

# HALF YEAR REPORT

JANUARY–JUNE 2010

- Sales for the second quarter were 3,701 MSEK (3,666)
- In local currencies, sales for the second quarter increased by 4 percent, with growth in all product areas except for chewing tobacco
- Operating profit for the second quarter was 945 MSEK (899). Including depreciation and amortization on assets held for sale, operating profit was 911 MSEK (899)
- In local currencies, operating profit for the second quarter increased by 8 percent. Including depreciation and amortization on assets held for sale, operating profit for the second quarter increased by 4 percent
- EPS (basic) for the second quarter amounted to 2.78 SEK (2.51)



Sales for the second quarter of 2010 increased by 1 percent to 3,701 MSEK (3,666) compared to the second quarter of 2009. Currency translation has affected the sales comparison negatively by 99 MSEK. In local currencies, sales increased by 4 percent.

## The second quarter

# SUMMARY

Sales of Scandinavian snus (pasteurized) and US snuff (fermented) in the second quarter increased by 3 percent to 1,116 MSEK (1,087) and operating profit increased by 5 percent to 487 MSEK (463). Scandinavian snus sales were up 9 percent compared to the second quarter of the prior year while volumes measured in number of cans were flat. Swedish Match estimates that excluding the shipment distortions from the Easter holidays that affected the first and second quarters, Scandinavian snus volumes were up by 3 percent year on year in the second quarter.

In the US, sales of snuff in local currency decreased by 9 percent, and operating profit declined. US volumes were down by 22 percent year on year in the second quarter. Much of this decline is due to prior year restocking effects relating to tax changes as well as a change in the phasing of promotions related to the timing of packaging changes required by the new FDA legislation. Shipment volumes for the first two quarters combined were down by 6 percent.

The operating margin for the snus and snuff product area was 43.6 percent (42.6).

For cigars, sales in the second quarter were 1,151 MSEK (1,129). Operating profit was 286 MSEK (281). Currency translation has affected the sales comparison negatively by 76 MSEK, and operating profit negatively by 19 MSEK. Sales were slightly higher in local currencies in Europe, and in the US,

sales grew significantly for the mass market cigar business and were unchanged for the premium cigar business. The US comparisons were positively influenced by prior year destocking effects. Operating margin for cigars was 24.9 percent (24.9).

Second quarter Group operating profit increased by 5 percent to 945 MSEK (899). Including depreciation and amortization on assets held for sale, second quarter Group operating profit increased by 12 MSEK (1 percent) to 911 MSEK, with currency translation affecting the operating profit comparison negatively by 25 MSEK. In local currencies, including depreciation and amortization on assets held for sale, operating profit grew by 4 percent.

Operating margin for the second quarter was 25.5 percent (24.5). Operating margin,

including depreciation and amortization on assets held for sale was 24.6 percent.

Basic earnings per share for the second quarter amounted to 2.78 SEK (2.51).

### Sales and results for the first six months

Sales for the first six months amounted to 6,983 MSEK (7,053). In local currencies, sales increased by 4 percent. Operating profit amounted to 1,700 MSEK (1,693). Currency translation has affected the operating profit comparison negatively by 69 MSEK.

Operating margin for the first six months was 24.3 percent (24.0). Operating margin, including depreciation and amortization on assets held for sale was 23.5 percent.

EPS (basic) for the first six months was 5.04 SEK (4.63), while diluted EPS was 5.03 SEK (4.62).

### SUMMARY OF CONSOLIDATED INCOME STATEMENT

MSEK	April–June		January–June		Full year
	2010	2009	2010	2009	2009
Sales	3,701	3,666	6,983	7,053	14,204
Operating profit	945	899	1,700	1,693	3,417
Operating profit including depreciation and amortization on assets held for sale	911	899	1,639	1,693	3,417
Profit before income tax	816	791	1,465	1,478	2,974
Profit from continuing operations	637	624	1,155	1,151	2,361
Profit from discontinued operations, net after tax <sup>1)</sup>	–	41	–	81	785
Profit for the period	637	664	1,155	1,231	3,146
Earnings per share, basic (SEK)	2.78	2.51	5.04	4.63	9.67
Earnings per share, incl. discontinued operations, basic (SEK) <sup>1)</sup>	–	2.68	–	4.95	12.88

<sup>1)</sup> South African operations divested in 2009. See Note 3 – Discontinued operations.

### JANUARY–JUNE

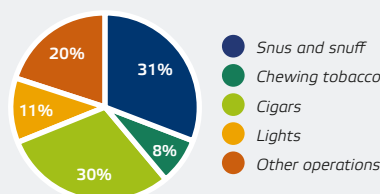
#### SALES

**6,983** MSEK

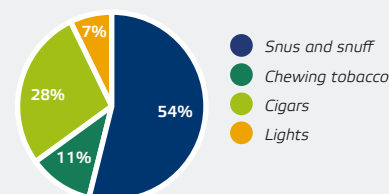
#### OPERATING PROFIT

**1,700** MSEK

#### SALES BY PRODUCT AREA



#### OPERATING PROFIT BY PRODUCT AREA<sup>1)</sup>



<sup>1)</sup> Excluding Other operations and reversal of depreciation and amortization relating to assets held for sale.

## CEO Lars Dahlgren comments:

I am pleased to report that Swedish Match today posted its best ever quarterly underlying operating profit, reaching 911 MSEK. During the second quarter we saw continued strong performance in the Scandinavian snus markets. While overall shipment volumes were flat, volumes backing out Easter effects continued to grow. The investments for growth in our smoke-free business continued. In Norway, we completed the rollout of *Lab Series 01/02* successfully, having now reached close to 4 percent market share. In the US, we launched *Red Man* moist snuff in a new and improved packaging with a unique seal which delivers long lasting freshness. On the marketing front we engaged in extensive brand awareness activities for our *Red Man* and *Longhorn* brands of moist snuff, and for *General* snus.

Our US mass market cigar business continues to perform very well, as sales and volumes rose to record levels. For the first six months of the year, mass market cigar volumes are up by nearly 20 percent. In Europe, cigar sales and earnings improved marginally year on year in the second quarter. The US premium cigar market continued to be soft, with our business through the mail order and Internet with Cigars International outperforming our businesses through traditional retailers.

On April 26, we reached a final agreement with the Scandinavian Tobacco Group (STG) to create a new company, with a focus on cigars, combining the cigar and pipe tobacco businesses of Swedish Match (excluding US mass market cigars and our minority stake in Arnold André) with the cigar, pipe tobacco, and fine cut tobacco businesses of STG. Final closing is subject to regulatory approvals and is expected before the end of the year. With this agreement with STG, and with our joint venture with PMI for snus outside of Scandinavia and the US, we are well positioned to capture global growth opportunities that lie ahead.

### SALES BY PRODUCT AREA

MSEK	April-June			January-June			Full year 2009
	2010	2009	% Change	2010	2009	% Change	
Snus and snuff	1,116	1,087	3	2,170	2,055	6	4,250
Chewing tobacco	278	314	-12	539	599	-10	1,112
Cigars	1,151	1,129	2	2,088	2,305	-9	4,426
Lights	395	387	2	778	764	2	1,574
Other operations	760	749	2	1,408	1,330	6	2,843
<b>Total</b>	<b>3,701</b>	<b>3,666</b>	<b>1</b>	<b>6,983</b>	<b>7,053</b>	<b>-1</b>	<b>14,204</b>

### OPERATING PROFIT BY PRODUCT AREA

MSEK	April-June			January-June			Full year 2009
	2010	2009	% Change	2010	2009	% Change	
Snus and snuff	487	463	5	921	860	7	1,916
Chewing tobacco	94	129	-27	183	227	-19	411
Cigars	286	281	2	476	567	-16	935
Lights	69	62	11	132	125	5	279
Other operations	-26	-36		-73	-85		-123
<b>Subtotal</b>	<b>911</b>	<b>899</b>	<b>1</b>	<b>1,639</b>	<b>1,693</b>	<b>-3</b>	<b>3,417</b>
Reversal of depreciation and amortization relating to assets held for sale	34	-		61	-		-
<b>Total</b>	<b>945</b>	<b>899</b>	<b>5</b>	<b>1,700</b>	<b>1,693</b>	<b>0</b>	<b>3,417</b>

Operating profit by product area for the second quarter and for the first six months 2010 are presented including depreciation and amortization for operations relating to assets held for sale. In order to arrive at the Group's operating profit, depreciation and amortization related to assets held for sale need to be added back to the operating profit of reportable segments with an amount of 34 MSEK for the second quarter and 61 MSEK for the first six months.

In order to reconcile to the Group's profit before income tax amounting to 816 MSEK (791) for the second quarter and 1,465 MSEK (1,478) for the first six months, the Group's net finance cost needs to be deducted from operating profit with an amount of 129 MSEK (108) for the second quarter and 235 MSEK (215) for the first six months.

### OPERATING MARGIN BY PRODUCT AREA

Percent	April-June		January-June		Full year 2009
	2010	2009	2010	2009	
Snus and snuff	43.6	42.6	42.4	41.8	45.1
Chewing tobacco	33.9	41.0	34.0	38.0	36.9
Cigars	24.9	24.9	22.8	24.6	21.1
Lights	17.5	16.1	16.9	16.4	17.7
<b>Group, including depreciation and amortization relating to assets held for sale</b>	<b>24.6</b>	<b>24.5</b>	<b>23.5</b>	<b>24.0</b>	<b>24.1</b>
<b>Group, excluding depreciation and amortization relating to assets held for sale</b>	<b>25.5</b>	<b>-</b>	<b>24.3</b>	<b>-</b>	<b>-</b>

### EBITDA BY PRODUCT AREA

MSEK	April-June			January-June			Full year 2009
	2010	2009	% Change	2010	2009	% Change	
Snus and snuff	524	501	5	994	934	6	2,066
Chewing tobacco	98	135	-28	190	239	-21	431
Cigars	338	335	1	577	677	-15	1,176
Lights	80	73	9	153	147	4	323
Other operations	-25	-34		-70	-79		-113
<b>Total</b>	<b>1,015</b>	<b>1,011</b>	<b>0</b>	<b>1,843</b>	<b>1,919</b>	<b>4</b>	<b>3,885</b>

### EBITDA MARGIN BY PRODUCT AREA

Percent	April-June		January-June		Full year 2009
	2010	2009	2010	2009	
Snus and snuff	46.9	46.1	45.8	45.4	48.6
Chewing tobacco	35.1	42.9	35.2	39.9	38.8
Cigars	29.3	29.7	27.6	29.4	26.6
Lights	20.2	19.0	19.6	19.3	20.5
<b>Group</b>	<b>27.4</b>	<b>27.6</b>	<b>26.4</b>	<b>27.2</b>	<b>27.4</b>

Following the announcement that a letter of intent was signed with STG on January 15, 2010, the cigar and pipe tobacco business to be transferred to the new company is presented as assets and liabilities held for sale on the balance sheet. In accordance with the rules of the International Financial Reporting Standards (IFRS) no depreciation or amortization is charged on non-current assets classified as held for sale. However, to facilitate comparison with prior periods, the product areas in this report are presented including depreciation and amortization of assets classified as being held for sale.

Sweden is the world’s largest snus market measured by per capita consumption. A substantially larger proportion of the male population uses the Swedish type of moist snuff called snus\* compared to cigarettes. The Norwegian market is smaller than the Swedish market but has in recent years experienced strong volume growth. The US is the world’s largest moist snuff market measured in number of cans and is nearly five times larger than the Scandinavian snus market. In Sweden and Norway, Swedish Match has a leading position. In the US, the Group is well positioned as the third largest player. Some of the best known brands include *General*, *Ettan*, *Grovsnus*, *Göteborgs Rapé*, *Catch*, and *Kronan* in Sweden, and *Red Man*, *Timber Wolf* and *Longhorn* in the US.

## Product area

# SNUS AND SNUFF

During the second quarter, sales increased by 3 percent compared to the same quarter of the previous year, to 1,116 MSEK (1,087), and operating profit increased by 5 percent to 487 MSEK (463). Sales, operating profit and operating margin improved in Scandinavia. In the US sales and operating profit declined, partly as a result of prior year restocking effects, but also as a result of promotional phasing, intense competitive activity and marketing investments. The operating margin for the total product area was 43.6 percent (42.6).

In Scandinavia, sales volumes measured in number of cans, were unchanged during the second quarter compared to the second quarter of the previous year. The timing of the Easter holidays has affected the volume comparison between the years, and net of this effect there were increases in Sweden, Norway and Travel Retail. The adjusted vol-

ume increase in Scandinavia in the second quarter is estimated to be 3 percent. Sales revenues in Scandinavia grew by 9 percent in the second quarter, and the operating margin improved.

For the first six months reported sales volumes in Scandinavia increased by 3 percent compared to the same period prior year with volume growth in Sweden, Norway and Travel Retail. Sales revenues grew by 12 percent and operating margin improved.

In the US, sales decreased by 9 percent in local currency during the second quarter versus the second quarter of the previous year. US volumes measured in number of cans were down by 22 percent in the second quarter (following a 16 percent increase in the first quarter). In the first quarter of 2009 there was inventory destocking by wholesalers and retailers associated with federal

excise tax increases, with subsequent restocking over the following months. Underlying shipments decreased, primarily as a result of planned phasing of promotional shipments. Marketing spending was high, however, tied to brand awareness campaigns for *General* Swedish snus on the US market as well as NASCAR sponsorship for the *Red Man* and *Longhorn* brands from February through June.

As per June 22, Swedish Match is in full compliance with the new FDA requirements in the US. FDA regulations require new package labeling, as well as new restrictions on marketing smokeless tobacco, which entailed certain development costs for compliance. These market related cost factors, together with lower volumes and somewhat higher cost per can, were the reasons for the decline in US operating profit and a weaker operating margin.

\* Swedish snus is moist snuff which is produced using a special heat treated process, much like pasteurization, as opposed to other moist snuff products for which a fermentation process is used.

### SNUS AND SNUFF

#### SALES

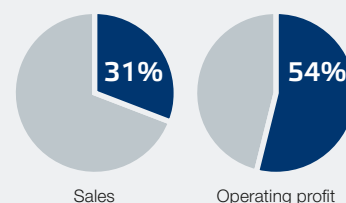
**2,170** MSEK

#### OPERATING PROFIT

**921** MSEK

KEY DATA, MSEK	April–June		January–June		Full year
	2010	2009	2010	2009	2009
Sales	1,116	1,087	2,170	2,055	4,250
Operating profit	487	463	921	860	1,916
Operating margin, %	43.6	42.6	42.4	41.8	45.1

#### SHARE OF GROUP TOTAL





For the first six months Swedish Match shipment volumes in the US declined by 6 percent compared to the same period prior year, largely as a result of planned phasing of promotional shipments. Swedish Match consumer volumes, as measured by Nielsen for the year to date period through June 12, increased by 2.1 percent compared to the same period of the previous year. This resulted in a decline in market share as the growth of the total market in the same period was 7.8 percent according to Nielsen. Sales revenues in the US for the first six months were flat versus prior year as improved average prices offset the decline in shipment volumes. Operating profit declined primarily as a result of marketing investments.

In late June, an improved *Red Man* moist snuff product was launched in the US, with an innovative new container which will deliver longer lasting product freshness. This product improvement will be supported by relevant consumer marketing during the third quarter.

For the first six months of the year, sales increased to 2,170 MSEK (2,055) and operating profit increased to 921 MSEK (860). Operating margin was 42.4 percent (41.8).

## Product area

# CHEWING TOBACCO

Chewing tobacco is sold primarily on the North American market, mainly in the southern US. Swedish Match is the leading producer of chewing tobacco in the US. Well known brands include *Red Man* and *Southern Pride*. The chewing tobacco segment shows a declining trend.

During the second quarter, sales decreased in local currency by 7 percent, while decreasing by 12 percent in Swedish kronor to 278 MSEK (314). In local currency, the operating profit decreased by 23 percent. In the second quarter of 2009 retailer and wholesaler restocking occurred in conjunction with increases in the federal excise tax resulting in unusually high volumes. Operating profit decreased by 27 percent in Swedish kronor to 94 MSEK (129). In addition, included in the oper-

ating profit is a restructuring charge of 10 MSEK relating to the closure of the production of the *Piccanell* chewing tobacco brand in Sweden. Operating margin was 33.9 percent (41.0).

Sales for the first six months amounted to 539 MSEK (599) while operating profit amounted to 183 MSEK (227). In local currency, sales for the first six months were down 1 percent, while operating profit declined by 10 percent. Operating margin was 34.0 percent (38.0).



### CHEWING TOBACCO

#### SALES

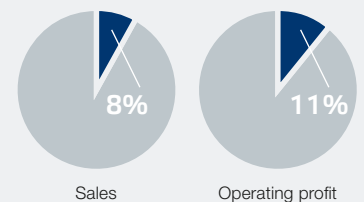
**539** MSEK

#### OPERATING PROFIT

**183** MSEK

KEY DATA, MSEK	April-June		January-June		Full year
	2010	2009	2010	2009	2009
Sales	278	314	539	599	1,112
Operating profit	94	129	183	227	411
Operating margin, %	33.9	41.0	34.0	38.0	36.9

#### SHARE OF GROUP TOTAL



Swedish Match is one of the world’s largest producers of cigars and cigarillos. Swedish Match offers a full range of different cigars and brands. Well known brands include *Macanudo*, *La Gloria Cubana*, *White Owl*, *Garcia y Vega*, *La Paz*, *Hajenius*, *Hollandia*, *Justus van Maurik*, *Willem II*, and *Salsa*. The US is the largest cigar market in the world. Swedish Match has a leading position in the premium segment and is well established in the segment for mass market cigars. After the US, the most important cigar markets are in Europe, where Swedish Match is well represented in most countries. The largest markets for Swedish Match in sales terms in Europe include Benelux, France, Finland, Spain, and Germany.



**Product area**

# CIGARS

During the second quarter, sales increased to 1,151 MSEK (1,129), and operating profit amounted to 286 MSEK (281). In local currencies, sales in the second quarter increased by 9 percent compared to the same period of the previous year, and operating profit increased by 9 percent. Operating margin was 24.9 percent (24.9). In the second quarter of 2009, there was destocking of US mass market and US premium cigars following hoarding prior to federal excise tax increases in April.

During the second quarter, US mass market cigar sales increased by 36 percent in local currency compared to the same period in the previous year, while volumes also grew significantly. Also excluding prior year destocking effects, sales and volumes demonstrated strong growth for the US mass market cigars, from continued success of Foilfresh® cigars.

US premium cigar sales revenues and volumes were flat in the second quarter year on year in local currency. Sales grew in the

Cigars International (mail order and Internet) business, offsetting declines in sales from General Cigar. When backing out the tax related destocking effects from the prior year, declines from the General Cigar business would have been more pronounced.

In Europe both sales revenue and operating profit improved marginally in the second quarter versus the same period previous year in local currencies, as Swedish Match continued to gain market share in key markets.

**CIGARS**

**SALES**

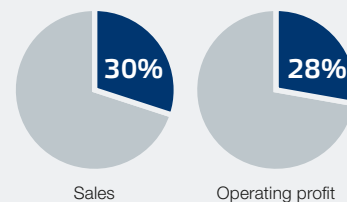
**2,088** MSEK

**OPERATING PROFIT**

**476** MSEK

KEY DATA, MSEK	April–June		January–June		Full year
	2010	2009	2010	2009	2009
Sales	1,151	1,129	2,088	2,305	4,426
Operating profit	286	281	476	567	935
Operating margin, %	24.9	24.9	22.8	24.6	21.1

**SHARE OF GROUP TOTAL**





## Product area

# LIGHTS

Swedish Match is the market leader in a number of markets for matches. The match brands are mostly local, with leading positions in their home countries. Larger brands include *Solstickan*, *Fiat Lux*, *Swan*, *Tres Estrellas*, *Feudor*, and *Redheads*. The Group's main brand for disposable lighters is *Cricket*. Swedish Match's largest market for lighters is Russia.

During the second quarter sales amounted to 395 MSEK (387). In local currencies, sales increased by 1 percent. Operating profit amounted to 69 MSEK (62). Operating margin was 17.5 percent (16.1).

Sales for the first six months amounted to 778 MSEK (764), while operating profit amounted to 132 MSEK (125). Operating margin was 16.9 percent (16.4).



For cigars in total, sales for the first six months amounted to 2,088 MSEK (2,305), while operating profit was 476 MSEK (567). In local currencies sales decreased by 1 percent versus the previous year, while operating profit decreased by 8 percent. In local currencies sales and operating profit improved for European cigars and declined for US premium cigars. US mass market cigars recorded solid growth in sales revenues, volumes and operating profit compared to the first six months of 2009.

### LIGHTS

#### SALES

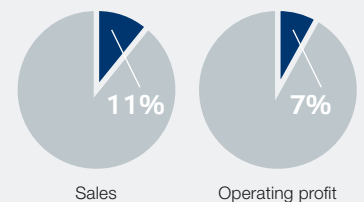
**778** MSEK

#### OPERATING PROFIT

**132** MSEK

KEY DATA, MSEK	April-June		January-June		Full year
	2010	2009	2010	2009	2009
Sales	395	387	778	764	1,574
Operating profit	69	62	132	125	279
Operating margin, %	17.5	16.1	16.9	16.4	17.7

#### SHARE OF GROUP TOTAL



### Other operations

Other operations primarily include the distribution of tobacco products on the Swedish market, some sales of pipe tobacco and accessories, and corporate overhead costs.

Sales in Other operations for the second quarter amounted to 760 MSEK (749). Operating loss for Other operations was 26 MSEK (36). Transaction costs related to the anticipated combination of cigar and pipe tobacco activities with Scandinavian Tobacco Group are included in Other operations costs.

Sales for the first six months amounted to 1,408 MSEK (1,330). Operating loss for the first six months was 73 MSEK (85).

### Taxes

In the first half of the year, the reported tax expense amounted to 309 MSEK (327), corresponding to a tax rate of 21.1 percent (22). The tax rate includes one time items, and excluding those, the underlying tax rate was approximately 22 percent for the first six months.

### Earnings per share

Basic and diluted earnings per share for the second quarter amounted to 2.78 SEK (2.51). Basic earnings per share, including discontinued operations, for the second quarter 2009 was 2.68 SEK, while diluted earnings per share was 2.67 SEK.

EPS (basic) for the first six months was 5.04 SEK (4.63), while diluted EPS was 5.03 SEK (4.62). Including discontinued operations, basic and diluted earnings per share for the first six months 2009 were 4.95 SEK.

### Depreciation, amortization and write-downs

In the second quarter, total depreciation, amortization and write-downs amounted to 70 MSEK (112), of which depreciation and write-down on property, plant and equipment amounted to 57 MSEK (83) and amortization of intangible assets amounted to 13 MSEK (29). Including depreciation and amortization related to assets held for sale, total depreciation, amortization and write-downs would have amounted to 104 MSEK, of which depreciation and write-down on property, plant and equipment would have amounted to 76 MSEK and amortization of intangible assets would have amounted to 27 MSEK.

In the first six months, total depreciation, amortization and write-downs amounted to 143 MSEK (226), of which depreciation and write-down on property, plant and equipment amounted to 116 MSEK (164) and amortization of intangible assets amounted to 28 MSEK (61). Including depreciation and amortization related to assets held for sale, total depreciation, amortization and write-downs would have amounted to 204 MSEK, of which depreciation and write-down on property, plant and equipment would have amounted to 150 MSEK and amortization of intangible assets would have amounted to 54 MSEK.

### Financing and cash flow

Cash flow from operations for the first six months amounted to 1,116 MSEK compared with 1,300 MSEK for the same period previous year.

Investments in property, plant and equipment during the first six months amounted to 197 MSEK (231). In the first quarter, the Group acquired 20 percent of the shares in Caribbean Cigar Holdings Group, S.A. for 110 MSEK.

Net finance cost for the first six months increased to 235 MSEK (215). The net finance costs for the second quarter include bondholder consent fees related to the STG transaction of 21 MSEK.

The net debt as per June 30, 2010 amounted to 8,185 MSEK, including net financial assets reported as assets and liabilities held for sale of 18 MSEK, compared to 7,188 MSEK at December 31, 2009. In the first half of the year, Swedish Match paid dividends totaling 1,089 MSEK and repurchased shares, net, in the amount of 503 MSEK. During the first six months no new bond loans were issued. Repayment of loans for the same period amounted to 392 MSEK. As at June 30, 2010 Swedish Match had 8,176 MSEK of interest bearing debt excluding retirement benefit obligations. During the remainder of 2010, 600 MSEK of this debt falls due for repayment. As of June 30, 2010, Swedish Match had 1,524 MSEK in unutilized committed credit lines.

Cash and cash equivalents amounted to 1,329 MSEK at the end of the period, including cash and cash equivalents reported as assets held for sale of 87 MSEK, compared with 2,530 MSEK as of December 31, 2009.

### Average number of employees

The average number of employees in the Group during the first half of 2010 was 10,302 compared with 11,037 for the full year 2009.

### Share structure

Swedish Match's Annual General Meeting decided on April 27, 2010 to authorize the Board of Directors to decide on the acquisition, on one or more occasions prior to the next Annual General Meeting, of a maximum of as many shares as may be acquired without the Company's holding at any time exceeding 10 percent of all shares in the Company. Based on this authorization, Swedish Match has during the second quarter repurchased 967,500 shares.

During the first six months of 2010, Swedish Match repurchased 3.5 million shares for 556 MSEK at an average price of 158.13 SEK, following authorizations from the Annual General Meetings held in 2009 and 2010. Total shares bought back by Swedish Match since the buyback program started have been repurchased at an average price of 87.00 SEK. As per June 30, 2010 Swedish Match held 2.7 million shares, corresponding to 1.16 percent of the total number of shares. The number of shares outstanding, net as per June 30, 2010 amounted to 228.3 million. In addition, the Company has call options outstanding as of June 30, 2010 corresponding to 4.8 million shares exercisable in gradual stages from 2010–2014.

In accordance with the resolution at the Annual General Meeting, 20 million shares held in treasury have been cancelled. The total number of registered shares in the Company after the cancellation of shares is 231.0 million.

### Other events

On March 16, 2010 Swedish Match acquired 20 percent of the shares in Caribbean Cigar Holdings Group, S.A. (Caribbean Cigar) for 110 MSEK (15.6 MUS\$) in cash from San Cristobal Holdings, S.A. Caribbean Cigar has operations in Nicaragua and Honduras and is engaged in the growing, processing and distribution of leaf tobacco and the manufacturing of premium cigars for distribution in the US market. The investment in Caribbean Cigar will help Swedish Match in



securing supplies of high quality cigar leaf. The investment is accounted for as an associated company in accordance with the equity method.

On April 26, Swedish Match announced that it had signed a final agreement with Scandinavian Tobacco Group (STG) to form a new company. Under the agreement Swedish Match will contribute all of its cigar business with the exception of US mass market cigars and the minority stake in Arnold André, and will also contribute its remaining pipe tobacco and accessories businesses. STG will transfer all of its tobacco business (cigars, pipe tobacco and fine cut tobacco) into the new company. The new company will also include distribution of lighters and matches supplied by Swedish Match in relevant markets. Closing of the transaction, subject to competition authority approvals, is expected to occur prior to year end.

Swedish Match will hold 49 percent of the shares in the new company, with the remaining 51 percent of the shares held by STG's shareholders. STG will compensate Swedish Match with 30 MEUR to account for the shareholding and the relative differences in enterprise values on a cash and debt free basis. Swedish Match bondholder consent was obtained on February 15.

The new company will have leading positions for US premium cigars, for European cigars, and strong positions in a number of other markets. For further information regarding this transaction agreement, please refer to the April 26 press release, available on the Swedish Match website, [www.swedishmatch.com](http://www.swedishmatch.com).

#### **Events following the close of the reporting period**

Cubatabaco has been seeking to cancel General Cigar's registration for the Cohiba trademark in the US in a proceeding that started in 1997. A District Court ruled in favor of Cubatabaco in 2004. A US Court of Appeals released the District Court's ruling and concluded that General Cigar is the rightful owner of the trademark in the US. The matter was appealed to the Supreme Court which denied review of the case. Despite this, the case was reopened by the District Court in 2008 on the basis that there had been a change in New York State law and the District Court again ruled in

favor of Cubatabaco in December 2009. On July 14, 2010, the US Court of Appeals for the Second Circuit ruled that the District Court was wrong in reopening the case and thereby upheld its previous ruling that General Cigar is the rightful owner of the Cohiba trademark in the US.

On July 20, Swedish Match's Board decided to continue to repurchase shares under the authorization given at the Annual General Meeting in April. The shares shall be acquired on the NASDAQ OMX Stockholm, on one or more occasions, at a price within the price interval registered at any given time. The purpose of the repurchase is primarily to enable the Company's capital structure to be adjusted and to cover the allocation of options in the Company's option programs.

#### **Outlook**

During the remainder of 2010 Swedish Match will take further steps to strengthen its position as a leading smokefree tobacco company while maintaining the commitment to profitability in other product categories. For the second half of 2010 we expect both the snus market in Scandinavia and the snuff market in the US to continue to grow versus prior year.

For the remainder of the year, we expect continued solid performance in the Scandinavian snus operations, and in the US moist snuff operations we expect an improvement in the second half of the year compared to the first. Our US mass market cigar business is expected to deliver sales and earnings well above prior year in the second half of 2010.

The tax rate from continuing operations for 2009, excluding one time items, was around 22 percent, and is expected to be at a similar level in 2010.

The Company maintains its long term financial strategy and dividend policy, and we remain committed to returning cash not needed in operations to shareholders.

#### **Risk factors**

Swedish Match faces intense competition in all of its markets and for each of its products and such competition may increase in the future. In order to be successful the Group must promote its brands successfully and anticipate and respond to new consumer trends. Restrictions on advertising and pro-

motion may, however, make it more difficult to counteract loss of consumer loyalty. Competitors may develop and promote new products which could be successful, and could thereby have an adverse effect on Swedish Match results of operations.

Swedish Match has a substantial part of its production and sales in EMU member countries as well as in Brazil and the US. Consequently, changes in exchange rates of euro, Brazilian real and the US dollar in particular may adversely affect the Group's results of operations, cash flow, financial condition or relative price competitiveness in the future. Such effects may occur both in local currencies and when such local currencies are translated into Swedish currency for purposes of financial reporting.

Regulatory and fiscal changes related to tobacco and other taxes, as well as to the marketing, sale and consumption of tobacco products, in the countries where the Group is operating may have an adverse effect on Swedish Match results of operations.

For a further description of risk factors affecting Swedish Match, see the Report of the Board of Directors in the published Swedish Match Annual Report for 2009.

#### **Swedish Match AB (publ)**

Swedish Match AB (publ) is the Parent Company of the Swedish Match Group.

Sales in the Parent Company for the first six months amounted to 0 MSEK (1). Profit before income tax amounted to 630 MSEK (1,596) and net profit for the first six months amounted to 766 MSEK (1,799). The main sources of income for the Parent Company are dividends and Group contributions from subsidiaries. During the period the Parent Company received dividends amounting to 1,152 MSEK (2,354).

Part of the Group's treasury operations are included in the operations of the Parent Company and include the major part of the Group's external borrowings. Some of these loans have variable interest rates and a change of interest rates could impact the result of the Parent Company.

In the second quarter 13 MSEK has been capitalized as an investment in software development on an ERP system for the Group. No capital expenditures on fixed assets have been recognized during the first six months of 2009.

The total cash flow for the first six months was zero (negative 2,676 MSEK) as the Parent Company no longer holds any cash and bank balances. Repayment of loans during the first six months amounted to 392 MSEK. During the period the Parent Company made share repurchases of 556 MSEK (496) and for the same period the Parent Company sold 0.5 million (0.6) treasury shares for 53 MSEK (49). Dividends of 1,089 MSEK (1,024) have been paid during the period.

#### Forward-looking information

This report contains forward-looking information based on the current expectation of the Swedish Match Group's management. Although management deems that the expectations presented by such forward-looking information are reasonable, no guarantee can be given that these expectations will prove correct. Accordingly, the actual future outcome could vary considerably compared to what is stated in the forward-looking information, due to such

factors as changed market conditions for Swedish Match's products and more general conditions regarding business cycles, market and competition, changes in legal requirements and other political measures, and fluctuation in exchange rates.

#### Additional information

This report has not been reviewed by the Company's auditors. The January–September 2010 report will be released on October 27.

The Board of Directors and the CEO declare that the half year report gives a true and fair view of the operations, position and result of the Company and the Group and describes the major risks and uncertainties of the Company and the companies in the Group.

Stockholm, July 21, 2010

Conny Karlsson  
Chairman

Andrew Cripps  
Deputy Chairman

Charles A. Blixt  
Board member

Kenneth Ek  
Board member

Karen Guerra  
Board member

Arne Jurbrant  
Board member

Eva Larsson  
Board member

Joakim Lindström  
Board member

Kersti Strandqvist  
Board member

Meg Tivéus  
Board member

Lars Dahlgren  
President and CEO

#### Key data

All key data, with the exception of share data, have been calculated excluding all effects from assets and liabilities reported in 2010 as held for sale.

	January–June 2010	2009	12 months ended June 30, 2010	Full year 2009
<i>Continuing operations</i>				
Operating margin, % <sup>1)</sup>	23.5	24.0	23.8	24.1
Operating capital, MSEK <sup>2)</sup>	8,928	8,734	8,928	8,494
Return on operating capital, % <sup>1) 2)</sup>			38.1	39.4
EBITDA, MSEK <sup>3)</sup>	1,843	1,919	3,809	3,885
EBITA, MSEK <sup>4) 5)</sup>	1,693	1,755	3,474	3,535
Net debt, MSEK <sup>6)</sup>	8,185	7,770	8,185	7,188
Net debt/EBITA <sup>4) 5) 6)</sup>			2.4	2.0
Investments in property, plant and equipment, MSEK <sup>7)</sup>	197	231	437	471
EBITA interest cover <sup>5)</sup>	8.5	8.5	8.4	8.4
<i>Share data</i>				
Earnings per share, basic, SEK				
From continuing operations	5.04	4.63	10.09	9.67
Including discontinued operations	–	4.95	13.09	12.88
Earnings per share, diluted, SEK				
From continuing operations	5.03	4.62	10.07	9.66
Including discontinued operations	–	4.95	13.07	12.87
Number of shares outstanding at end of period	228,317,500	245,630,000	228,317,500	231,300,000
Average number of shares outstanding, basic	229,075,760	248,754,020	234,420,750	244,259,880
Average number of shares outstanding, diluted	229,588,580	248,890,974	234,826,410	244,440,057

<sup>1)</sup> Including depreciation and amortization relating to assets held for sale and restructuring charges of 73 MSEK in the second half of 2009.

<sup>2)</sup> Including operating assets and liabilities reported as held for sale.

<sup>3)</sup> Operating profit adjusted for depreciation, amortization and write-downs of tangible and intangible assets.

<sup>4)</sup> Operating profit adjusted for amortization and write-downs of intangible assets.

<sup>5)</sup> Including depreciation relating to assets held for sale.

<sup>6)</sup> Including net financial assets reported as assets and liabilities held for sale of 18 MSEK as of June 2010.

<sup>7)</sup> Including investments in forest plantations of 12 MSEK (11).

### Consolidated income statement in summary

MSEK	Note	April-June			January-June			12 months ended June 30, 2010	Full year 2009	Change
		2010	2009	%	2010	2009	%			
<i>Continuing operations</i>										
Sales, including tobacco tax		6,676	6,648		12,547	12,338		25,692	25,483	
Less tobacco tax		-2,976	-2,982		-5,564	-5,285		-11,558	-11,279	
<b>Sales</b>		<b>3,701</b>	<b>3,666</b>	<b>1</b>	<b>6,983</b>	<b>7,053</b>	<b>-1</b>	<b>14,134</b>	<b>14,204</b>	<b>0</b>
Cost of goods sold		-1,805	-1,812		-3,429	-3,436		-7,106	-7,114	
<b>Gross profit</b>		<b>1,896</b>	<b>1,854</b>	<b>2</b>	<b>3,554</b>	<b>3,616</b>	<b>-2</b>	<b>7,028</b>	<b>7,089</b>	<b>-1</b>
Selling and administrative expenses		-955	-958		-1,857	-1,929		-3,609	-3,681	
Share of profit in associated companies and joint ventures		4	4		2	6		6	10	
<b>Operating profit</b>		<b>945</b>	<b>899</b>	<b>5</b>	<b>1,700</b>	<b>1,693</b>	<b>0</b>	<b>3,424</b>	<b>3,417</b>	<b>0</b>
Finance income		5	14		13	41		58	86	
Finance costs		-134	-122		-248	-256		-521	-529	
Net finance cost		-129	-108		-235	-215		-463	-443	
<b>Profit before income tax</b>		<b>816</b>	<b>791</b>	<b>3</b>	<b>1,465</b>	<b>1,478</b>	<b>-1</b>	<b>2,961</b>	<b>2,974</b>	<b>0</b>
Income tax expense		-180	-168		-309	-327		-595	-613	
<b>Profit for the period from continuing operations</b>		<b>637</b>	<b>624</b>	<b>2</b>	<b>1,155</b>	<b>1,151</b>	<b>0</b>	<b>2,366</b>	<b>2,361</b>	<b>0</b>
<i>Discontinued operations</i>										
Profit from discontinued operations, net after tax	3	-	41		-	81		705	785	
<b>Profit for the period</b>		<b>637</b>	<b>664</b>	<b>-4</b>	<b>1,155</b>	<b>1,231</b>	<b>-6</b>	<b>3,070</b>	<b>3,146</b>	<b>-2</b>
<i>Attributable to:</i>										
Equity holders of the Parent		636	664		1,155	1,231		3,069	3,146	
Non-controlling interests		0	0		0	0		1	1	
<b>Profit for the period</b>		<b>637</b>	<b>664</b>	<b>-4</b>	<b>1,155</b>	<b>1,231</b>	<b>-6</b>	<b>3,070</b>	<b>3,146</b>	<b>-2</b>
<i>Earnings per share, basic, SEK</i>										
From continuing operations		2.78	2.51		5.04	4.63		10.09	9.67	
Including discontinued operations		-	2.68		-	4.95		13.09	12.88	
<i>Earnings per share, diluted, SEK</i>										
From continuing operations		2.78	2.51		5.03	4.62		10.07	9.66	
Including discontinued operations		-	2.67		-	4.95		13.07	12.87	

### Consolidated statement of comprehensive income

MSEK	April-June		January-June		12 months ended June 30, 2010	Full year 2009
	2010	2009	2010	2009		
<b>Profit recognized in the income statement</b>	<b>637</b>	<b>664</b>	<b>1,155</b>	<b>1,231</b>	<b>3,070</b>	<b>3,146</b>
<i>Other comprehensive income</i>						
Translation differences related to foreign operations	329	-171	184	155	-193	-222
Translation differences included in profit and loss	-	-	-7	-	156	163
Effective portion of changes in fair value of cash flow hedges	17	18	31	41	31	41
Reclassification adjustments for gains/losses on cash flow hedges included in profit and loss	-	25	-	25	-	25
Actuarial gains and losses attributable to pensions, including payroll tax	-166	-2	-87	115	-318	-115
Other comprehensive income from associated companies and joint ventures	-	-	-6	-	-6	-
Income tax relating to components of other comprehensive income	66	4	29	-47	115	38
<b>Total other comprehensive income, net of tax</b>	<b>246</b>	<b>-126</b>	<b>145</b>	<b>289</b>	<b>-214</b>	<b>-70</b>
<b>Total comprehensive income</b>	<b>883</b>	<b>538</b>	<b>1,300</b>	<b>1,520</b>	<b>2,856</b>	<b>3,076</b>
<i>Attributable to:</i>						
Equity holders of the Parent	883	538	1,300	1,520	2,855	3,075
Non-controlling interests	0	0	0	0	1	1
<b>Total comprehensive income</b>	<b>883</b>	<b>538</b>	<b>1,300</b>	<b>1,520</b>	<b>2,856</b>	<b>3,076</b>

## Consolidated balance sheet in summary

MSEK	Note	June 30, 2010	December 31, 2009
Intangible assets		1,228	3,792
Property, plant and equipment		2,188	2,525
Other non-current financial receivables <sup>1)</sup>		1,874	2,193
Current operating assets		2,639	5,296
Other current investments		1	1
Cash and cash equivalents		1,242	2,530
Assets held for sale <sup>2)</sup>	2	6,167	–
<b>Total assets</b>		<b>15,338</b>	<b>16,337</b>
Equity attributable to equity holders of the Parent		606	899
Non-controlling interests		5	4
<b>Total equity</b>		<b>611</b>	<b>903</b>
Non-current provisions		1,095	1,301
Non-current loans		7,470	8,252
Other non-current financial liabilities <sup>3)</sup>		1,544	1,440
Current provisions		93	125
Current loans		957	1,002
Other current liabilities		2,765	3,313
Liabilities attributable to assets held for sale <sup>2)</sup>	2	803	–
<b>Total equity and liabilities</b>		<b>15,338</b>	<b>16,337</b>

<sup>1)</sup> Includes pension assets of 153 MSEK (150) and derivative financial instruments of 254 MSEK (679) used to hedge the Parent Company's bond loans denominated in euro.

<sup>2)</sup> A net inter-company liability of 2,278 MSEK has been eliminated from assets and liabilities held for sale in the consolidated balance sheet. The net assets held for sale, including inter-company balances amount to 3,086 MSEK.

<sup>3)</sup> Includes pension liabilities of 1,422 MSEK (1,291) and derivative financial instruments of 3 MSEK (3) used to hedge the Parent Company's bond loans denominated in euro.

## Consolidated cash flow statement in summary

MSEK	January–June	
	2010	2009
<i>Operating activities</i>		
<b>Profit before income taxes</b>	<b>1,465</b>	<b>1,478</b>
Adjustments for non-cash items and other	61	200
Income tax paid	–354	–279
<b>Cash flow from operating activities before changes in working capital</b>	<b>1,171</b>	<b>1,399</b>
Cash flow from changes in working capital	–55	–100
<b>Net cash from operating activities</b>	<b>1,116</b>	<b>1,300</b>
<i>Investing activities</i>		
Purchase of property, plant and equipment	–197	–231
Proceeds from sale of property, plant and equipment	6	11
Purchase of intangible assets	–20	0
Acquisition of subsidiaries, net of cash acquired <sup>1)</sup>	–	–47
Acquisition of associated companies <sup>2)</sup>	–110	–
Proceeds from sale of subsidiaries, net of cash disposed of	–	7
Changes in financial receivables etc.	0	2
<b>Net cash used in investing activities</b>	<b>–322</b>	<b>–258</b>
<i>Financing activities</i>		
Changes in loans	–392	–340
Dividends paid to equity holders of the Parent	–1,089	–1,024
Repurchase of own shares	–556	–496
Stock options exercised	53	49
Other	12	32
<b>Net cash used in financing activities</b>	<b>–1,971</b>	<b>–1,779</b>
<b>Net decrease in cash and cash equivalents</b>	<b>–1,177</b>	<b>–737</b>
<i>Cash flow from discontinued operations</i>		
Net cash from operating activities	–	123
Net cash used in investing activities	–	–4
Net cash used in financing activities	–	–50
<b>Net increase in cash and cash equivalents</b>	<b>–</b>	<b>68</b>
<b>Total net decrease in cash and cash equivalents</b>	<b>–1,177</b>	<b>–669</b>
Cash and cash equivalents at the beginning of the period	2,530	3,178
Effect of exchange rate fluctuations on cash and cash equivalents	–25	38
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>1,242</b>	<b>2,547</b>

<sup>1)</sup> Acquisition in 2009 pertains to Rocker Production AB acquired from Philip Morris International of 31 MSEK, investment of 8 MSEK in Swedish Match and Philip Morris International's joint venture company and final payment for the acquisition of Havana Honeys' assets of 8 MSEK.

<sup>2)</sup> Acquisition in 2010 pertains to investment of 20 percent of the shares in Caribbean Cigar Holdings Group, S.A. in an amount of 110 MSEK.

## Change in shareholders' equity

MSEK	Equity attributable to holders of the Parent	Non-controlling interests	Total equity
<b>Equity at January 1, 2009</b>	<b>1,377</b>	<b>4</b>	<b>1,381</b>
Total comprehensive income	1,520	0	1,520
Dividends	-1,024	-	-1,024
Repurchase of own shares	-496	-	-496
Stock options exercised	49	-	49
Cancellation of shares	-6	-	-6
Bonus issue	6	-	6
Share-based payments, IFRS 2	14	-	14
<b>Equity at June 30, 2009</b>	<b>1,439</b>	<b>4</b>	<b>1,444</b>
<b>Equity at January 1, 2010</b>	<b>899</b>	<b>4</b>	<b>903</b>
Total comprehensive income	1,300	0	1,300
Dividends	-1,089	0	-1,089
Repurchase of own shares	-556	-	-556
Stock options exercised	53	-	53
Cancellation of shares	-31	-	-31
Bonus issue	31	-	31
Share-based payments, IFRS 2	0	-	0
<b>Equity at June 30, 2010</b>	<b>606</b>	<b>5</b>	<b>611</b>

## Parent Company income statement in summary

MSEK	January-June	
	2010	2009
Sales	-	1
<b>Gross profit</b>	<b>-</b>	<b>1</b>
Selling and administrative expenses	-123	-160
<b>Operating loss</b>	<b>-123</b>	<b>-159</b>
Result from participation in Group companies	1,152	2,354
Result from participation in joint venture	-7	-2
Net finance cost	-392	-597
<b>Profit before income tax</b>	<b>630</b>	<b>1,596</b>
Income tax	136	203
<b>Profit for the period</b>	<b>766</b>	<b>1,799</b>

## Parent Company statement of comprehensive income

MSEK	January-June	
	2010	2009
<b>Profit for the period</b>	<b>766</b>	<b>1,799</b>
<i>Other comprehensive income</i>		
Effective portion of changes in fair value of cash flow hedges	31	41
Reclassification adjustment for gains/losses on cash flow hedges in profit and loss	-	25
Income tax relating to changes in fair value of cash flow hedges	-8	-17
<b>Other comprehensive income</b>	<b>23</b>	<b>48</b>
<b>Total comprehensive income</b>	<b>789</b>	<b>1,847</b>

## Parent Company balance sheet in summary

MSEK	June 30, 2010	June 30, 2009	December 31, 2009
Intangible and tangible fixed assets	15	2	2
Non-current financial assets	50,723	45,143	51,190
Current assets	8,256	8,344	6,462
<b>Total assets</b>	<b>58,994</b>	<b>53,489</b>	<b>57,654</b>
<b>Equity</b>	<b>22,426</b>	<b>22,528</b>	<b>23,229</b>
<b>Untaxed reserves</b>	<b>0</b>	<b>2</b>	<b>0</b>
Provisions	36	22	25
Non-current liabilities	25,676	27,353	26,462
Current liabilities	10,855	3,584	7,937
<b>Total liabilities</b>	<b>36,567</b>	<b>30,959</b>	<b>34,424</b>
<b>Total equity and liabilities</b>	<b>58,994</b>	<b>53,489</b>	<b>57,654</b>

### Note 1 – Accounting principles

This report for the Group is prepared in accordance with the Accounting Standard IAS 34 Interim Financial Reporting and applicable rules in the Annual Account Act. The interim report for the Parent Company is prepared in accordance with section 9 in the Annual Account Act.

New accounting standards, changes of standards and interpretations applicable from January 1, 2010 as detailed below have been applied in this report:

The revised IFRS 3 Business Combinations entail changes to the reporting of acquisitions regarding, for example, accounting for transaction costs, any contingent consideration and step acquisitions. The Group recognizes transaction costs relating to business combinations as an expense when incurred.

Amendments to IAS 27 Consolidated and Separate Financial Statements bring about changes regarding, for example, how to report changes in ownership in cases where the Parent Company retains or loses control of the owned entity. As a consequence of implementing the amendments to IAS 27 the term “minority interest” has changed and is now called “non-controlling interests” in the presentation of the Group’s consolidated financial statements.

The following amendments and interpretations, applicable as of January 1, 2010 have not had a significant impact on the financial result or position of the Group: amendments to IAS 39 Financial Instruments concerning Recognition and Measurement of Eligible Hedged Items, IFRIC 12 Service Concession Arrangements, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 16 Hedges of Net Investments in a Foreign Operation, IFRIC 17 Distribution of Non-cash Assets to Owners, and IFRIC 18 Transfers of Assets from Customers.

In all other respects the accounting principles and basis of calculations are the same as in the 2009 Annual Report.

### Note 2 – Assets held for sale

As of the date of announcement of the intent to form a new company with Scandinavian Tobacco Group, assets and liabilities to be transferred to the new company are classified as held for sale.

At June 30, 2010, assets held for sale comprised the following balances:

#### Assets held for sale

MSEK	June 30, 2010
Non-current financial assets	11
Other non-current assets	3,304
Current operating assets	2,765
Cash and cash equivalents	87
<b>Total assets held for sale in consolidated balance sheet</b>	<b>6,167</b>
Inter-company financial receivables	578
Other inter-company receivables	16
<b>Total assets held for sale<sup>1)</sup></b>	<b>6,761</b>
Non-current liabilities	429
Current liabilities	374
<b>Total liabilities attributable to assets held for sale in consolidated balance sheet</b>	<b>803</b>
Inter-company financial liabilities	2,840
Other inter-company liabilities	32
<b>Total liabilities attributable to assets held for sale<sup>1)</sup></b>	<b>3,674</b>
<b>Total net assets held for sale<sup>1)</sup></b>	<b>3,086</b>

<sup>1)</sup> Inter-company receivables and liabilities included in the disposal group classified as assets held for sale are eliminated at Group level and are therefore not included in assets held for sale and liabilities attributable to assets held for sale in the Group’s consolidated balance sheet.

### Note 3 – Discontinued operations

In the third quarter of 2009, Swedish Match divested the Swedish Match South African operations. The South African operations primarily manufacture and sell pipe tobacco and nasal snuff and accounted for approximately 70 percent of the sales of the former pipe tobacco and accessories product area. As a consequence of this divestiture, the South African operations have been restated as discontinued operations in the Group’s accounts. Income and expenses of the discontinued operations for the first six months of 2009 are specified below.

#### Analysis of the result from discontinued operations

MSEK	January–June	
	2010	2009
Sales	–	328
Expenses	–	–227
Income taxes	–	–20
<b>Profit from discontinued operations, net after tax</b>	<b>–</b>	<b>81</b>

## Quarterly data

MSEK	Q2/10	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q4/08	Q3/08	Q2/08
<i>Continuing operations</i>									
Sales, including tobacco tax	6,676	5,870	6,409	6,737	6,648	5,690	6,141	6,033	5,832
Less tobacco tax	-2,976	-2,588	-2,864	-3,130	-2,982	-2,303	-2,661	-2,759	-2,668
<b>Sales</b>	<b>3,701</b>	<b>3,282</b>	<b>3,545</b>	<b>3,606</b>	<b>3,666</b>	<b>3,387</b>	<b>3,480</b>	<b>3,274</b>	<b>3,164</b>
Cost of goods sold	-1,805	-1,624	-1,835	-1,843	-1,812	-1,624	-1,747	-1,663	-1,633
<b>Gross profit</b>	<b>1,896</b>	<b>1,658</b>	<b>1,710</b>	<b>1,764</b>	<b>1,854</b>	<b>1,762</b>	<b>1,733</b>	<b>1,611</b>	<b>1,531</b>
Selling and administrative expenses	-955	-902	-860	-892	-958	-970	-930	-808	-846
Share of profit in associated companies and joint ventures	4	-2	0	3	4	2	4	5	5
	<b>945</b>	<b>755</b>	<b>850</b>	<b>874</b>	<b>899</b>	<b>794</b>	<b>807</b>	<b>808</b>	<b>691</b>
<i>Larger one time items</i>									
Gain on sale of subsidiary and related assets	-	-	-	-	-	-	73	-	-
<b>Operating profit</b>	<b>945</b>	<b>755</b>	<b>850</b>	<b>874</b>	<b>899</b>	<b>794</b>	<b>880</b>	<b>808</b>	<b>691</b>
Finance income	5	8	10	35	14	27	41	39	33
Finance costs	-134	-115	-121	-152	-122	-135	-137	-154	-150
Net finance cost	-129	-106	-111	-117	-108	-108	-97	-115	-117
<b>Profit before income tax</b>	<b>816</b>	<b>649</b>	<b>739</b>	<b>757</b>	<b>791</b>	<b>686</b>	<b>784</b>	<b>693</b>	<b>574</b>
Income tax expense	-180	-130	-143	-142	-168	-159	-97	-72	-95
<b>Profit for the period from continuing operations</b>	<b>637</b>	<b>519</b>	<b>595</b>	<b>615</b>	<b>624</b>	<b>527</b>	<b>687</b>	<b>621</b>	<b>479</b>
<i>Discontinued operations</i>									
Profit from discontinued operations, net after tax	-	-	-	705	41	40	41	50	38
<b>Profit for the period</b>	<b>637</b>	<b>519</b>	<b>595</b>	<b>1,319</b>	<b>664</b>	<b>567</b>	<b>728</b>	<b>671</b>	<b>517</b>
<i>Attributable to:</i>									
Equity holders of the Parent	636	519	595	1,319	664	567	728	671	517
Non-controlling interests	0	0	0	0	0	0	0	0	0
<b>Profit for the period</b>	<b>637</b>	<b>519</b>	<b>595</b>	<b>1,319</b>	<b>664</b>	<b>567</b>	<b>728</b>	<b>671</b>	<b>517</b>

## Sales by product area

MSEK	Q2/10	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q4/08	Q3/08	Q2/08
Snus and snuff	1,116	1,054	1,101	1,093	1,087	969	1,035	964	926
Chewing tobacco	278	261	233	280	314	284	260	237	227
Cigars	1,151	937	1,056	1,065	1,129	1,175	1,052	933	905
Lights	395	382	422	388	387	377	407	401	371
Other operations	760	648	732	781	749	581	726	740	735
<b>Total</b>	<b>3,701</b>	<b>3,282</b>	<b>3,545</b>	<b>3,606</b>	<b>3,666</b>	<b>3,387</b>	<b>3,480</b>	<b>3,274</b>	<b>3,164</b>

## Operating profit by product area

MSEK	Q2/10	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q4/08	Q3/08	Q2/08
Snus and snuff	487	434	523	534	463	397	463	479	403
Chewing tobacco	94	89	76	107	129	98	96	87	77
Cigars	286	190	179	190	281	286	205	187	183
Lights	69	62	92	62	62	63	71	85	63
Other operations	-26	-47	-19	-19	-36	-50	-27	-30	-37
<b>Subtotal</b>	<b>911</b>	<b>728</b>	<b>850</b>	<b>874</b>	<b>899</b>	<b>794</b>	<b>807</b>	<b>808</b>	<b>691</b>
Reversal of depreciation and amortization relating to assets held for sale	34	27	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>945</b>	<b>755</b>	<b>850</b>	<b>874</b>	<b>899</b>	<b>794</b>	<b>807</b>	<b>808</b>	<b>691</b>
<i>Larger one time items</i>									
Gain on sale of subsidiary and related assets	-	-	-	-	-	-	73	-	-
<b>Subtotal</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>73</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>945</b>	<b>755</b>	<b>850</b>	<b>874</b>	<b>899</b>	<b>794</b>	<b>880</b>	<b>808</b>	<b>691</b>

## Operating margin by product area<sup>1)</sup>

Percent	Q2/10	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q4/08	Q3/08	Q2/08
Snus and snuff	43.6	41.2	47.5	48.8	42.6	40.9	44.7	49.7	43.6
Chewing tobacco	33.9	34.1	32.5	38.4	41.0	34.6	36.8	36.9	34.1
Cigars	24.9	20.3	16.9	17.9	24.9	24.3	19.5	20.0	20.2
Lights	17.5	16.3	21.8	15.9	16.1	16.7	17.5	21.2	17.1
<b>Group, including depreciation and amortization relating to assets held for sale</b>	<b>24.6</b>	<b>22.2</b>	<b>24.0</b>	<b>24.2</b>	<b>24.5</b>	<b>23.4</b>	<b>23.2</b>	<b>24.7</b>	<b>21.8</b>
<b>Group, excluding depreciation and amortization relating to assets held for sale</b>	<b>25.5</b>	<b>23.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

<sup>1)</sup> Excluding larger one time items, but including restructuring charges for cigars of 45 MSEK in Q3 2009 and 29 MSEK in Q4 2009.



## Göteborgs Rapé – a Swedish classic for the future

The snus brand *Göteborgs Rapé* has been available in Sweden since 1919. With its mild tobacco flavor with a hint of fresh herbs and juniper, *Göteborgs Rapé* has grown into a modern classic. Rapé, from the French word “torn”, origins from the exclusive torn tobacco in the 18th century.

Today, *Göteborgs Rapé* is the third largest snus brand on the Swedish market and is available in *White Portion*, *Mini White Portion* and *loose*. Since 2006, *No2 Lingonberry*, is part of the *Göteborgs Rapé* family. ■

Swedish Match develops, manufactures and sells market-leading brands in smokefree products (snus, snuff and chewing tobacco), cigars and lights products (matches and lighters). The Group sells products across the globe, with production units in 10 countries. Swedish Match also has an independent distribution company in Sweden. The world market for snus and snuff has grown significantly in value terms over the past several years, led by volume growth in the US. Markets for other product categories have been stable or declining. Swedish Match generates more than half of its sales and more than two thirds of its operating profit from snus/snuff and cigars. The Swedish Match share is listed on NASDAQ OMX Stockholm.



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