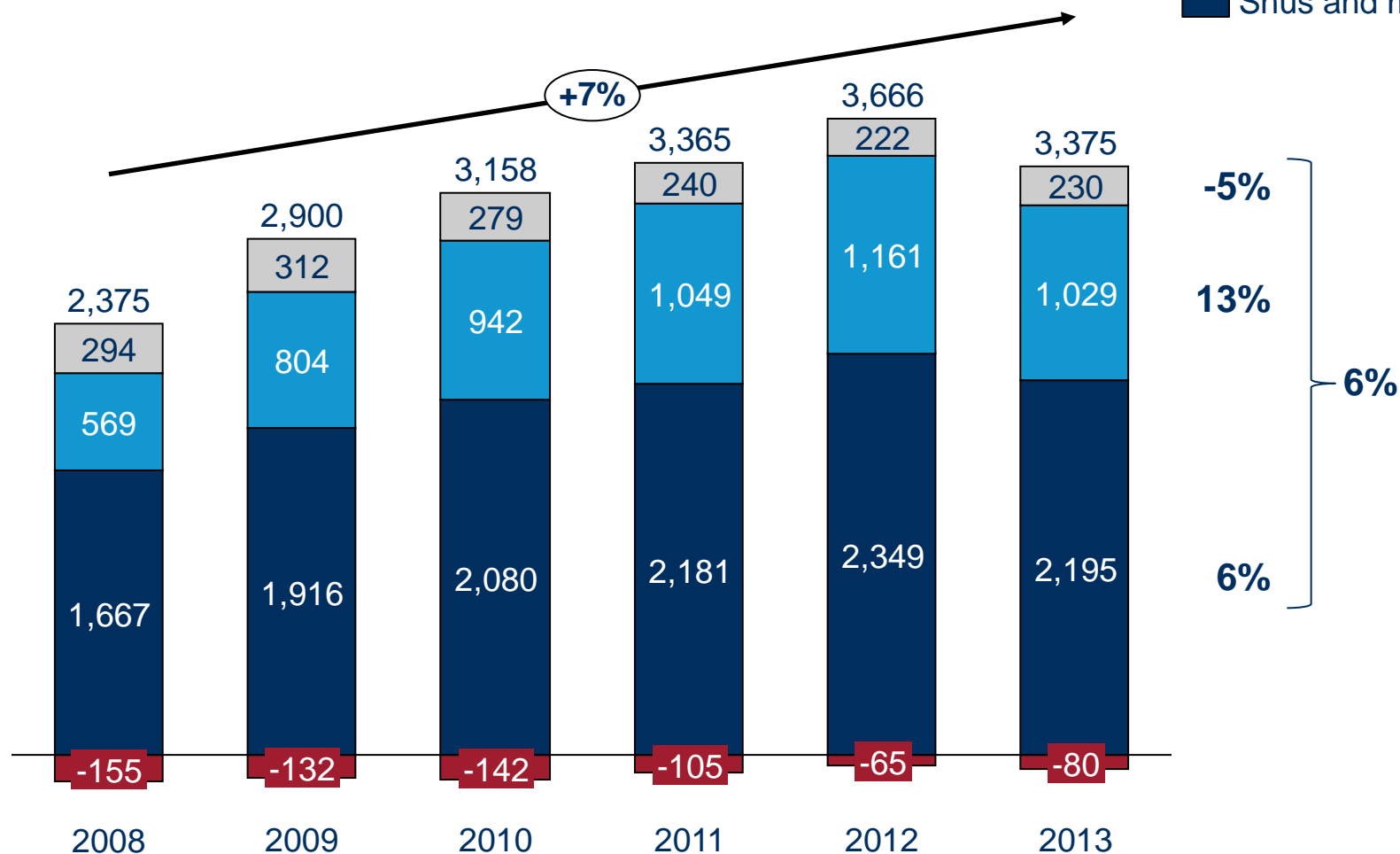
Source: Euroclear, official registry and SIS Ägaranalys.

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

# Comparable operating profit

Excluding businesses transferred to STG (MSEK)  
CAGR 08-13

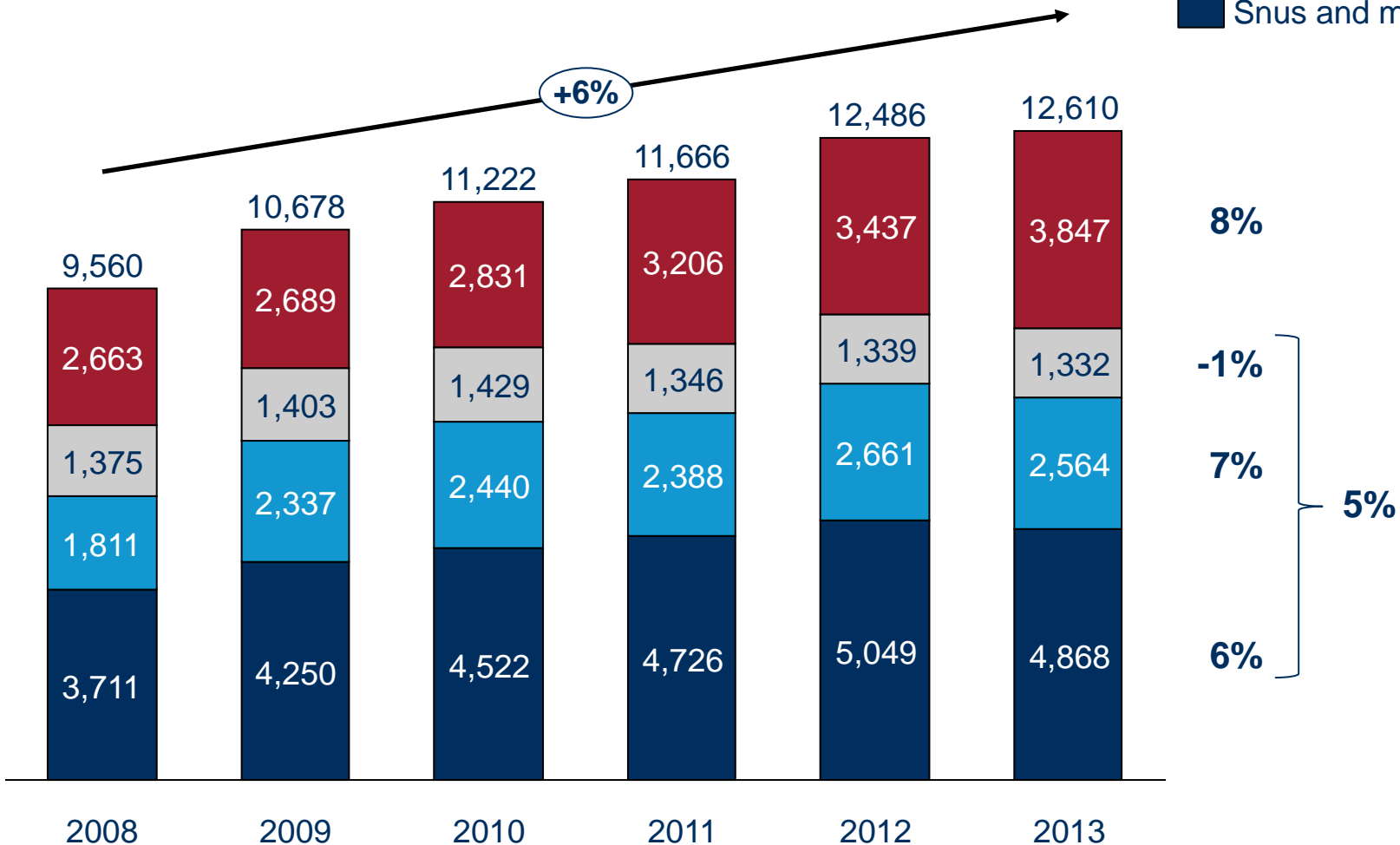
- Other operations
- Lights
- Other tobacco products
- Snus and moist snuff



# Comparable sales

Excluding businesses transferred to STG (MSEK)  
CAGR 08-13

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

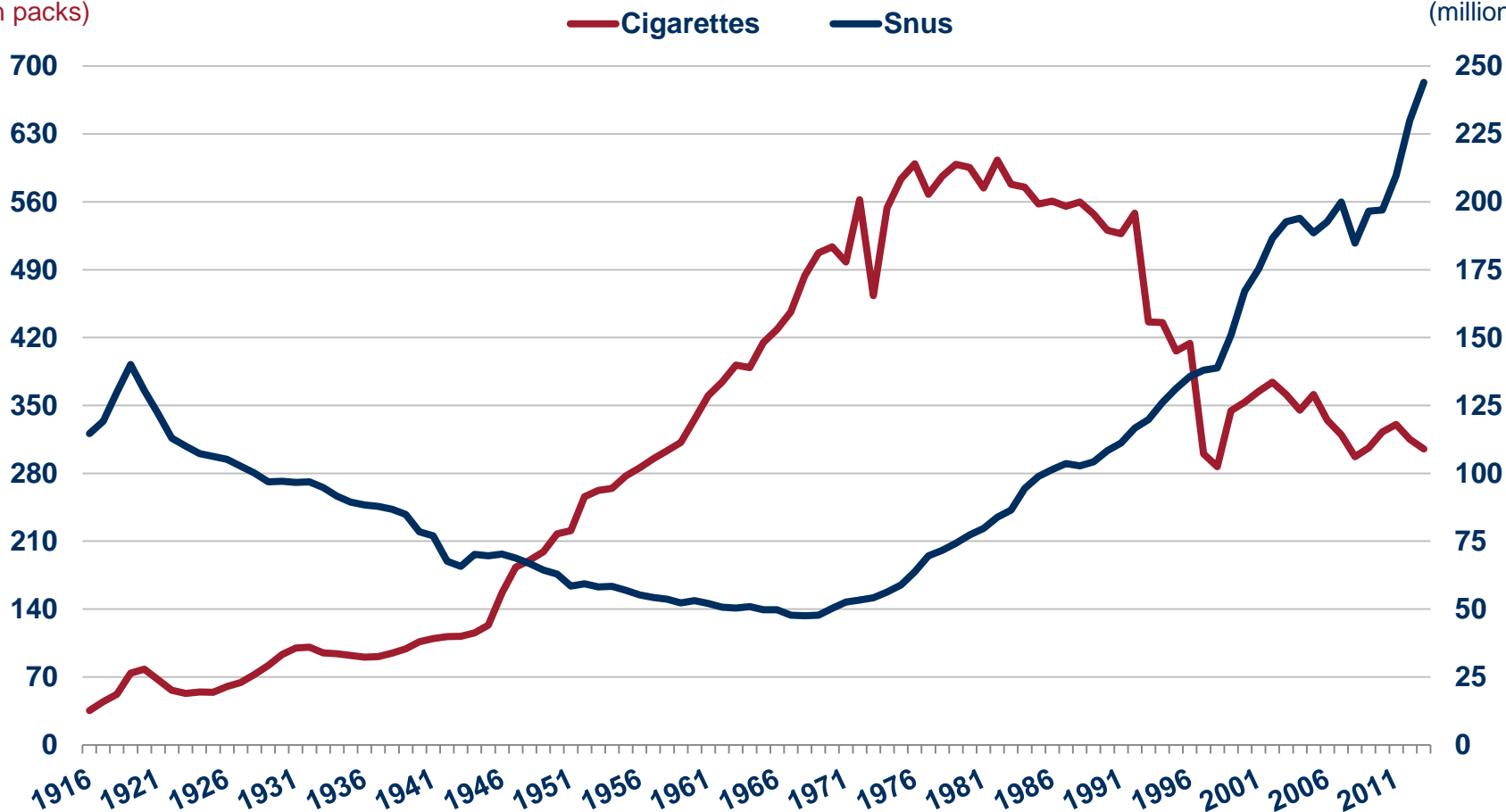


# Snus vs. cigarettes in Sweden

## Volume of snus and cigarettes in Sweden 1916-2013

**Cigarettes**  
(million packs)

**Snus**  
(million cans)



Adjusted for estimated snus hoarding 1996, 1997, 2006, 2007, 2008, 2011 and 2012.  
Source: Swedish Match Distribution AB and Swedish Match estimates.

**Swedish Match's  
2013 Sustainability Report  
was published on July 9th  
and can be found on the  
Company website**

**[http://www.swedishmatch.com/en/  
Sustainability/Sustainability-  
reporting/](http://www.swedishmatch.com/en/Sustainability/Sustainability-reporting/)**

