

Q4 2014

Investor Kit
January – December 2014



Highlights for Q4

- **Sales up for all product areas and operating profit from product areas up by 8%**
- **Scandinavian hoarding for snus prior to tax increase in January 2015**
 - Both hoarding and calendar effects in Sweden and Norway improved the quarterly result.
- **Continued market share growth in Swedish snus value priced segment***
 - Swedish Match now holds close to 40% of Swedish value priced segment.
 - Value priced products represent an increasing share of Swedish Match volume, negatively impacting average selling prices and margins.
- **Cigar sales and volumes up, led by natural leaf products**
 - Strong volume growth, partly on comparably soft volume in Q4 2013.
 - Less pronounced decline of average price per cigar vs previous quarters.
- **End of US tobacco quota buy-out program fees**
 - More than 1 MUSD of positive impact for Other tobacco products.
- **No change in status on FDA for MRTP or cigar regulation**
- **Solid performance for Lights despite volume declines**
 - Positive pricing, but geopolitical uncertainty affected volume development.
- **Currency impacts primarily from stronger USD**

* Swedish Match's own estimates. Nielsen does not segment the market as premium vs. value.

Sales performance for Q4 and full year

■ **Increased sales**

- *The fourth quarter*
 - Sales increased by 11% to 3,536 MSEK (3,178). In local currencies, sales were 7% higher.
- *The full year*
 - Sales increased by 6% to 13,305 MSEK (12,610). In local currencies, sales were 4% higher.

■ **Snus and moist snuff product area: sales up**

- *The fourth quarter*
 - Sales up 6%, and up 3% in local currencies.
 - Scandinavian sales up, but excluding hoarding/calendar effects was down.
 - US sales up for both moist snuff and snus.
- *The full year*
 - Sales up 3%, and up 2% in local currencies, helped by yearend hoarding/calendar effects in Scandinavia.
 - US sales up for both moist snuff and snus.

■ **Other tobacco products product area: sales up, driven by higher volumes for cigars**

- *The fourth quarter*
 - Sales up 23%, and up 7% in local currency.
- *The full year*
 - Sales up 10%, and up 5% in local currency.

■ **Lights product area: sales up in Q4, down for full year**

- *The fourth quarter*
 - Sales up 5%, driven by higher average prices for matches, more than offsetting lower volumes.
- *The full year*
 - Sales down 3%, driven by lower volumes for lighters.

Operating profit performance for Q4 and full year

■ **Operating profit higher**

- *The fourth quarter*
 - Operating profit from product areas up 8%, and up 4% in local currencies
 - Operating profit including STG up 6% to 992 MSEK (932).
- *The full year*
 - Operating profit from product areas up 2%, and up 1% in local currencies
 - Operating profit including STG up 2% to 3,780 MSEK (3,693).

■ **Snus and moist snuff product area: profits up**

- *The fourth quarter*
 - Operating profit up 3%, up 3% in local currencies.
 - In Scandinavia operating profit was down when taking into account hoarding/calendar effects.
 - US moist snuff operating profits up.
- *The full year*
 - Operating profit up 1%, up 1% in local currencies.
 - In Scandinavia operating profit down, adjusting for hoarding/calendar effects and restructuring charges in Q3 2013.
 - US moist snuff operating profits up.
 - *International snus investments*: higher than prior year for both fourth quarter and full year.

■ **Other tobacco products product area: profits up**

- *The fourth quarter*
 - Operating profit up 26%, up 12% in local currency, with higher profits from cigars.
- *The full year*
 - Operating profit up 8%, up 3% in local currency, with higher profits from both cigars and chewing tobacco.

■ **Lights product area: profits down in local currencies**

- Operating profit flat in Q4, and down 5% for the full year.

Other events following Q4 results

■ Pricing in Sweden post tax increase

- Price increases (either through higher consumer prices or lower weights) for many products, broadly in line with tax increases.

■ Norway proposal for standardized packaging and product information

- Final draft soon to be circulated for commentary.

■ Tax rate

- Group tax rate expected to go up in 2015 to a large extent as a consequence of a stronger USD.

■ Scandinavian Tobacco Group

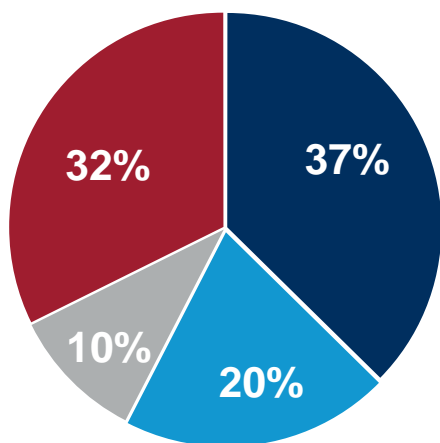
- Niels Frederiksen, who is currently EVP of Global Supply Chain and on STG's Executive Board, appointed CEO effective as of March 1, 2015.
- Shareholders of STG, while keeping all options open, will focus on exploring a potential initial public offering.

Sales and operating profit

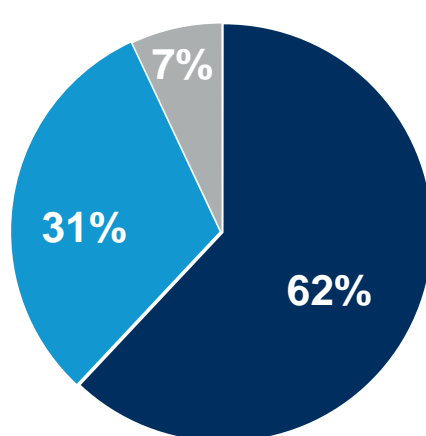
Sales and operating profit by product area

Q4 2014

Sales, SEK



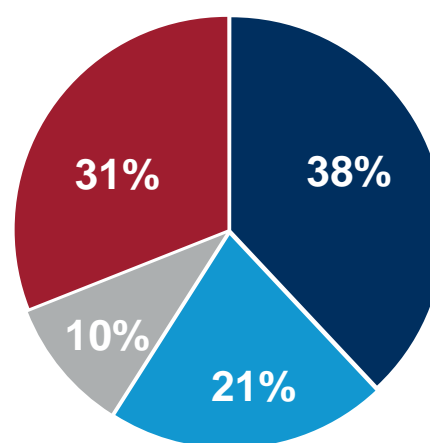
Operating profit*, SEK



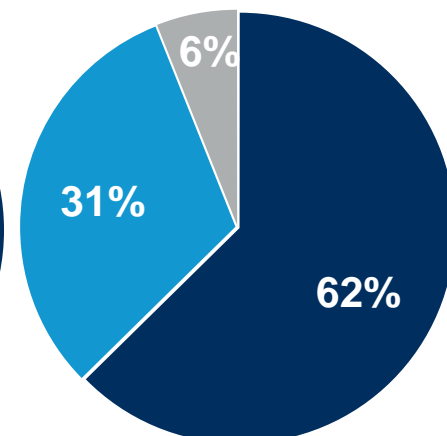
- Snus and moist snuff
- Other tobacco products
- Lights
- Other operations

Full year 2014

Sales, SEK



Operating profit*, SEK



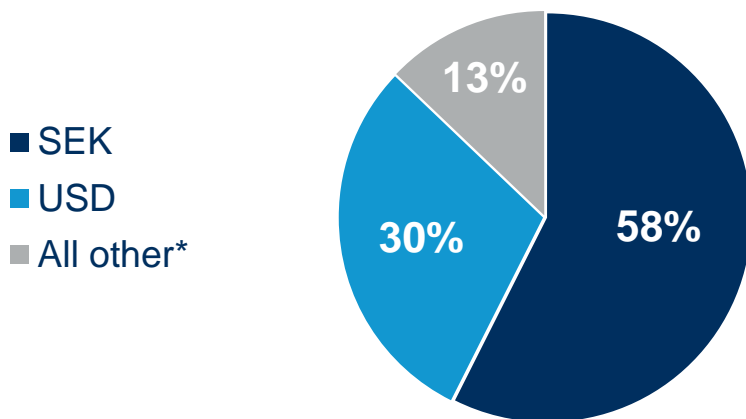
- Snus and moist snuff
- Other tobacco products
- Lights
- Other operations

* Excluding Other operations, share of net profit in STG and larger one-time items. Totals may not add up due to rounding.

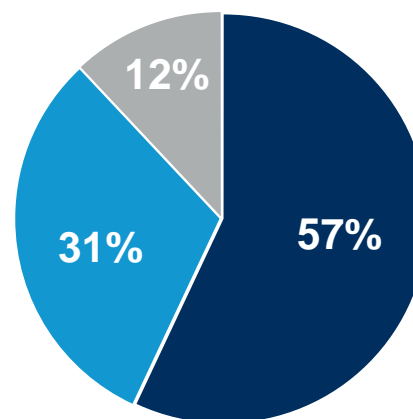
Sales by currency block

Percent of sales, MSEK

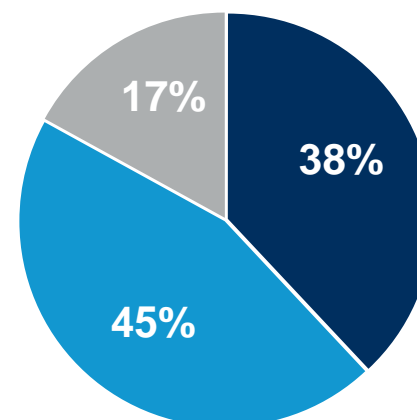
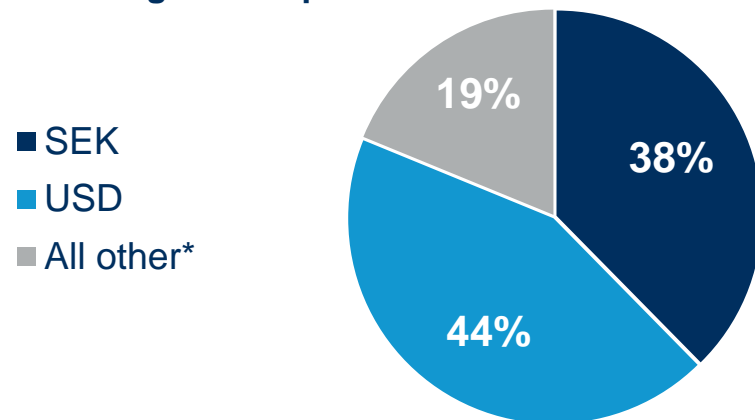
Q4 2014



Full year 2014



Excluding Other operations



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

Snus and moist snuff

- Leading position for snus in **Scandinavia**
- The third largest producer of moist snuff in **the US**
- *General* is the second largest and fastest growing snus brand 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 (Q4 commentary)

Hoarding in Scandinavia, and growing share in Swedish value segment

- **Scandinavia snus sales up, helped by hoarding/calendar effects**
 - Higher volumes largely due to hoarding/calendar effects but also higher on an underlying basis. Sales down when backing out hoarding/calendar effects on lower average portfolio pricing, stemming from higher proportion of value priced products and price reduction on *Kronan*.
 - Operating profit lower when excluding hoarding/calendar effects due to mix shifts.
 - Gaining share of growing Swedish value segment*.
- **US moist snuff sales and operating profit up**
 - Moist snuff sales and operating profit in USD were higher due to improved realized pricing.
 - Volumes down largely due to promotional phasing.
- **Continued investment behind snus internationally (incl. US)**
 - Snus sales in the US up, with higher year on year shipment volumes, and on price/mix.
 - In total, net costs of snus expansion outside Scandinavia was 100 MSEK (85) impacted by the stronger USD.



* Price segmentation using Swedish Match estimates.

MSEK	Q4-2014	Q4-2013	chg	Full year 2014	Full year 2013	chg
Sales	1,323	1,247	6	5,001	4,868	3
Operating profit	577	562	3	2,207	2,195	1
Operating margin, %	43.6	45.1		44.1	45.1	

Scandinavian market growth and share estimates

- **Scandinavian snus market up approximately 5% in 2014***
 - Swedish market up close to 5% in 2014 and by more than 3% in Q4.*
 - Norwegian market up approximately 8% in 2014 and up by more than 6% in Q4.*

Swedish Match's market shares**

Percent	October-December		Chg ppts	Full year		Chg ppts
	2014	2013		2014	2013	
Snus, Sweden, total	69.4	70.8	-1.4	69.9	72.2	-2.3
Snus, Sweden, premium	94.0	95.1	-1.1	94.0	95.3	-1.3
Snus, Sweden, value	39.1	35.9	3.2	38.1	36.7	1.4
Snus, Norway, total	58.8	62.5	-3.7	60.1	63.6	-3.5



* Source: Swedish Match estimates.

** Swedish Match estimates using Nielsen data (excl. tobacconists due to small sample of tobacconists in Nielsen data).12 weeks and YTD to December 28, 2014.

Moist snuff market growth and share estimate

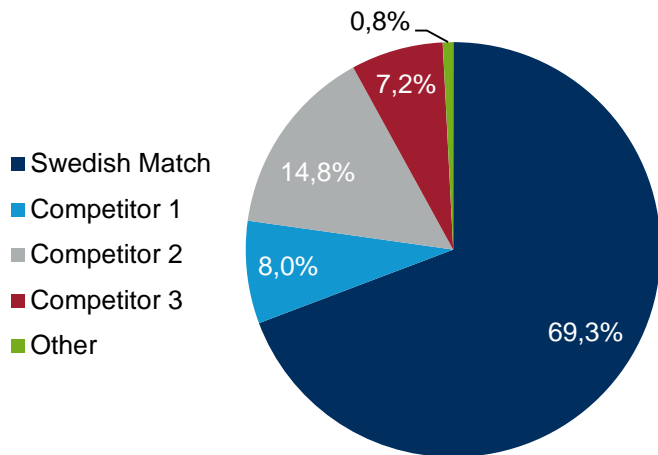
- **US moist snuff market up by 1-2% in 2014 versus year ago***
 - Some slowdown in growth in recent months.
 - Category growth continues to be driven by the value segment and pouches.
- **Swedish Match moist snuff market share in the US**
 - Swedish Match estimates its market share based on industry shipments to be approximately 9% of the market in 2014.



* Source: Swedish Match and industry estimates.

Manufacturer share by price segment, Sweden

Total volume shares



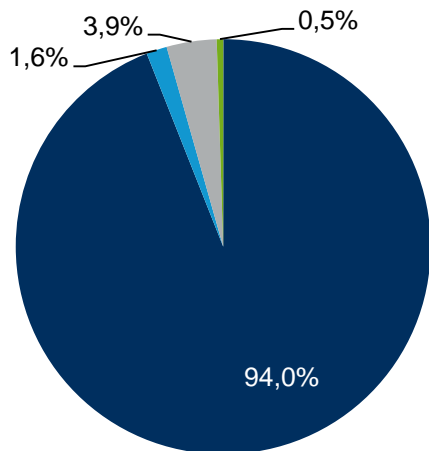
January 25, 2015 (4 weeks ending),
Swedish Match share of:

Premium segment was: 94.2%

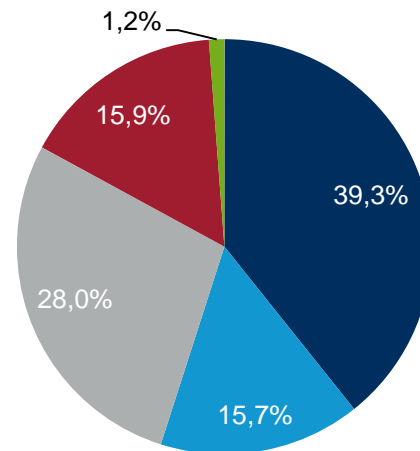
Value segment was: 39.6%

Total market was: 69.2%

Share of premium segment



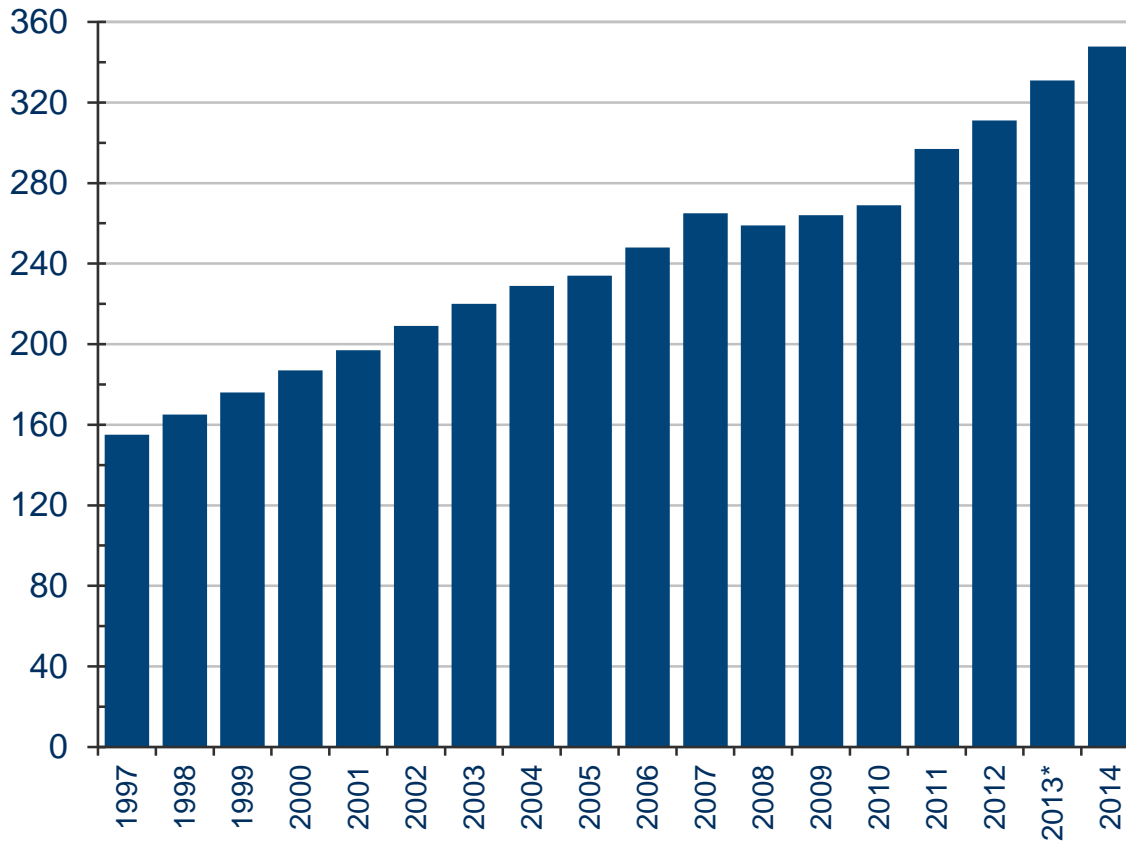
Share of value segment



Source: Nielsen (excluding tobacconists), 12 weeks ending January 25, 2015.

Estimated snus consumption, Scandinavia

Million cans



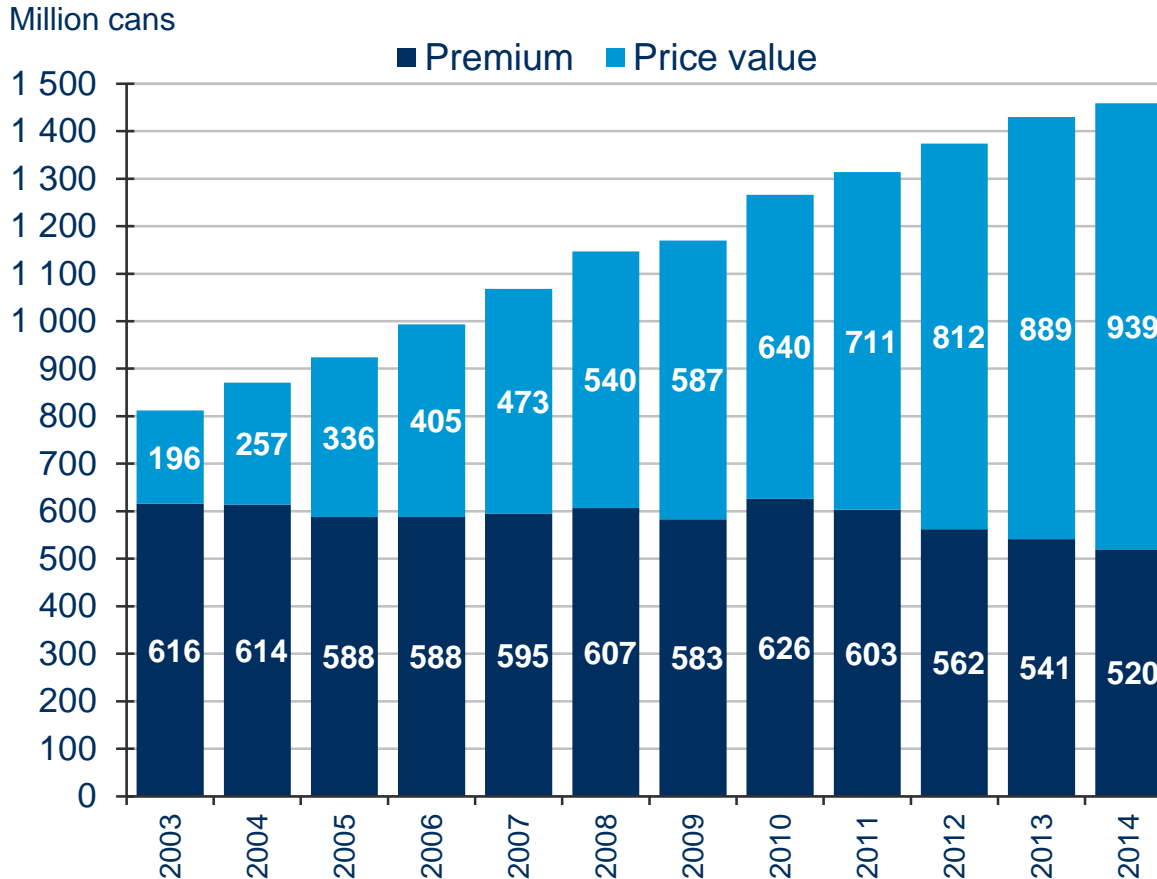
Source: Swedish Match estimates, adjusted for hoarding in Sweden.

* 2013 figure rebased.



US moist snuff category development

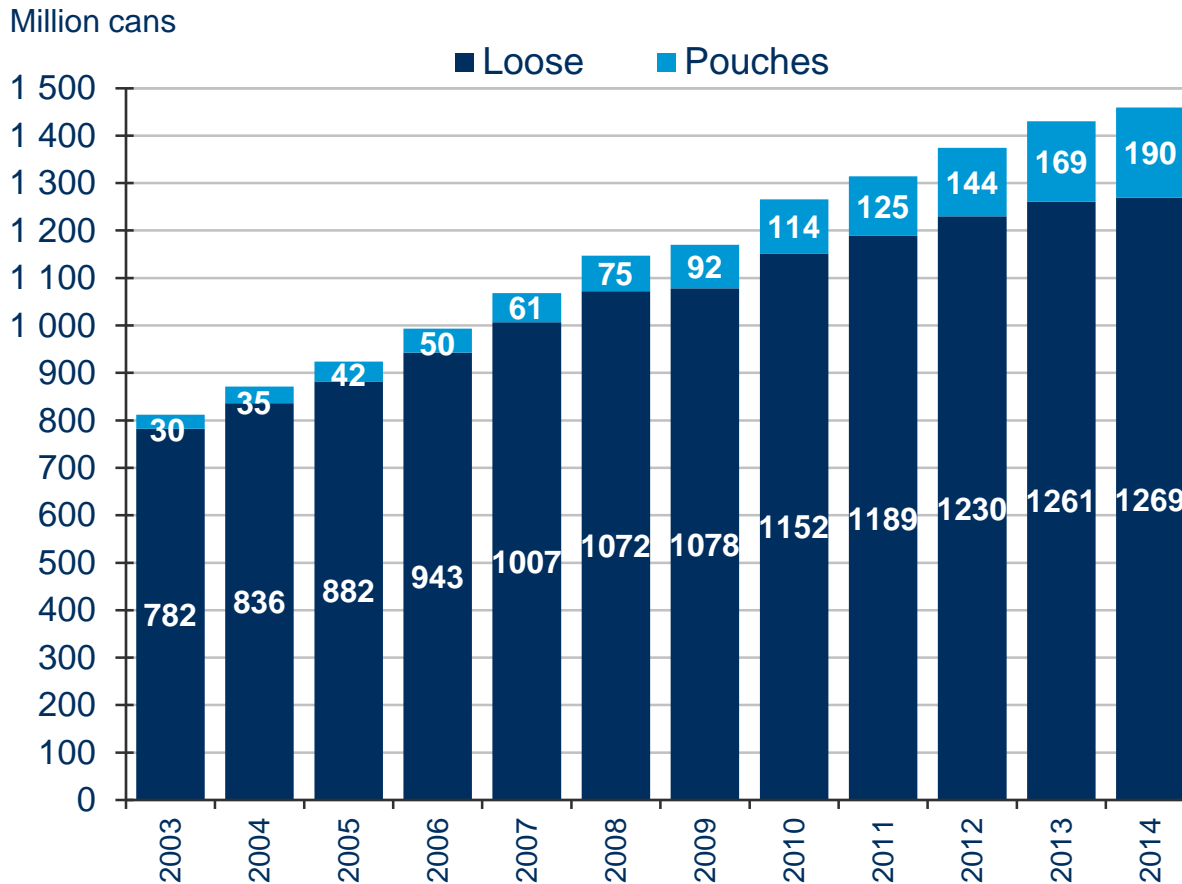
Category by segment*: premium vs. value



* Estimates have been restated by Swedish Match using industry reports and distributor shipments to retail.

US moist snuff category development

Category by segment*: loose vs. pouches



* Estimates have been restated by Swedish Match using industry reports and distributor shipments to retail.

Snus expansion outside Scandinavia

Snus in the US

- **Continued investments for future growth**
 - High level of consumer engagement activities.
- **Market share continued to grow versus prior year**
 - Consumption growth for *General*, faster than market growth rate.
 - *General* is the number two selling brand of snus in the US.
- **Snus sales up year on year in Q4**
 - Gross shipments and net shipments were up in Q4 vs. prior year.
 - Lower level of pipeline for new store expansion in 2014 than in 2013.



SMPM International

- **Test markets continue**

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



Other tobacco products (with Q4 commentary)

Cigar volume growth, driven by natural leaf cigars

- In local currency, sales were up 7% while operating profit was up 12%
- Cigars sales and operating profit up on higher volumes
 - Positive impact on operating profit from higher sales and elimination of tobacco buy-out quota fee.
 - Cigar volumes up 16%, partly as a result of soft volumes in the prior year period.
 - Continued strong volume development of *Game by Garcia y Vega* natural leaf cigars. Volume growth for *Jackpot* brand (launched in H2 2013).
- Chewing tobacco sales and operating profit up in SEK, down in local currency
 - Volume declines of 10% for own products, affected by promotional phasing.
 - Sales and operating profit declined less than volumes in percent due to favorable pricing.



MSEK	Q4-2014	Q4-2013	chg	Full year 2014	Full year 2013	chg
Sales	723	590	23	2,832	2,564	10
Operating profit	288	228	26	1,109	1,029	8
Operating margin, %	39.8	38.6		39.2	40.1	

Other tobacco products

Shipment volumes for cigars and chewing tobacco

	October- December			Full Year		
	2014	2013	chg %	2014	2013	chg %
Cigars, millions of sticks	266	229	16	1,127	1,003	12
Chewing tobacco, thousands of pounds (excl. contract manufacturing)	1,732	1,930	-10	7,856	8,260	-5



Asia lighter volume growth and price/mix improvement for matches

- 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

- Sales up, operating profit flat on volume declines for matches and lighters
- Strength in lighters in Asia, weakness in Russia and some European markets
- Improved sales performance in Brazil
 - Higher sales for both matches and lighters, as well as for complementary products.



MSEK	Q4-2014	Q4-2013	chg	Full year 2014	Full year 2013	chg
Sales	362	345	5	1,295	1,332	-3
Operating profit	63	63	0	218	230	-5
Operating margin, %	17.3	18.1		16.8	17.3	

Scandinavian Tobacco Group (STG) – fourth quarter

- **STG sales up 10%**
 - Adjusted for currency translation effects and the Verellen acquisition, sales up 3%.
- **Gross profit up driven by higher result from all product areas except for pipe tobacco**
 - Machine made cigar sales and gross profit up, with prior year negatively affected by destocking.
 - Handmade cigar sales and gross profit up on higher volumes and positive mix effects.
 - Fine cut tobacco sales and gross profit up on positive country mix.
 - Pipe tobacco sales and gross profit down on lower volumes partly affected by timing.
- **Operating expenses increased as a result of costs for the integration of Verellen and currency effects**
 - Prior year was negatively affected by personnel related restructuring charges.
- **Reported EBITDA amounted to 313 MDKK (289)**
- **Total STG net finance cost amounted to 14 MDKK (31)**
 - The decline was explained by exchange gains this quarter.
- **Net profit for STG amounted to 152 MDKK (176)**
 - Net profit in 2013 included a non-recurring positive adjustment to income taxes, relating to a change in the legal structure of the group.
- **Swedish Match share of STG net profit after interest and tax amounted to 92 MSEK (97)**
- **Niels Frederiksen appointed new CEO as of March 1, 2015.**



Tax, cash flow and financing (Full year)

■ Tax rate for the Group was 19.7%

- Includes profit and loss impact from associated companies.
- The reported tax rate, excluding one-time items, associated companies, and joint ventures was 22% (21).

■ Cash flow

- Cash flow from operating activities for the year was 3,276 MSEK (2,500), positively affected by timing of cash flow from changes in working capital.
- Net cash flow from investment activities amounted to 274 MSEK (240). The cash from investment activities in prior year was affected positively by the proceeds from the sale of a parcel of land.

■ Cash distributed to shareholders

- Dividend distributed to shareholders amounts to 1,453 MSEK.
- Shares to an amount of 890 MSEK have been repurchased. This represents 3.7 million shares at an average price of 237.59 SEK.
- In total 2,343 MSEK have been distributed to shareholders via dividend and share buy-backs.

Tax, cash flow and financing (Full year)

■ Financial policy

- Dividend policy: 40-60% of earnings per share.
- 2014 dividend: 7.50 SEK per share (7.30).
- Net debt not to exceed 3 times EBITA*.

■ Financing

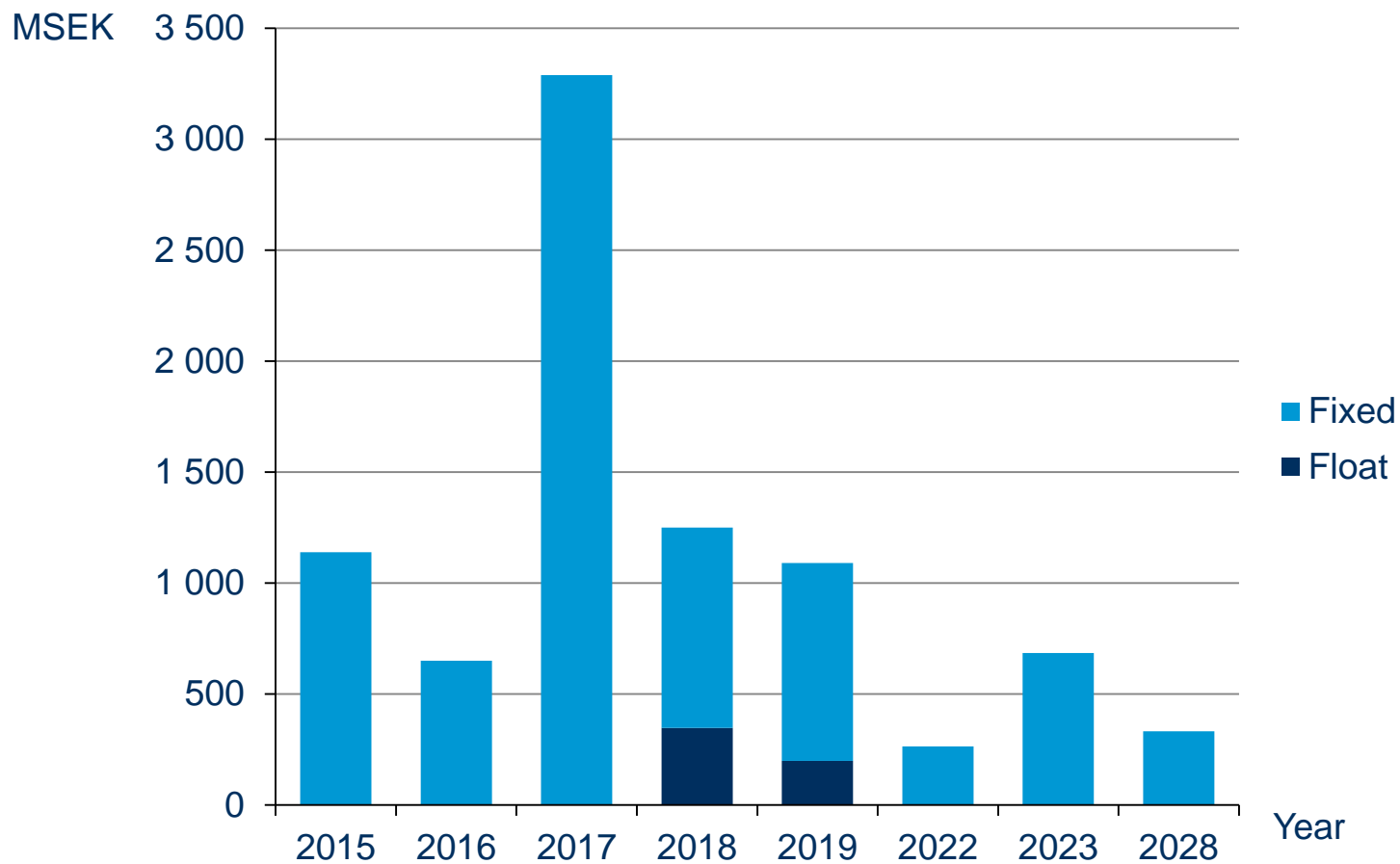
- The net finance cost amounted to 510 MSEK (544), down by 34 MSEK mainly due to lower interest bearing debt.
- Higher level of net retirement benefit obligations on lower discount rates, currencies, and demographic assumptions, and amounted to 1,734 MSEK (1,044)
- The interest bearing debt excluding retirement benefit obligations amounted at December 31, 2014 to 8,703 MSEK.
- Cash and cash equivalents amounted at December 31, 2014 to 2,312 MSEK.
- Net debt/EBITA per December 31, 2014 was at 2.3*.



* 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 December 31, 2014



P&L in summary

MSEK	Q4-2014	Q4-2013	Chg %	Full year 2014	Full year 2013	Chg %
Sales	3,536	3,178	11	13,305	12,610	6
Cost of goods sold	-1,910	-1,698		-7,109	-6,647	
Gross profit	1,627	1,481	10	6,197	5,963	4
Selling and administrative expenses	-710	-633		-2,703	-2,556	
Share of profit/loss in associated companies and joint ventures	75	84		285	287	
Capital gain from sale of land	-	-		-	161	
Operating profit	992	932	6	3,780	3,855	-2
Finance income	5	9		27	34	
Finance costs	-137	-137		-537	-578	
Net finance cost	-132	-128		-510	-544	
Profit before income tax	861	804	7	3,270	3,310	-1
Income tax expense	-161	-128		-644	-600	
Profit for the period	700	675	4	2,626	2,711	-3
EPS, basic, SEK, incl. larger one-time items	3.55	3.43		13.23	13.63	
EPS, basic, SEK, excl. larger one-time items	3.55	3.43		13.23	12.82	
EPS, diluted, SEK, incl. larger one-time items	3.55	3.43		13.22	13.61	
EPS, diluted, SEK, excl. larger one-time items	3.55	3.43		13.22	12.80	

Balance sheet in summary

MSEK	December 31, 2014	December 31, 2013
Intangible assets	1,030	973
Property, plant and equipment	2,074	2,027
Investments in associated companies and joint ventures	5,233	4,506
Other non-current financial receivables*	1,669	1,165
Current operating assets	4,255	3,038
Other current investments and current financial assets*	-	8
Cash and cash equivalents	2,312	3,164
Total assets	16,573	14,881
Equity attributable to equity holders of the Parent	277	-786
Non-controlling interests	1	1
Total equity	279	-785
Non-current provisions	1,081	1,031
Non-current loans	7,803	9,420
Other non-current financial liabilities*	2,063	1,440
Current provisions	98	103
Current loans	1,141	920
Other current liabilities*	4,109	2,751
Total equity and liabilities	16,573	14,881

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

Cash flow in summary

MSEK	Jan-Dec 2014	Jan-Dec 2013
Cash flow from operating activities before changes in working capital	2,893	2,820
Cash flow from changes in working capital	384	-320
Net cash from operating activities	3,276	2,500
Purchase of property, plant and equipment	-223	-306
Proceeds from sale of property, plant and equipment	2	0
Purchase of intangible assets	-5	-35
Acquisition of subsidiaries	-2	-
Investments in associated companies and joint ventures*	-45	-57
Proceeds from sale of subsidiaries, net of cash disposed of*	-	158
Changes in financial receivables etc.	0	0
Net cash used in investing activities	-274	-240
Changes in loans	-1,802	-277
Dividend paid to equity holders of the Parent	-1,453	-1,459
Repurchase of own shares	-890	-352
Stock options exercised	53	187
Other	4	-12
Net cash used in financing activities	-4,088	-1,912
Net increase in cash and cash equivalents	-1,085	348
Cash and cash equivalents at the beginning of the period	3,164	2,824
Effect of exchange rate fluctuations on cash and cash equivalents	232	-8
Cash and cash equivalents at the end of the period	2,312	3,164

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

Key ratios*

MSEK	Jan-Dec 2014	Jan-Dec 2013
Operating margin, %	28.4	29.3
Operating capital, MSEK	8,314	7,729
Return on operating capital, %	47.1	49.3
EBITDA, MSEK**	4,083	3,968
EBITA, MSEK**	3,821	3,725
Net debt, MSEK	8,126	8,388
Net debt/EBITA**	2.1	2.3
Investments in property, plant and equipment, MSEK**	223	306
EBITA interest cover	7.6	7.0
<i>Excluding share of net profit in STG</i>		
EBITA, MSEK**	3,487	3,406
Net debt/EBITA**	2.3	2.5
Share data		
EPS, basic, SEK, incl. larger one-time items	13.23	13.63
EPS, basic, SEK, excl. larger one-time items	13.23	12.82
EPS, diluted, SEK, incl. larger one-time items	13.22	13.61
EPS, diluted, SEK, excl. larger one-time items	13.22	12.80
Shares outstanding, end of period (Mio)	195.7	199.0
Average number of shares outstanding, basic (Mio)	198.5	198.9

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

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

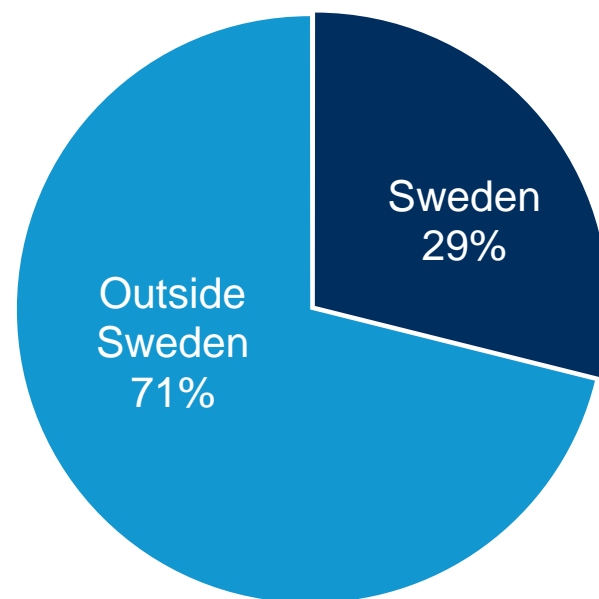
Largest shareholders*

As per December 31, 2014

Largest shareholders

Didner & Gerge Funds	3.5%
Standard Life Investment Funds	3.4%
Nordea Funds	2.8%
SEB Funds	2.3%
Second Swedish National Pension Fund	2.0%
SHB Funds	1.6%
Fourth Swedish National Pension Fund	1.3%
Govt of Singapore Inv Corp	1.0%
UBS (Lux) Funds	1.0%
Third Swedish National Pension Fund	0.8%
	<hr/>
	19.7%

47,952 shareholders



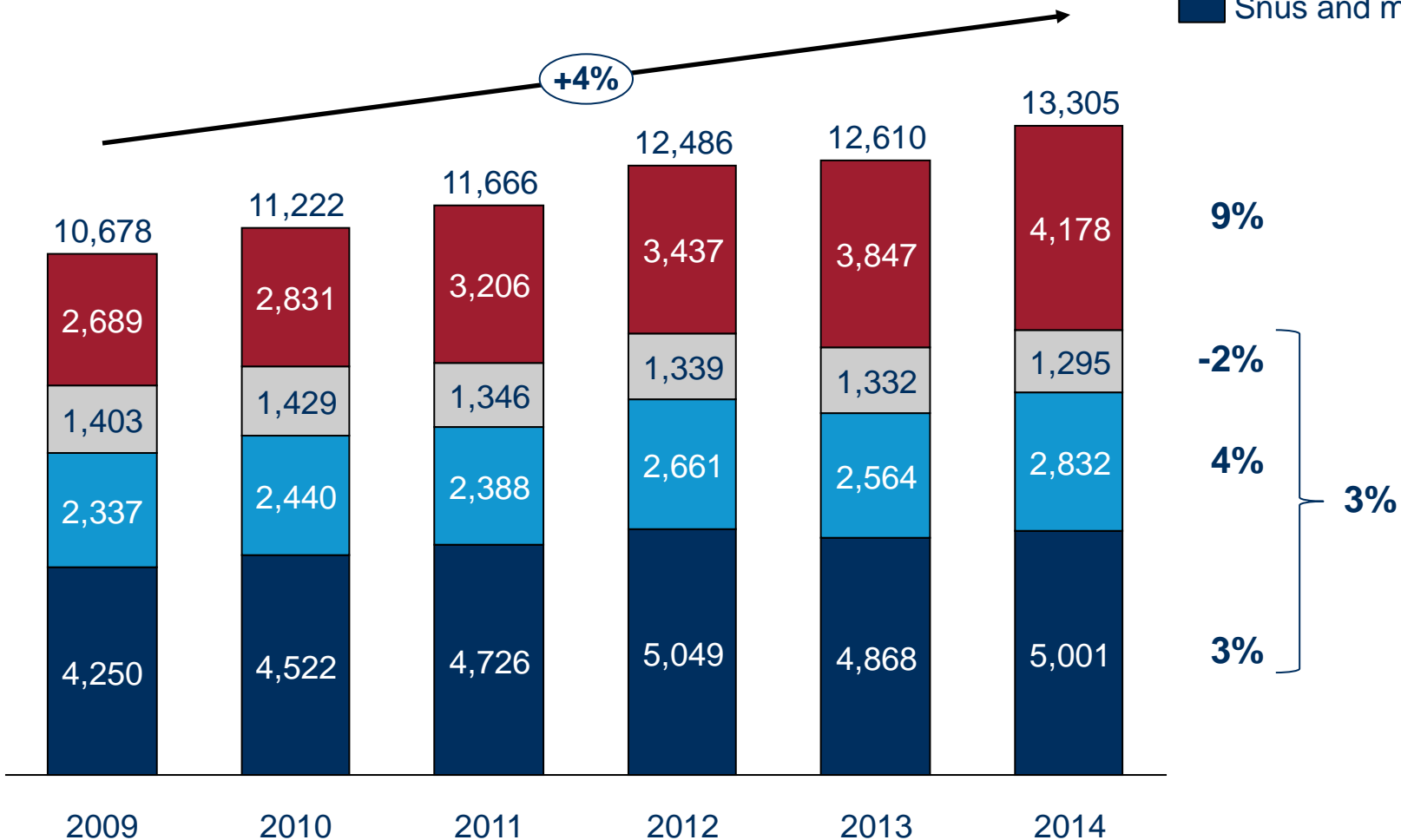
Source: Euroclear, official registry and SIS Ägaranalys.

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

Comparable sales

Excluding businesses transferred to STG (MSEK)
CAGR 09-14

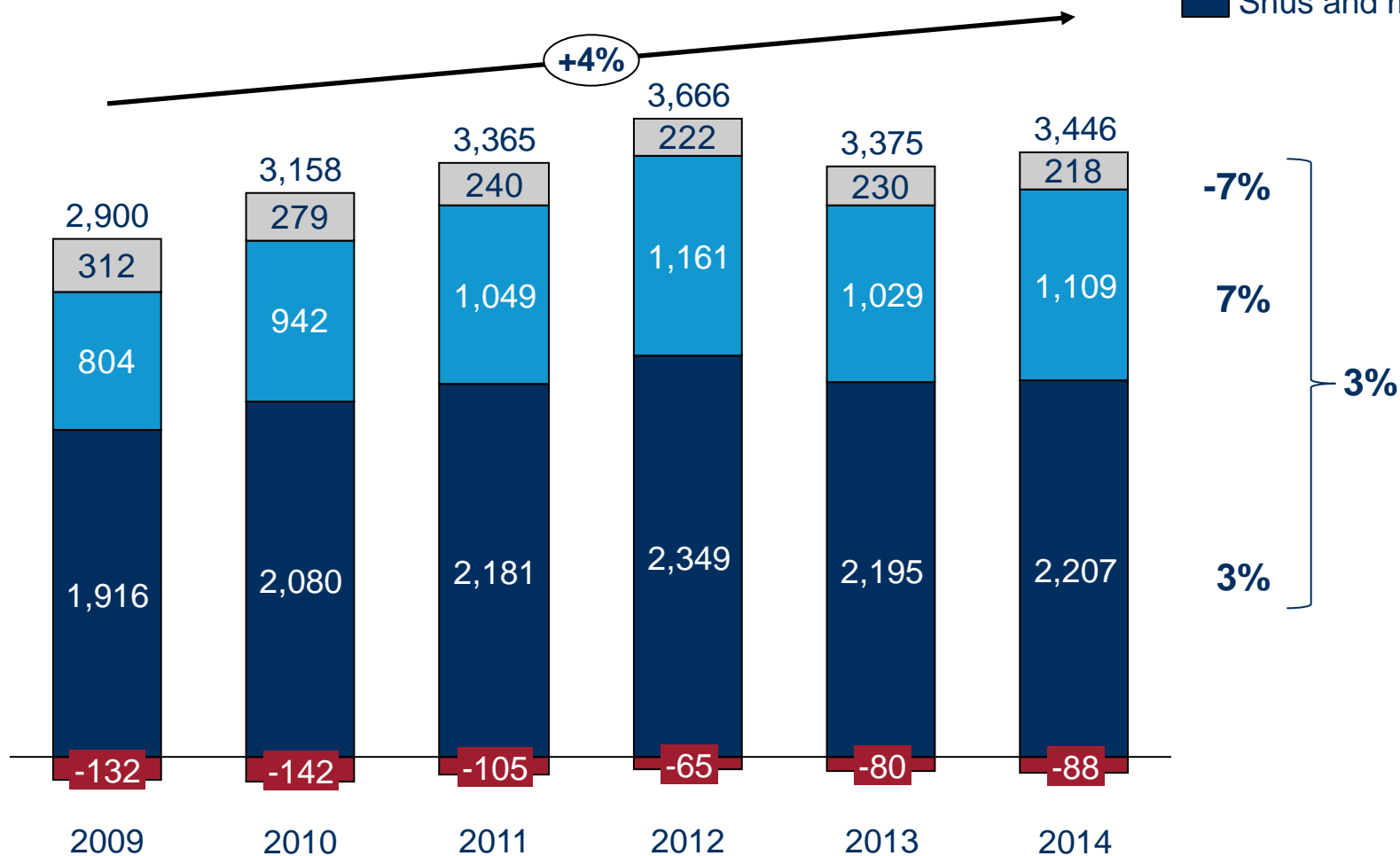
- Other operations
- Lights
- Other tobacco products
- Snus and moist snuff



Comparable operating profit

Excluding businesses transferred to STG (MSEK)
CAGR 09-14

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

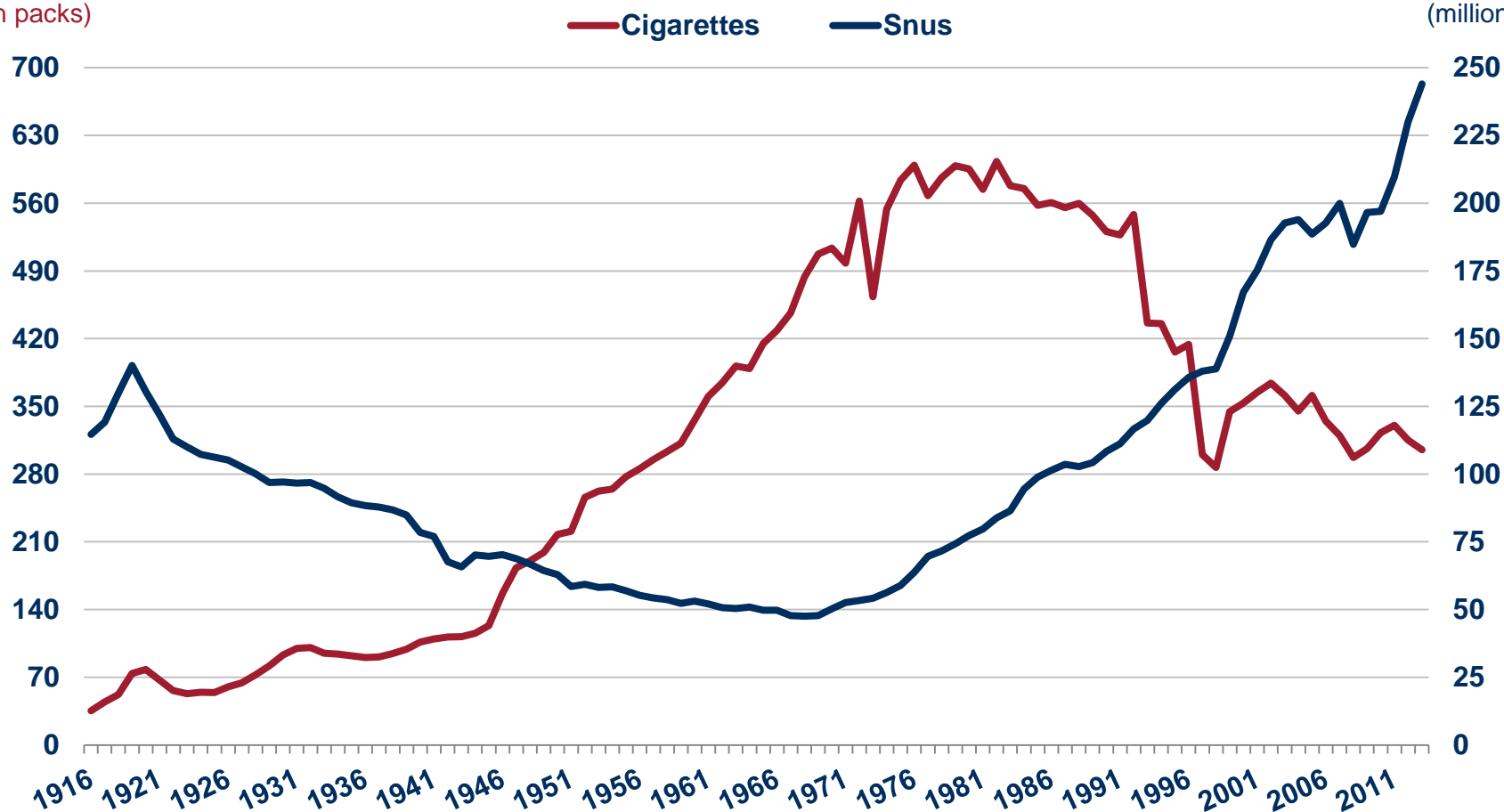


Snus vs. cigarettes in Sweden

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.