

# Q4 2014

## Full Year Report January – December 2014

- Sales for the full year increased by 6 percent to 13,305 MSEK (12,610) and for the fourth quarter by 11 percent to 3,536 MSEK (3,178). In local currencies, sales increased by 4 percent for the full year and by 7 percent for the fourth quarter.
- Operating profit from product areas<sup>1)</sup> for the full year increased by 2 percent to 3,446 MSEK (3,375) and for the fourth quarter by 8 percent to 900 MSEK (835). In local currencies, operating profit from product areas<sup>1)</sup> increased by 1 percent for the full year and by 4 percent for the fourth quarter.
- Operating profit<sup>2)</sup> amounted to 3,780 MSEK (3,855 including a capital gain of 161 MSEK) for the full year and to 992 MSEK (932) for the fourth quarter.
- EPS (basic) for the full year amounted to 13.23 SEK (13.63) and 3.55 SEK (3.43) for the fourth quarter. EPS (basic), excluding larger one-time items, for the full year amounted to 13.23 SEK (12.82).
- The Board proposes an increased dividend to 7.50 SEK (7.30).

1) Operating profit for Swedish Match product areas, which excludes share of net profit in STG and larger one-time items.  
2) Operating profit for the Group includes share of net profit in STG and larger one-time items.



## CEO Lars Dahlgren comments:

### 2014 - A year with many accomplishments

When I reflect on 2014, I am excited about the actions we have taken and the progress we have achieved in several areas. During the fall we clarified our strategic direction and long term ambitions by launching our new vision “A world without cigarettes” – a vision that promotes purpose and engagement among our employees. For many external stakeholders our new vision has elevated the awareness of the substantially lower health risk of snus versus cigarettes and of how a great commercial opportunity can be combined with a significant contribution to society.

During the summer we submitted our applications to the US Food and Drug Administration (FDA) for a modified risk tobacco product classification for *General* snus. The applications are the result of many years of hard work and perseverance and represent a true milestone in line with our vision. In the US market *General* snus continued to demonstrate strong year on year market share gains. In the Swedish snus market we took several actions and importantly gained share within the growing value segment – which in turn resulted in relatively modest overall market share declines. In Norway we continued to work hard to reverse our declining market share trend, but have not yet achieved satisfactory results.

Within Other tobacco products (cigars and chewing tobacco) we have taken actions to address the intense competitive situation for cigars and delivered volume growth versus the prior year in every quarter of 2014 - resulting in a record year for cigar volumes. For chewing tobacco we successfully mitigated volume declines and operating profit increased in local currency versus prior year. Our Lights business delivered a good performance despite increased geopolitical uncertainty and sharp currency fluctuations.

For the full year we generated increased sales and excluding the 2013 capital gain on a sale of land, operating profit and earnings per share grew. Particularly the fourth quarter showed good sales and earnings growth, positively impacted by both currency translation effects and strong deliveries of snus in Scandinavia as the trade hoarded products in anticipation of the excise tax increase on January 1<sup>st</sup> 2015.

### Our performance in the fourth quarter

Swedish Match increased sales and operating profit in the fourth quarter compared to the prior year both as reported in SEK and in local currencies. The strongest growth came from the product area Other tobacco products, which experienced share and volume gains for cigars and benefited from a stronger USD. Sales and operating profit also increased in our Snus and moist snuff product area, but strong shipment volumes in Scandinavia were in large part due to trade hoarding effects. Adjusted for estimated trade hoarding and year-end calendar effects, sales and operating profit for snus in Scandinavia declined for the quarter versus prior year on negative price and mix effects. US moist snuff sales and operating profit increased in local currency.

The total Scandinavian snus market, measured in number of cans, continued to grow in the fourth quarter but we did note a slight slowdown in the growth rate in both Sweden and Norway. We estimate that the underlying growth in the Swedish market exceeded 3 percent, while the Norwegian market grew by more than 6 percent. In Sweden, I am pleased to see that our initiatives within the value segment, including the repositioning of the *Kronan* brand to a lower price point, have had the desired effects. The growth in Sweden is driven by the value segment which at the end of 2014 represented approximately 45 percent of the total Swedish snus market. Over the course of the year we have gradually strengthened our market share within this segment which, when coupled with our efforts to defend our market share in the premium segment, resulted in our overall market share in Sweden being relatively stable since March 2014.

In Norway, the market share of our largest brand *General* has been fairly stable in the second half of the year following periods of market share declines. However, our total market share in Norway continued to decline in the fourth quarter. During the quarter we launched new product varieties to address this issue, and will continue to take further measures in this market.

For *General* snus in the US we continued to see good traction in the quarter. Sales were significantly higher than in the prior year. Despite fewer price promotions compared to the third quarter of this year, average daily shipment volumes remained at the same level.

During the year, Swedish Match has successfully addressed the intensified competition in the US cigar market and our price promotions remained at high levels. We continued to see strong volume development

for our cigars with double digit growth in the fourth quarter. Shipments of chewing tobacco were relatively soft in the quarter but operating profit in local currency was almost on par with prior year as a result of favorable pricing and low operating expenses.

Within our Lights product area, geopolitical uncertainty had a negative impact on deliveries of lighters and volumes for matches also declined. However, operating profit remained resilient delivering the strongest quarterly performance this year as a result of improved prices, positive currency translation and cost control.

Sales and EBITDA of Scandinavian Tobacco Group (49 percent owned by Swedish Match) increased in the quarter, led by the continued solid performance for handmade cigars in the US, recovery of machine made cigars from a relatively weak fourth quarter in 2013 as well as a more favorable currency situation. The integration of the Belgian cigar producer Verellen progressed according to plan and restructuring costs related to this integration were incurred during the quarter.

*In summary*, I am pleased with our fourth quarter performance, and especially with our improving position in the growing value priced snus segment in Sweden which contributed to a more stable market share development in that market. We continue to focus our efforts on building our snus business long term, striving toward our vision of a world without cigarettes.



*General sets the standard for Swedish snus, and is the best selling snus brand in Scandinavia. During 2014, General grew to become the second largest selling brand of snus on the US market.*

## Summary of consolidated income statement

MSEK	October-December		Chg %	Full year		Chg %
	2014	2013		2014	2013	
Sales	3,536	3,178	11	13,305	12,610	6
Operating profit from product areas <sup>1)</sup>	900	835	8	3,446	3,375	2
Operating profit <sup>2)</sup>	992	932	6	3,780	3,855	-2
Profit before income tax	861	804	7	3,270	3,310	-1
Profit for the period	700	675	4	2 626	2 711	-3
Operating margin from product areas <sup>1)</sup> , %	25.5	26.3		25.9	26.8	
Operating margin <sup>3)</sup> , %	28.1	29.3		28.4	29.3	
Earnings per share, basic, SEK	3.55	3.43	3	13.23	13.63	-3
Earnings per share, excl. larger one-time items, basic, SEK	3.55	3.43	3	13.23	12.82	3

1) Excluding share of net profit in STG and larger one-time items.

2) Including share of net profit in STG and larger one-time items.

3) Including share of net profit in STG.

## The fourth quarter

(Note: Comments below refer to the comparison between fourth quarter 2014 vs. fourth quarter prior year).

### Sales

Sales increased by 11 percent to 3,536 MSEK (3,178). Currency translation has affected the sales comparison positively by 137 MSEK. In local currencies, sales increased by 7 percent. Adjusted for trade hoarding and year-end calendar effects in Scandinavia, sales increased by approximately 3 percent in local currencies.

### Earnings

Operating profit from product areas increased by 8 percent to 900 MSEK (835). In local currencies, operating profit from product areas increased by 4 percent and was positively affected by trade hoarding of snus in Sweden and Norway but negatively affected by higher costs for Swedish snus outside Scandinavia. The share of net profit in STG, after interest and tax, amounted to 92 MSEK (97). Operating profit, including share of net profit in STG, increased by 6 percent to 992 MSEK (932). Currency translation has affected the operating profit comparison positively by 39 MSEK.

The Group's net finance cost amounted to 132 MSEK (128) and income tax expense amounted to 161 MSEK (128), corresponding to a tax rate of 18.7 percent (16.0).

Profit for the period increased by 4 percent to 700 MSEK (675) and basic earnings per share (EPS) increased to 3.55 SEK (3.43).

## The full year

(Note: Comments below refer to the comparison between full year 2014 vs. full year prior year).

### Sales

Sales increased by 6 percent to 13,305 MSEK (12,610). Currency translation has affected the sales comparison positively by 181 MSEK. In local currencies, sales increased by 4 percent.

### Earnings

Operating profit from product areas amounted to 3,446 MSEK (3,375). In local currencies, and excluding prior year restructuring charges of 28 MSEK, the operating profit from product areas was unchanged despite higher investments for Swedish snus outside Scandinavia.

The share of net profit in STG, after interest and tax, amounted to 334 MSEK (319). During 2013, Swedish Match recognized an additional capital gain of 161 MSEK related to a sale of a parcel of land in 2007 which was reported under larger one-time items. Operating profit, including share of net profit in STG and larger one-time items, amounted to 3,780 MSEK (3,855). Currency translation has affected the operating profit comparison positively by 69 MSEK.

The Group's net finance cost amounted to 510 MSEK (544) and income tax expense amounted to 644 MSEK (600), corresponding to a tax rate of 19.7 percent (18.1).

Profit for the period declined by 3 percent to 2,626 MSEK (2,711). Basic EPS declined by 3 percent to 13.23 SEK (13.63) while basic EPS excluding larger one-time items increased by 3 percent to 13.23 SEK (12.82).

## Snus and moist snuff

### Fourth quarter highlights:

- Swedish Match's market share within the value segment of the Swedish market grew for the fourth consecutive quarter
- Slight growth of Swedish Match volumes in Scandinavia when adjusting for estimated hoarding effects
- Sales growth in the US for both moist snuff and Swedish snus



### Key data

MSEK	October-December		Chg	Full year		Chg
	2014	2013	%	2014	2013	%
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	
EBITDA	623	607	3	2,380	2,358	1
EBITDA margin, %	47.1	48.7		47.6	48.4	

### The fourth quarter

(Note: Comments below refer to the comparison between fourth quarter 2014 vs. fourth quarter prior year).

In local currencies, Snus and moist snuff sales increased by 3 percent. Operating profit increased by 3 percent to 577 MSEK (562) and includes net costs for snus expansion outside Scandinavia amounting to 100 MSEK (85). The operating profit was positively affected by trade hoarding of snus in Sweden and Norway in advance of the January 2015 excise tax increases. From January 2015, the tobacco excise taxes for snus were raised by 12 percent in Sweden and by 2 percent in Norway. The operating margin for the product area was 43.6 percent (45.1).

In Scandinavia, shipment volumes measured in number of cans, were up by 6 percent. Volumes increased in Norway and in the Sweden/Travel Retail markets combined. On an underlying basis (adjusted for trade hoarding and year-end calendar effects) the estimated volume growth for Swedish Match snus in Scandinavia was 1 percent in the quarter. The Swedish market continued to grow, but at a somewhat slower pace than in prior quarters, and Swedish Match estimates the total market to have grown by more than 3 percent in volume on an underlying basis. The growth has been driven by value priced products which have more than offset declines for premium products. At the end of 2014, value priced products comprised approximately 45 percent of the Swedish market in volume terms. Swedish Match's market share within this segment (according to Nielsen) has increased in every quarter since the beginning of 2014 and is up by more than 3 percentage points compared to the fourth quarter of 2013.



The Norwegian market is estimated to have increased by more than 6 percent, with strong growth for pouch products more than offsetting declines for loose products. Swedish Match estimates that the total Scandinavian snus market (Sweden/Travel Retail and Norway) increased by approximately 4 percent in volume terms.

Sales for Swedish Match in Scandinavia were up, due to year-end calendar and hoarding effects. Excluding these effects, sales declined despite higher volumes. The larger share of value priced products in the portfolio combined with the price repositioning of the *Kronan* brand in Sweden affected the average price per can negatively. Reported operating profit grew as a result of the increased sales. Excluding year-end calendar and hoarding effects, operating profit and operating margin declined as a consequence of the lower net sales per can and somewhat higher operating expenses. Year-end hoarding is expected to result in an adjustment of trade inventory levels in the first quarter 2015.

For *General* snus in the US, marketing spending was higher with maintained focused efforts to grow the brand and the category of Swedish snus. Sales were significantly higher than prior year and operating loss in local currency was lower as the sales increase compensated for the higher spending. Compared to the third quarter 2014, average daily shipment volumes were at the same level despite a planned seasonal reduction in price promotions.

For the US moist snuff business, volume measured in number of can equivalents was down 5 percent in the quarter, due to phased timing of promotions. Sales and operating profit in local currency grew, however, due to improved realized pricing.

## The full year

(Note: Comments below refer to the comparison between full year 2014 vs. full year prior year).

Sales for the product area increased 2 percent in local currencies and were positively impacted by year-end calendar effects and trade hoarding in Scandinavia. Operating profit amounted to 2,207 MSEK (2,195), and included net costs for Swedish snus expansion outside Scandinavia amounting to 341 MSEK (294). The third quarter of 2013 included restructuring costs in the Scandinavian operations amounting to 28 MSEK. The operating margin for the product area was 44.1 percent (45.1).

In Scandinavia, sales revenues increased by more than 1 percent, while shipment volumes increased by 3 percent with value priced products comprising a larger share of the product portfolio. Swedish Match estimates that its underlying volumes (excluding hoarding and year-end calendar effects) on the Scandinavian market increased by 1 percent for the year. In the US, sales revenues in local currency for moist snuff were also up 1 percent on 2 percent lower volumes. Operating profit grew in local currency for moist snuff in the US but declined for snus in Scandinavia when adjusting for year-end calendar and trade hoarding effects and the 28 MSEK restructuring charges included in the prior year.

## Swedish Match shipment volumes

	October- December		Chg	Full year		Chg
	2014	2013	%	2014	2013	%
Snus, millions of cans, Scandinavia	64.8	61.0	6	238.1	231.3	3
Moist snuff, millions of cans, US	29.7	31.2	-5	132.6	135.3	-2

## Swedish Match Scandinavian snus market shares<sup>1)</sup>

Percent	October- December		Chg	Full year		Chg
	2014	2013	ppts	2014	2013	ppts
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

1) Swedish Match estimates using Nielsen data (excluding tobaccoconists): 12 weeks and YTD to December 28, 2014.

## Other tobacco products (cigars and chewing tobacco)

### Fourth quarter highlights:

- Strong volume growth for cigars, led by natural leaf varieties, as well as the lower priced *Jackpot* brand
- Higher sales and operating profit in local currency from strong cigar performance



### Key data

MSEK	October-December		Chg %	Full year		Chg %
	2014	2013		2014	2013	
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	
EBITDA	302	242	25	1,161	1,081	7
EBITDA margin, %	41.8	41.0		41.0	42.2	

### The fourth quarter

(Note: Comments below refer to the comparison between fourth quarter 2014 vs. fourth quarter prior year).

Reported sales and operating profit for the product area Other tobacco products were favorably impacted by the significant strengthening of the US dollar. Still, in local currency, sales were 7 percent higher and the operating profit increased by 12 percent.

Cigar volumes have been strong throughout the year, a trend which continued in the fourth quarter. The volume growth in the fourth quarter, as in the third quarter, was especially strong due to the relatively soft performance in the second half of 2013. Swedish Match has strengthened its presence within the natural leaf segment and in the deep discount segment. Price competition continued to be intense in the quarter and Swedish Match's promotional activities remained at high levels. However, the decline in average price per cigar versus prior year was less pronounced in the fourth quarter compared to the first three quarters of the year. Both sales and operating profit increased in local currency. On October 1, 2014 the tobacco quota buy-out program ended, which resulted in the termination of fees to the US government for the program.

Chewing tobacco shipments (excluding contract manufacturing volumes) were down by 10 percent, impacted by promotional phasing. Sales and operating profit declined less than the shipment drop, aided by favorable realized pricing.

### The full year

(Note: Comments below refer to the comparison between full year 2014 vs. full year prior year).

In local currency, sales for the year were up by 5 percent, while operating profit was up by 3 percent.

Cigar volumes increased by 12 percent which resulted in higher sales in local currency despite a high level of price promotions. The increase in operating profit in local currency, however, was less in percentage terms than the sales increase mainly as a consequence of a lower average price per cigar.

For chewing tobacco, sales in local currency increased slightly as higher pricing compensated for a decline in volumes. Operating profit for chewing tobacco in local currency increased.

### Swedish Match shipment volumes

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



## Lights (matches, lighters and complementary products)

### Fourth quarter highlights:

- Overall lighter volumes declined but volumes were up in Asia
- Stable sales and operating profit for matches

### Key data

MSEK	October-December		Chg %	Full year		Chg %
	2014	2013		2014	2013	
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	
EBITDA	72	71	1	252	263	-4
EBITDA margin, %	19.8	20.5		19.5	19.8	

### The fourth quarter

(Note: Comments below refer to the comparison between fourth quarter 2014 vs. fourth quarter prior year).

Sales for the Lights product area increased to 362 MSEK (345) and operating profit was flat. Adjusted for currency translation effects sales increased by 1 percent, while operating profit declined by 5 percent.

Sales and operating profit were lower for lighters in local currencies, due in large part to lower shipment volumes in certain European markets (including Russia). In Asia, shipment volumes increased.

Sales for matches increased slightly in local currencies as higher average prices compensated for lower volumes. Operating profit was stable as the lower volumes affected the manufacturing costs negatively.

Complementary products (branded razors, batteries, high efficiency light bulbs, and tooth picks) on the Brazilian market developed well and sales increased, but gross profit margin was adversely affected by the weakening of the Brazilian real against the US dollar.

### The full year

(Note: Comments below refer to the comparison between full year 2014 vs. full year prior year).

Sales for Lights for the year amounted to 1,295 MSEK (1,332), and operating profit amounted to 218 MSEK (230). Operating profit was flat for lighters despite lower volumes but declined for matches. Excluding currency translation effects, sales and operating profit for the product area declined by 3 and 7 percent, respectively. For lighters production efficiencies mitigated volume declines while the decline in volumes for matches resulted in lower overhead absorption. Sales of complementary products in Brazil increased. Operating margin for the product area was 16.8 percent (17.3).

### Swedish Match shipment volumes, worldwide

	October-December		Chg %	Full year		Chg %
	2014	2013		2014	2013	
Matches, billion sticks	21.7	24.8	-12	81.5	91.0	-10
Lighters, million	108.6	116.8	-7	422.5	468.0	-10



## Other operations

Other operations consist of the distribution of tobacco products on the Swedish market and corporate overhead costs.

### The fourth quarter

Sales in Other operations for the fourth quarter amounted to 1,129 MSEK (996). Sales were positively affected by trade hoarding of tobacco products in advance of the excise tax increases in January 2015. Operating loss for Other operations was 27 MSEK (18).

### The full year

Sales for the full year amounted to 4,178 MSEK (3,847). Operating loss for the year was 88 MSEK (80).

## Scandinavian Tobacco Group

Swedish Match owns 49 percent of Scandinavian Tobacco Group (STG), the world's largest manufacturer of cigars and pipe tobacco. Please see Note 3 for a summary of the STG consolidated income statement.

### The fourth quarter

*(Note: Comments below refer to the comparison between fourth quarter 2014 vs. fourth quarter prior year).*

Sales for STG increased by 10 percent to 1,630 MDKK (1,478). Adjusted for currency translation effects and the acquisition of Verellen, a Belgian cigar producer, effective as of September 1, 2014, the sales increase was 3 percent. Increased sales were driven by positive development within handmade cigars, machine made cigars and fine cut tobacco. The comparison to prior year for machine made cigars was favorably impacted by a one-off stock reduction at a major European distributor during the fourth quarter of 2013. Reported EBITDA for the period amounted to 313 MDKK (289) but was negatively affected by costs for the Verellen integration partially offset by positive items of one-time nature.

Sales for machine made cigars in local currencies increased driven by higher volumes and positive mix effects. Gross profit from machine made cigars was also up. As previously mentioned, prior year was negatively affected by destocking.

For handmade cigars, both sales and gross profit in local currencies were up, driven by continued strong development in the US online and catalogue business as well as positive mix effects.

For the fine cut tobacco business, positive country mix contributed to an improvement in both sales and gross profit in local currencies. Sales for the pipe tobacco business in local currencies declined due to lower volumes partly affected by timing. Gross profit was also down.

Reported operating expenses increased as a result of costs for the integration of Verellen and currency effects.

Net finance costs for the quarter declined to 14 MDKK (31), explained by exchange gains this quarter.

Net profit for the period 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.

The Swedish Match reported share of net profit in STG amounted to 92 MSEK (97).

### The full year

*(Note: Comments below refer to the comparison between full year of 2014 vs. full year prior year).*

Reported sales for STG for the full year were 6,126 MDKK (5,925). EBITDA amounted to 1,183 MDKK (1,180). EBITDA also increased when adjusted for currency translation effects and costs of a temporary nature in both periods. The costs of a temporary nature in 2014 relate primarily to the integration of Verellen and the supply chain optimization program. In 2013, the EBITDA was negatively affected by personnel related restructuring charges and a one-off stock reduction in the fourth quarter.

For machine made cigars, sales in local currencies were up. Higher volume more than compensated for negative product mix effects on sales, but gross profit declined.

For handmade cigars, sales and gross profit increased in local currencies on higher volumes.

For the fine cut tobacco business, sales and gross profit increased as a result of higher volumes and improved mix. For the pipe tobacco business, sales were flat with higher volumes offset by slightly negative mix effects. Gross profit increased driven by lower production costs.

Operating expenses were up due to incurred costs of a temporary nature during 2014. Underlying operating expenses were lower driven by continuation of the on-going cost focus.

Net finance costs declined to 68 MDKK (104), benefiting from lower interest expenses and exchange gains during the year.

The Swedish Match share of net profit in STG amounted to 334 MSEK (319).

On March 26, 2014, Swedish Match received a dividend from STG of 223 MSEK (224).

## **Taxes**

For the full year the reported tax expense amounted to 644 MSEK (600), corresponding to a tax rate of 19.7 percent (18.1). The low reported tax rate for 2013 is explained by a non-taxable additional capital gain from the sale of a parcel of land. The reported tax rate, excluding associated companies and joint ventures, was 21.6 percent (20.9, excluding larger one-time items). The earnings from associated companies and joint ventures are reported net after tax, and relate mainly to the share of earnings from STG.

## **Earnings per share**

Basic and diluted EPS for the fourth quarter amounted to 3.55 SEK (3.43).

Basic EPS for the full year amounted to 13.23 SEK (13.63) and diluted EPS was 13.22 SEK (13.61). Basic EPS, excluding larger one-time items, amounted to 13.23 SEK (12.82) while diluted EPS, excluding larger one-time items, was 13.22 SEK (12.80).

## **Proposed dividend per share**

The Board of Directors proposes an increased dividend to 7.50 SEK (7.30), equivalent to 57 percent (57) of the earnings per share for the year, excluding larger one-time items. The proposed dividend amounts to 1,468 MSEK (1,453) based on the 195.7 million shares outstanding at the end of the year.

## **Financing and cash flow**

Cash flow from operating activities for the year amounted to 3,276 MSEK (2,500). The cash flow from operations increased compared to the prior year mainly as a result of improved cash flow from changes in working capital. Cash flow from changes in working capital benefited from timing effects in 2014, partly due to trade hoarding of snus in Scandinavia, and was negatively affected by timing effects in 2013.

Investments in property, plant and equipment during the year amounted to 223 MSEK (306). Net cash used in investing activities amounted to 274 MSEK (240). Prior year's net cash flow from investing activities was positively affected by additional purchase price payments relating to the parcel of land sold in 2007 and the divestment of Swedish Match UK in 2008, in total 166 MSEK.

Net finance cost for the year decreased to 510 MSEK (544), mainly due to lower interest bearing debt.

The net debt as of December 31, 2014 amounted to 8,126 MSEK compared to 8,388 MSEK at December 31, 2013.

During the year no new bond loans were issued. During the year 945 MSEK of bond loans matured and another 860 MSEK with shorter maturities were repurchased. As of December 31, 2014 Swedish Match had 8,703 MSEK of interest bearing debt excluding retirement benefit obligations compared to 10,508 MSEK at December 31, 2013. During 2015, 1,137 MSEK of this debt falls due for payment. As of December 31, 2014, Swedish Match had net retirement benefit obligations of 1,734 MSEK compared to 1,044 MSEK at December 31, 2013. The increase in net retirement benefit obligations during 2014 is due to the impact of lower discount rates, changes in demographic assumptions and currency translation, mostly affecting the US plans.

During the year, Swedish Match paid dividends totaling 1,453 MSEK and made share repurchases of 890 MSEK. During the same period the Company sold treasury shares of 53 MSEK as a result of option holders exercising options.

As of December 31, 2014, Swedish Match had 1,500 MSEK in unutilized committed credit lines.

Cash and cash equivalents amounted to 2,312 MSEK at the end of the period, compared to 3,164 MSEK at December 31, 2013.

### Number of shares

During the year, Swedish Match repurchased 3.7 million shares for 890 MSEK at an average price of 237.59 SEK, following authorization from the Annual General Meetings held in 2013 and 2014. Total shares bought back by Swedish Match since the buyback program started have been repurchased at an average price of 108.43 SEK.

During the year, the Company sold 0.4 million treasury shares at an average price of 141.52 SEK, totaling 53 MSEK, as a result of option holders exercising options.

In accordance with the resolution at the Annual General Meeting on May 7, 2014, 1.5 million shares held in treasury have been cancelled. The total number of outstanding shares in the Company, including treasury shares, after the cancellation amount to 200.5 million.

As per December 31, 2014, Swedish Match held 4.8 million shares, corresponding to 2.41 percent of the total number of shares. The number of shares outstanding, net, as per December 31, 2014, amounted to 195.7 million. As of December 31, 2014, the Company has outstanding call options corresponding to 0.7 million shares that expire in February 2015.

The Board will propose to the Annual General Meeting in April 2015 a renewed mandate to repurchase shares up to a total holding in treasury not exceeding 10 percent of the number of registered shares in the Company until next Annual General Meeting in 2016.

### Other events and events after the reporting period

As previously communicated, the Swedish Competition Authority has been conducting an investigation regarding a uniform labeling system for snus coolers owned by Swedish Match and placed in retail outlets. On December 9, 2014 the Competition Authority submitted a lawsuit to the Stockholm district court. In its submission, the Competition Authority alleges that Swedish Match, when implementing the labeling system, abused a dominant position on the Swedish snus market in breach of the competition legislation. The Competition Authority is seeking 38 MSEK in penalties. Swedish Match is of the view that the labeling system followed the same standardized template as for labels within other consumer goods categories on the Swedish market. The implementation of the labeling system started at the end of 2012, but it was shortly thereafter withdrawn. Swedish Match does not agree with the allegation and will defend the case vigorously.

On February 9, 2015, the Norwegian ministry of Health and Care Services has communicated its intent to submit a proposal for review by the Parliament on standardization of packaging for tobacco products, including snus.

Effective from March 1, 2015, Niels Frederiksen is appointed new CEO of Scandinavian Tobacco Group. Niels Frederiksen is currently a member of the STG Executive Board and Executive Vice President of the company's global supply chain. He has more than 15 years of tobacco industry experience. Niels Frederiksen succeeds Anders Colding Friis who has resigned from the company for a new CEO position.

### Outlook

Swedish Match generates a substantial share of its sales and operating profit in the US. Based on current exchange rates and particularly the stronger US dollar, currency translation effects on sales and operating profit in 2015 are expected to be positive.

In the second half of 2014 we noted a slowdown in market growth for snus in Scandinavia. For 2015 we expect Scandinavian snus consumption to continue to grow as measured in number of cans, although at a somewhat slower pace than in 2014. Shipment volumes in Scandinavia are expected to be negatively affected by destocking following the 2014 year-end trade hoarding. In Sweden as well as in the US moist snuff market, we expect value priced products to grow faster than the overall market. In the US moist snuff market, Swedish Match's product portfolio is exclusively positioned in the value segment. In Sweden, Swedish Match competes in all price segments of the market with a particularly strong position in the

premium segment. The expected faster growth of value priced products in Sweden, the price repositioning of the *Kronan* snus brand and the absence of price increases in 2014 are likely to imply negative mix effects.

During the year we will continue to invest in growth for snus internationally, particularly in the US. In Sweden and Norway, we will work hard to defend our market share.

For cigars in the US, Swedish Match expects the market to remain highly competitive during 2015. The US Food and Drug Administration (FDA) is expected to begin regulating cigars sometime in 2015 and in conjunction with this Swedish Match, like the rest of the cigar industry, will be subject to user fees to the FDA.

Due to the relatively high corporate income tax rate in the US, the strengthening of the US dollar is likely to put upward pressure on the effective corporate tax rate of the Group in 2015 compared to 2014.

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 develop products and brands that resonate with changing consumer trends, and price and promote its brands competitively. Restrictions on advertising and promotion 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 the US as well as in Brazil, Norway and EMU member countries. Consequently, changes in exchange rates of the euro, Norwegian krona, Brazilian real and in particular the US dollar 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 2013.

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

Swedish Match AB (publ) is the Parent Company of the Swedish Match Group. The main sources of income for the Parent Company are dividends and Group contributions from subsidiaries.

Sales in the Parent Company for the full year amounted to 48 MSEK (44). Profit before income tax amounted to 1,075 MSEK (2,648) and net profit for the year amounted to 989 MSEK (2,607). The lower net profit for the year mainly pertains to lower dividends from subsidiaries compared to the previous year. In addition, previous year included a gain on sale of a subsidiary amounting to 757 MSEK and additional proceeds of 161 MSEK relating to a parcel of land adjacent to the old headquarters building in Stockholm.

Part of the Group's treasury operations are within the operations of the Parent Company including the major part of the Group's external borrowings. The majority of these loans have fixed interest rates.

Capital expenditures on tangible fixed assets for the year amounted to 1 MSEK (0). No capital expenditures on intangible assets have been recognized during 2014, nor during 2013.

During the third quarter a Group company was transferred to the Parent Company in exchange for a note which caused the Parent Company's assets and liabilities temporarily to increase. During the fourth quarter, the note was settled eliminating this effect.

No new bond loans were issued during 2014 and repayments of bond loans amounted to 1,805 MSEK. During the period, the Parent Company made share repurchases of 3.7 million (1.6) shares for 890 MSEK (352) and sold 0.4 million (1.2) treasury shares for 53 MSEK (187).

A dividend of 1,453 MSEK (1,459) has 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 that 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 annual report for 2014 is expected to be distributed at the end of March and will at the same time be available on the Company's website [www.swedishmatch.com](http://www.swedishmatch.com) and at Swedish Match's new headquarters, Sveavägen 44, Stockholm. The Annual General Meeting will be held on April 23, 2015 in Stockholm, Sweden. The January-March 2015 report will be released on May 8, 2015.

Stockholm, February 18, 2015

Lars Dahlgren  
President and CEO



## Financial statements

### Sales by product area

MSEK	October-December		Chg %	Full year		Chg %
	2014	2013		2014	2013	
Snus and moist snuff	1,323	1,247	6	5,001	4,868	3
Other tobacco products	723	590	23	2,832	2,564	10
Lights	362	345	5	1,295	1,332	-3
Other operations	1,129	996	13	4,178	3,847	9
<b>Sales</b>	<b>3,536</b>	<b>3,178</b>	<b>11</b>	<b>13,305</b>	<b>12,610</b>	<b>6</b>

### Operating profit by product area

MSEK	October-December		Chg %	Full year		Chg %
	2014	2013		2014	2013	
Snus and moist snuff	577	562	3	2,207	2,195	1
Other tobacco products	288	228	26	1,109	1,029	8
Lights	63	63	0	218	230	-5
Other operations	-27	-18		-88	-80	
<b>Operating profit from product areas</b>	<b>900</b>	<b>835</b>	<b>8</b>	<b>3,446</b>	<b>3,375</b>	<b>2</b>
Share of net profit in STG	92	97	-5	334	319	5
<b>Subtotal</b>	<b>992</b>	<b>932</b>	<b>6</b>	<b>3,780</b>	<b>3,693</b>	<b>2</b>
Capital gain from sale of land	-	-		-	161	
<b>Total larger one-time items</b>	<b>-</b>	<b>-</b>		<b>-</b>	<b>161</b>	
<b>Operating profit</b>	<b>992</b>	<b>932</b>	<b>6</b>	<b>3,780</b>	<b>3,855</b>	<b>-2</b>
Net finance cost	-132	-128		-510	-544	
<b>Profit before income tax</b>	<b>861</b>	<b>804</b>	<b>7</b>	<b>3,270</b>	<b>3,310</b>	<b>-1</b>

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

Percent	October-December		Full year	
	2014	2013	2014	2013
Snus and moist snuff	43.6	45.1	44.1	45.1
Other tobacco products	39.8	38.6	39.2	40.1
Lights	17.3	18.1	16.8	17.3
<b>Operating margin from product areas<sup>2)</sup></b>	<b>25.5</b>	<b>26.3</b>	<b>25.9</b>	<b>26.8</b>
<b>Operating margin<sup>3)</sup></b>	<b>28.1</b>	<b>29.3</b>	<b>28.4</b>	<b>29.3</b>

1) Excluding larger one-time items.

2) Excluding share of net profit in STG.

3) Including share of net profit in STG.

### EBITDA by product area<sup>1)</sup>

MSEK	October-December		Chg %	Full year		Chg %
	2014	2013		2014	2013	
Snus and moist snuff	623	607	3	2,380	2,358	1
Other tobacco products	302	242	25	1,161	1,081	7
Lights	72	71	1	252	263	-4
Other operations	-16	-7		-45	-52	
<b>EBITDA from product areas</b>	<b>982</b>	<b>913</b>	<b>8</b>	<b>3,749</b>	<b>3,650</b>	<b>3</b>
Share of net profit in STG	92	97	-5	334	319	5
<b>EBITDA</b>	<b>1,074</b>	<b>1,009</b>	<b>6</b>	<b>4,083</b>	<b>3,968</b>	<b>3</b>

1) Excluding larger one-time items.

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

Percent	October-December		Full year	
	2014	2013	2014	2013
Snus and moist snuff	47.1	48.7	47.6	48.4
Other tobacco products	41.8	41.0	41.0	42.2
Lights	19.8	20.5	19.5	19.8
<b>EBITDA margin from product areas<sup>2)</sup></b>	<b>27.8</b>	<b>28.7</b>	<b>28.2</b>	<b>28.9</b>
<b>EBITDA margin<sup>3)</sup></b>	<b>30.4</b>	<b>31.8</b>	<b>30.7</b>	<b>31.5</b>

1) Excluding larger one-time items.

2) Excluding share of net profit in STG.

3) Including share of net profit in STG.

## Key ratios

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

	Full year	
	2014	2013
Operating margin, %	28.4	29.3
Operating capital, MSEK	8,314	7,729
Return on operating capital, %	47.1	49.3
EBITDA, MSEK <sup>1)</sup>	4,083	3,968
EBITA, MSEK <sup>2)</sup>	3,821	3,725
Net debt, MSEK	8,126	8,388
Net debt/EBITA <sup>2)</sup>	2.1	2.3
Investments in property, plant and equipment, MSEK <sup>3)</sup>	223	306
EBITA interest cover	7.6	7.0
<i>Excluding share of net profit in STG</i>		
EBITA, MSEK <sup>2)</sup>	3,487	3,406
Net debt/EBITA <sup>2)</sup>	2.3	2.5
<i>Share data</i>		
Number of shares outstanding at end of period	195,677,067	199,045,521
Average number of shares outstanding, basic	198,475,824	198,930,422
Average number of shares outstanding, diluted	198,583,328	199,274,054

1) Operating profit adjusted for depreciation, amortization and write-downs of tangible and intangible assets.

2) Operating profit adjusted for amortization and write-downs of intangible assets.

3) Including investments in forest plantations of 19 MSEK (18).

## Consolidated income statement in summary

MSEK	October-December		Chg %	Full year		Chg %
	2014	2013		2014	2013	
Sales, including tobacco tax	6,840	6,284		25,908	24,991	
Less tobacco tax	-3,304	-3,106		-12,603	-12,381	
<b>Sales</b>	<b>3,536</b>	<b>3,178</b>	<b>11</b>	<b>13,305</b>	<b>12,610</b>	<b>6</b>
Cost of goods sold	-1,910	-1,698		-7,109	-6,647	
<b>Gross profit</b>	<b>1,627</b>	<b>1,481</b>	<b>10</b>	<b>6,197</b>	<b>5,963</b>	<b>4</b>
Selling and admin. 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	
<b>Operating profit</b>	<b>992</b>	<b>932</b>	<b>6</b>	<b>3,780</b>	<b>3,855</b>	<b>-2</b>
Finance income	5	9		27	34	
Finance costs	-137	-137		-537	-578	
Net finance cost	-132	-128		-510	-544	
<b>Profit before income tax</b>	<b>861</b>	<b>804</b>	<b>7</b>	<b>3,270</b>	<b>3,310</b>	<b>-1</b>
Income tax expense	-161	-128		-644	-600	
<b>Profit for the period</b>	<b>700</b>	<b>675</b>	<b>4</b>	<b>2,626</b>	<b>2,711</b>	<b>-3</b>
<i>Attributable to:</i>						
Equity holders of the Parent	700	675		2,625	2,712	
Non-controlling interests	0	0		0	-1	
<b>Profit for the period</b>	<b>700</b>	<b>675</b>	<b>4</b>	<b>2,626</b>	<b>2,711</b>	<b>-3</b>
Earnings per share, basic, SEK						
Including larger one-time items	3.55	3.43		13.23	13.63	
Excluding larger one-time items	3.55	3.43		13.23	12.82	
Earnings per share, diluted, SEK						
Including larger one-time items	3.55	3.43		13.22	13.61	
Excluding larger one-time items	3.55	3.43		13.22	12.80	

**Consolidated statement of comprehensive income**

MSEK	October-December		Full year	
	2014	2013	2014	2013
<b>Profit for the period</b>	<b>700</b>	<b>675</b>	<b>2,626</b>	<b>2,711</b>
<i>Other comprehensive income that has or will be reclassified to the income statement</i>				
Translation differences related to foreign operations	334	172	732	127
Translation differences included in profit and loss	-	0	-	0
Effective portion of changes in fair value of cash flow hedges	-24	-46	-57	-28
Share of other comprehensive income in associated companies and joint ventures	86	-71	322	-147
Income tax relating to reclassifiable components of other comprehensive income	5	10	13	6
<b>Subtotal, net of tax for the period</b>	<b>402</b>	<b>65</b>	<b>1,009</b>	<b>-42</b>
<i>Other comprehensive income that will not be reclassified to the income statement</i>				
Actuarial gains and losses attributable to pensions, incl. payroll tax	-267	-53	-410	359
Share of other comprehensive income in associated companies and joint ventures	-25	5	-25	5
Income tax relating to non-reclassifiable components of other comprehensive income	100	20	154	-144
<b>Subtotal, net of tax for the period</b>	<b>-193</b>	<b>-28</b>	<b>-281</b>	<b>221</b>
<b>Total comprehensive income for the period</b>	<b>910</b>	<b>713</b>	<b>3,353</b>	<b>2,889</b>
<i>Attributable to:</i>				
Equity holders of the Parent	910	713	3,353	2,890
Non-controlling interests	0	0	0	-1
<b>Total comprehensive income for the period</b>	<b>910</b>	<b>713</b>	<b>3,353</b>	<b>2,889</b>

**Consolidated 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 <sup>1)</sup>	1,669	1,165
Current operating assets	4,255	3,038
Other current investments and current financial assets <sup>2)</sup>	-	8
Cash and cash equivalents	2,312	3,164
<b>Total assets</b>	<b>16,573</b>	<b>14,881</b>
Equity attributable to equity holders of the Parent	277	-786
Non-controlling interests	1	1
<b>Total equity</b>	<b>279</b>	<b>-785</b>
Non-current provisions	1,081	1,031
Non-current loans	7,803	9,420
Other non-current financial liabilities <sup>3)</sup>	2,063	1,440
Current provisions	98	103
Current loans	1,141	920
Other current liabilities <sup>4)</sup>	4,109	2,751
<b>Total equity and liabilities</b>	<b>16,573</b>	<b>14,881</b>

- 1) Includes pension assets of 81 MSEK (84) and currency component of derivatives of 305 MSEK (55) used to hedge the Parent Company's bond loans denominated in currencies other than Swedish kronor.
- 2) Currency component of derivatives of - MSEK (8) used to hedge the Parent Company's bond loans denominated in currencies other than Swedish kronor.
- 3) Includes pension liabilities of 1,815 MSEK (1,128) and currency component of derivatives of 65 MSEK (202) used to hedge the Parent Company's bond loans denominated in currencies other than Swedish kronor.
- 4) Includes currency component of derivatives of - MSEK (29) used to hedge the Parent Company's bond loans denominated in currencies other than Swedish kronor.

## Consolidated cash flow statement in summary

MSEK	January-December	
	2014	2013
<i>Operating activities</i>		
<b>Profit before income taxes</b>	<b>3,270</b>	<b>3,310</b>
Share of profit/loss in associated companies and joint ventures	-285	-287
Dividend received from associated companies	235	234
Other non-cash items and other	253	194
Income tax paid	-580	-632
<b>Cash flow from operating activities before changes in working capital</b>	<b>2,893</b>	<b>2,820</b>
Cash flow from changes in working capital	384	-320
<b>Net cash from operating activities</b>	<b>3,276</b>	<b>2,500</b>
<i>Investing activities</i>		
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 <sup>1)</sup>	-45	-57
Proceeds from sale of subsidiaries, net of cash disposed of <sup>2)</sup>	-	158
Changes in financial receivables etc.	0	0
<b>Net cash used in investing activities</b>	<b>-274</b>	<b>-240</b>
<i>Financing activities</i>		
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
<b>Net cash used in financing activities</b>	<b>-4,088</b>	<b>-1,912</b>
<b>Net decrease in cash and cash equivalents</b>	<b>-1,085</b>	<b>348</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	232	-8
<b>Cash and cash equivalents at the end of the period</b>	<b>2,312</b>	<b>3,164</b>

1) Investments in associated companies and joint ventures pertain to additional investments in SMPM International of 35 MSEK in 2014 and 57 MSEK in 2013. Additional investments in Road Cargo of 10 MSEK have been made in 2014.

2) The cash flow from sale of subsidiaries in 2013 is related to the final payment on the sale of land in 2007 and additional payments relating to the divestment of Swedish Match UK and Swedish Match Plam Bulgaria DA. In addition, an outlay of 10 MSEK relating to guarantees in the purchase agreement of STG has been made during 2013.

## Change in shareholders' equity

MSEK	Equity attributable		
	to holders of the Parent	Non-controlling interests	Total equity
<b>Equity at January 1, 2013</b>	<b>-2,053</b>	<b>2</b>	<b>-2,051</b>
Profit for the period	2,712	-1	2,711
Other comprehensive income, net of tax for the period	179	0	179
<b>Total comprehensive income for the period</b>	<b>2,890</b>	<b>-1</b>	<b>2,889</b>
Dividend	-1,459	-	-1,459
Repurchase of own shares	-352	-	-352
Stock options exercised	187	-	187
Cancellation of shares	-8	-	-8
Bonus issue	8	-	8
<b>Equity at December 31, 2013</b>	<b>-786</b>	<b>1</b>	<b>-785</b>
<b>Equity at January 1, 2014</b>	<b>-786</b>	<b>1</b>	<b>-785</b>
Profit for the period	2,625	0	2,626
Other comprehensive income, net of tax for the period	728	0	728
<b>Total comprehensive income for the period</b>	<b>3,353</b>	<b>0</b>	<b>3,353</b>
Dividend	-1,453	-	-1,453
Repurchase of own shares	-890	-	-890
Stock options exercised	53	-	53
Cancellation of shares	-3	-	-3
Bonus issue	3	-	3
<b>Equity at December 31, 2014</b>	<b>277</b>	<b>1</b>	<b>279</b>

**Parent Company income statement in summary**

MSEK	January-December	
	2014	2013
Sales	48	44
Administrative expenses	-203	-213
<b>Operating loss</b>	<b>-154</b>	<b>-169</b>
Result from participation in Group companies	705	2,463
Net finance cost	-1,059	-1,175
<b>Profit/Loss after financial items</b>	<b>-508</b>	<b>1,118</b>
Appropriations	1,583	1,530
<b>Profit before income tax</b>	<b>1,075</b>	<b>2,648</b>
Income tax	-86	-41
<b>Profit for the period</b>	<b>989</b>	<b>2,607</b>

**Parent Company statement of comprehensive income**

MSEK	January-December	
	2014	2013
<b>Profit for the period</b>	<b>989</b>	<b>2,607</b>
<i>Other comprehensive income that has or will be reclassified to the income statement</i>		
Effective portion of changes in fair value of cash flow hedges	-57	-28
Income tax relating to components of other comprehensive income	13	6
<b>Subtotal, net of tax for the period</b>	<b>-45</b>	<b>-22</b>
<b>Total comprehensive income for the period</b>	<b>944</b>	<b>2,585</b>

**Parent Company balance sheet in summary**

MSEK	December 31, 2014	December 31, 2013
Intangible and tangible assets	2	1
Non-current financial assets <sup>1)</sup>	51,311	51,048
Current assets <sup>1)</sup>	1,977	2,138
<b>Total assets</b>	<b>53,290</b>	<b>53,187</b>
<b>Equity</b>	<b>20,846</b>	<b>22,192</b>
<b>Untaxed reserves</b>	<b>415</b>	<b>290</b>
Provisions <sup>1)</sup>	35	31
Non-current liabilities	26,137	27,820
Current liabilities	5,855	2,853
<b>Total liabilities</b>	<b>32,027</b>	<b>30,704</b>
<b>Total equity and liabilities</b>	<b>53,290</b>	<b>53,187</b>

1) Balances as of December 2013 related to endowment insurance policies pledged as securities for pension obligations of 46 MSEK have been reclassified and netted against the pension obligations in operating provisions in accordance with IAS 19.

**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 Accounts Act. The report for the Parent Company for the same period is prepared in accordance with the Annual Accounts Act, Chapter 9 and RFR 2.

The new accounting standards as well as amendments and interpretations to existing standards applicable as of January 1, 2014; *IFRS 10 Consolidated Financial Statements*, *IFRS 11 Joint Arrangements*, *IFRS 12 Disclosure of Interests in Other Entities*, amendments to *IAS 27 Separate Financial Statements*, amendments to *IAS 28 Investments in associates* and amendments to *IAS 32 Financial Instruments Presentation*, have not had material effect on the Group's financial result or position.

The accounting principles and basis of calculation in this report are the same as in the annual report for 2013, except as mentioned above.



## Note 2 – Related parties transactions

The Group's related parties include joint ventures, associated companies and key management personnel with significant influence over the Company. Key management personnel with significant influence over the Company are Swedish Match Board of Directors and members of the Group Management Team.

In the normal course of business, Swedish Match conducts various transactions with associated companies and joint ventures. Transactions are conducted at an arms-length basis. At the end of 2014, receivables from these companies amounted to 34 MSEK (28) and total payables to these companies amounted to 6 MSEK (5). During 2014, total sales to associated companies and joint ventures amounted to 170 MSEK (177) and total purchases from associated companies and joint ventures amounted to 108 MSEK (81).

No transactions with key management personnel besides normal remuneration have been conducted during the period.

## Note 3 – Scandinavian Tobacco Group

### Summary of STG consolidated income statement

<i>MDKK</i>	January-December		Chg %
	2014	2013	
Sales	6,126	5,925	3
Gross profit	2,947	2,914	1
Operating expenses	-2,160	-2,134	
Operating profit	787	780	1
Net finance cost	-68	-104	
Income tax expense	-169	-103	
<b>Net profit for the period</b>	<b>550</b>	<b>573</b>	<b>-4</b>
<b>EBITDA</b>	<b>1,183</b>	<b>1,180</b>	<b>0</b>
<i>MSEK</i>			
<b>Swedish Match's share of net profit</b>	<b>329</b>	<b>326</b>	<b>1</b>
Adjustment to estimate vs. actual	5	-7	
<b>Swedish Match's reported share of net profit</b>	<b>334</b>	<b>319</b>	<b>5</b>

## Note 4 – Carrying value and fair value

The following table shows carrying value and fair value for financial instruments per December 31, 2014.

### Carrying value and fair value

<i>MSEK</i>	Items carried at fair value via the income statement	Loans and receivables	Other financial liabilities	Cash flow hedges	Total carrying value	Fair value
Trade receivables	-	1,557	-	-	1,557	1,557
Non-current receivables	-	-	-	305	305	305
Other receivables	-	-	-	-	-	-
Cash and cash equivalents	-	2,312	-	-	2,312	2,312
<b>Total assets</b>	<b>-</b>	<b>3,869</b>	<b>-</b>	<b>305</b>	<b>4,174</b>	<b>4,174</b>
Loans and borrowings	-	-	8,944	-	8,944	9,606
Other liabilities	0	-	-	234	235	235
Trade payables	-	-	957	-	957	957
<b>Total liabilities</b>	<b>0</b>	<b>-</b>	<b>9,901</b>	<b>234</b>	<b>10,136</b>	<b>10,798</b>

All items valued at fair value in the balance sheet are considered to be included in level 2 within the fair value hierarchy. No transfer in or out of level 2 has been made during 2014.

The recognized amounts are regarded as reasonable estimates for all items measured at carrying value in the balance sheet, except for loans and borrowings since these amounts have a long time to maturity. The fair value of loans and borrowings has been calculated by discounting future cash flow. Total nominal amount of outstanding derivatives (cross currency and interest rate swaps) is 5,472 MSEK, all in cash flow hedges.

### Note 5 – Derivatives under netting agreement

To reduce the credit risk in receivables from banks arising via derivative instruments, Swedish Match has entered into netting agreements, known as ISDA Master Agreements, with all of its counterparties. The following table shows the netted exposures per December 31, 2014. No collateral has been received or pledged.

#### Financial instruments under master netting agreements

	Gross amount for financial instruments	Amount netted in the balance sheet	Net amount in the balance sheet	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	
					Net
Derivatives – assets	283	0	283	-188	95
Derivatives – liabilities	188	0	188	-188	0

### Quarterly data

#### Consolidated income statement in summary

MSEK	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q4/12
Sales, including tobacco tax	6,840	6,768	6,603	5,697	6,284	6,518	6,430	5,759	6,461
Less tobacco tax	-3,304	-3,351	-3,264	-2,683	-3,106	-3,288	-3,210	-2,777	-3,313
<b>Sales</b>	<b>3,536</b>	<b>3,416</b>	<b>3,339</b>	<b>3,014</b>	<b>3,178</b>	<b>3,230</b>	<b>3,220</b>	<b>2,982</b>	<b>3,148</b>
Cost of goods sold	-1,910	-1,853	-1,784	-1,561	-1,698	-1,749	-1,673	-1,527	-1,586
<b>Gross profit</b>	<b>1,627</b>	<b>1,563</b>	<b>1,555</b>	<b>1,452</b>	<b>1,481</b>	<b>1,481</b>	<b>1,546</b>	<b>1,455</b>	<b>1,562</b>
Selling and administrative expenses	-710	-675	-681	-637	-633	-638	-668	-618	-667
Share of net profit/loss in associated companies and joint ventures	75	101	67	43	84	81	87	35	91
	<b>992</b>	<b>989</b>	<b>941</b>	<b>858</b>	<b>932</b>	<b>924</b>	<b>966</b>	<b>872</b>	<b>986</b>
<i>Larger one-time items</i>									
Capital gain from sale of land	-	-	-	-	-	-	2	159	-
<b>Operating profit</b>	<b>992</b>	<b>989</b>	<b>941</b>	<b>858</b>	<b>932</b>	<b>924</b>	<b>968</b>	<b>1 031</b>	<b>986</b>
Finance income	5	7	8	8	9	9	8	8	10
Finance costs	-137	-134	-133	-134	-137	-151	-146	-144	-146
Net finance cost	-132	-127	-125	-126	-128	-142	-138	-136	-137
<b>Profit before income tax</b>	<b>861</b>	<b>862</b>	<b>816</b>	<b>732</b>	<b>804</b>	<b>782</b>	<b>830</b>	<b>895</b>	<b>850</b>
Income tax expense	-161	-167	-165	-152	-128	-154	-163	-154	-63
<b>Profit for the period</b>	<b>700</b>	<b>695</b>	<b>651</b>	<b>580</b>	<b>675</b>	<b>628</b>	<b>667</b>	<b>741</b>	<b>787</b>
<i>Attributable to:</i>									
Equity holders of the Parent	700	695	651	580	675	629	667	740	787
Non-controlling interests	0	0	0	0	0	-1	0	0	0
<b>Profit for the period</b>	<b>700</b>	<b>695</b>	<b>651</b>	<b>580</b>	<b>675</b>	<b>628</b>	<b>667</b>	<b>741</b>	<b>787</b>

#### Sales by product area

MSEK	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q4/12
Snus and moist snuff	1,323	1,257	1,267	1,154	1,247	1,217	1,230	1,173	1,280
Other tobacco products	723	724	699	687	590	622	687	664	601
Lights	362	319	299	315	345	332	326	328	341
Other operations	1,129	1,117	1,074	858	996	1,058	976	816	926
<b>Sales</b>	<b>3,536</b>	<b>3,416</b>	<b>3,339</b>	<b>3,014</b>	<b>3,178</b>	<b>3,230</b>	<b>3,220</b>	<b>2,982</b>	<b>3,148</b>

### Operating profit by product area

MSEK	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q4/12
Snus and moist snuff	577	562	562	505	562	553	546	534	593
Other tobacco products	288	276	279	267	228	246	295	260	248
Lights	63	51	49	55	63	56	53	59	61
Other operations	-27	-15	-28	-18	-18	-19	-22	-20	-18
<b>Operating profit from product areas</b>	<b>900</b>	<b>874</b>	<b>862</b>	<b>809</b>	<b>835</b>	<b>836</b>	<b>871</b>	<b>832</b>	<b>883</b>
Share of net profit in STG	92	115	78	49	97	88	95	39	103
<b>Subtotal</b>	<b>992</b>	<b>989</b>	<b>941</b>	<b>858</b>	<b>932</b>	<b>924</b>	<b>966</b>	<b>872</b>	<b>986</b>
Capital gain from sale of land	-	-	-	-	-	-	2	159	-
<b>Total larger one-time items</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>159</b>	<b>-</b>
<b>Operating profit</b>	<b>992</b>	<b>989</b>	<b>941</b>	<b>858</b>	<b>932</b>	<b>924</b>	<b>968</b>	<b>1,031</b>	<b>986</b>

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

Percent	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q4/12
Snus and moist snuff	43.6	44.8	44.4	43.8	45.1	45.4	44.4	45.5	46.3
Other tobacco products	39.8	38.1	39.9	38.8	38.6	39.6	42.9	39.2	41.2
Lights	17.3	16.0	16.4	17.6	18.1	16.8	16.2	17.8	17.9
<b>Operating margin from product areas<sup>2)</sup></b>	<b>25.5</b>	<b>25.6</b>	<b>25.8</b>	<b>26.9</b>	<b>26.3</b>	<b>25.9</b>	<b>27.1</b>	<b>27.9</b>	<b>28.0</b>
<b>Operating margin<sup>3)</sup></b>	<b>28.1</b>	<b>29.0</b>	<b>28.2</b>	<b>28.5</b>	<b>29.3</b>	<b>28.6</b>	<b>30.0</b>	<b>29.2</b>	<b>31.3</b>

1) Excluding larger one-time items.

2) Excluding share of net profit in STG.

3) Including share of net profit in STG.

### EBITDA by product area<sup>1)</sup>

MSEK	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q4/12
Snus and moist snuff	623	608	604	546	607	592	584	574	637
Other tobacco products	302	289	291	279	242	259	307	273	261
Lights	72	59	57	64	71	64	61	67	69
Other operations	-16	-5	-17	-7	-7	-13	-16	-15	-15
<b>EBITDA from product areas</b>	<b>982</b>	<b>952</b>	<b>935</b>	<b>881</b>	<b>913</b>	<b>902</b>	<b>937</b>	<b>899</b>	<b>952</b>
Share of net profit in STG	92	115	78	49	97	88	95	39	103
<b>EBITDA</b>	<b>1,074</b>	<b>1,067</b>	<b>1,013</b>	<b>930</b>	<b>1,009</b>	<b>990</b>	<b>1,031</b>	<b>938</b>	<b>1,055</b>

1) Excluding larger one-time items.

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

Percent	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q4/12
Snus and moist snuff	47.1	48.3	47.6	47.3	48.7	48.6	47.5	49.0	49.7
Other tobacco products	41.8	40.0	41.6	40.6	41.0	41.6	44.7	41.1	43.4
Lights	19.8	18.6	19.2	20.2	20.5	19.3	18.8	20.4	20.4
<b>EBITDA margin from product areas<sup>2)</sup></b>	<b>27.8</b>	<b>27.9</b>	<b>28.0</b>	<b>29.2</b>	<b>28.7</b>	<b>27.9</b>	<b>29.1</b>	<b>30.1</b>	<b>30.2</b>
<b>EBITDA margin<sup>3)</sup></b>	<b>30.4</b>	<b>31.2</b>	<b>30.3</b>	<b>30.8</b>	<b>31.8</b>	<b>30.6</b>	<b>32.0</b>	<b>31.5</b>	<b>33.5</b>

1) Excluding larger one-time items.

2) Excluding share of net profit in STG.

3) Including share of net profit in STG.

### Depreciation, amortization and write-down

MSEK	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q4/12
Property, plant and equipment	71	67	62	61	66	59	59	60	62
Intangible assets	10	10	10	10	12	7	7	7	7
<b>Total</b>	<b>81</b>	<b>78</b>	<b>72</b>	<b>72</b>	<b>78</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>69</b>

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The character of the information in this report is such that it shall be disclosed by Swedish Match AB (publ) in accordance with the Swedish Securities Markets Act. The information was disclosed to the media on February 18, 2015 at 08.15 a.m. (CET).

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Swedish Match develops, manufactures, and sells quality products with market-leading brands in the product areas Snus and moist snuff, Other tobacco products (cigars and chewing tobacco), and Lights (matches, lighters, and complementary products). Production is located in six countries, with sales concentrated in Scandinavia and the US. The Swedish Match share is listed on NASDAQ OMX Stockholm (SWMA).

Swedish Match's vision is a world without cigarettes. Some of its well-known brands include: *General, Longhorn, White Owl, Red Man, Fiat Lux, and Cricket.*

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