



## Interim Report January – March 2014

- Sales for the first quarter increased by 1 percent to 3,014 MSEK (2,982). In local currencies, sales for the first quarter increased by 2 percent.
- Operating profit from product areas<sup>1)</sup> declined for the first quarter by 3 percent to 809 MSEK (832). In local currencies, operating profit from product areas<sup>1)</sup> also declined by 3 percent for the first quarter.
- Operating profit<sup>2)</sup> amounted to 858 MSEK (1,031 or 872 excluding larger one-time items) for the first quarter.
- EPS (basic) for the first quarter amounted to 2.91 SEK (3.72) while EPS (basic) excluding larger one-time items amounted to 2.91 SEK (2.92).

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:

In the first quarter, Swedish Match reported increased sales and stable operating profit when adjusted for currency effects and investments in international snus expansion.

For snus in Scandinavia it is positive to note the continued strong market growth in both Sweden and Norway. In Sweden, the growth was driven by value priced products, and relative to the last quarter of 2013 Swedish Match gained share in this growing segment of the market in line with our ambitions. Swedish Match underlying snus volumes in Scandinavia in the quarter are estimated to have increased by 1 percent and sales were flat in local currencies.

In the US moist snuff market, our pouch and tub offerings continued their strong performance in the quarter. For *General* snus in the US we continued our focused efforts to grow the brand and the snus category with a high level of consumer engagement activities and to a lesser extent expanded distribution.

Within Other tobacco products, we once again saw a solid development for our chewing tobacco business, in part due to timing effects, but also due to strong performance for our premium *Red Man* brand as well as increased contract manufacturing deliveries.

For cigars, a strong performance for our *Game* natural wrapper cigars contributed to a 5 percent overall volume growth, while revenues remained flat and operating profit declined somewhat as the category has become more promotional.

Our Lights businesses continued its solid performance during the quarter, with growth in sales and profits for lighters, and sales growth for matches in local currencies.

## Summary of consolidated income statement

MSEK	January-March		Full year
	2014	2013	2013
<b>Sales</b>	<b>3,014</b>	<b>2,982</b>	<b>12,610</b>
<b>Operating profit from product areas<sup>1)</sup></b>	<b>809</b>	<b>832</b>	<b>3,375</b>
<b>Operating profit<sup>2)</sup></b>	<b>858</b>	<b>1,031</b>	<b>3,855</b>
<b>Profit before income tax</b>	<b>732</b>	<b>895</b>	<b>3,310</b>
<b>Profit for the period</b>	<b>580</b>	<b>741</b>	<b>2,711</b>
<b>Earnings per share, basic (SEK)</b>	<b>2.91</b>	<b>3.72</b>	<b>13.63</b>
<b>Earnings per share, excl. larger one-time items, basic (SEK)</b>	<b>2.91</b>	<b>2.92</b>	<b>12.82</b>

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.

### *Sales and results for the first quarter*

Sales for the first quarter of 2014 increased by 1 percent to 3,014 MSEK (2,982) compared to the same period of the previous year. Currency translation has affected the sales comparison negatively by 28 MSEK. In local currencies, sales increased by 2 percent.

In the first quarter, sales for the product area Snus and moist snuff declined by 2 percent to 1,154 MSEK (1,173). In local currencies, sales declined by less than 1 percent. Operating profit in the first quarter for Snus and moist snuff declined by 5 percent to 505 MSEK (534), and the operating margin was 43.8 percent (45.5).

Scandinavian snus sales were essentially flat in local currencies but declined by 2 percent in SEK compared to the first quarter of the prior year, on slightly higher shipment volumes. Sales volumes were higher in Norway and Sweden and lower in Travel Retail. Operating profit for snus in Scandinavia declined versus the comparable quarter of the prior year, negatively impacted by the weaker Norwegian krona.

In the US, sales of snus and moist snuff in local currency for the first quarter were 1 percent lower than in the same period of the previous year on 2 percent lower volumes. Spending behind Swedish snus in the US was somewhat higher than a year ago while operating profit for moist snuff grew slightly in local currency.

For Other tobacco products, sales in the first quarter increased by more than 3 percent, to 687 MSEK (664). In local currency, sales increased by 3 percent. Operating profit in local currency was 2 percent higher than in the first quarter of the prior year, and reported operating profit increased by 3 percent to 267 MSEK (260). Currency translation has affected the sales and operating profit comparisons positively by 3 MSEK and 1 MSEK, respectively. Compared to the first quarter of the prior year, sales in local currency were flat for US cigars and higher for chewing tobacco. Operating margin for Other tobacco products was 38.8 percent (39.2), adversely impacted by somewhat lower profitability for cigars.

Operating profit from product areas declined by 3 percent to 809 MSEK (832). In local currencies, the operating profit also declined by 3 percent. Operating margin from product areas for the first quarter was 26.9 percent (27.9).

The share of net profit in STG, after interest and tax, amounted to 49 MSEK (39).

Operating profit, including share of net profit in STG but excluding larger one-time items declined to 858 MSEK (872) during the first quarter. The operating margin on the same measure was 28.5 percent (29.2). EBITDA margin was 30.8 percent (31.5).

The Group's net finance cost for the first quarter amounted to 126 MSEK (136), while profit before income tax for the same period amounted to 732 MSEK (895).

Basic earnings per share (EPS) for the first quarter amounted to 2.91 SEK (3.72), while basic EPS excluding larger one-time items was 2.91 SEK (2.92).

## Sales by product area

MSEK	January-March		Chg %	Full year 2013
	2014	2013		
Snus and moist snuff	1,154	1,173	-2	4,868
Other tobacco products	687	664	3	2,564
Lights	315	328	-4	1,332
Other operations	858	816	5	3,847
<b>Sales</b>	<b>3,014</b>	<b>2,982</b>	<b>1</b>	<b>12,610</b>

## Operating profit by product area

MSEK	January-March		Chg %	Full year 2013
	2014	2013		
Snus and moist snuff	505	534	-5	2,195
Other tobacco products	267	260	3	1,029
Lights	55	59	-5	230
Other operations	-18	-20		-80
<b>Operating profit from product areas</b>	<b>809</b>	<b>832</b>	<b>-3</b>	<b>3,375</b>
Share of net profit in STG	49	39	24	319
<b>Subtotal</b>	<b>858</b>	<b>872</b>	<b>-2</b>	<b>3,693</b>
Capital gain from sale of land	-	159		161
<b>Total larger one-time items</b>	<b>-</b>	<b>159</b>		<b>161</b>
<b>Operating profit</b>	<b>858</b>	<b>1,031</b>	<b>-17</b>	<b>3,855</b>

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

Percent	January-March		Full year 2013
	2014	2013	
Snus and moist snuff	43.8	45.5	45.1
Other tobacco products	38.8	39.2	40.1
Lights	17.6	17.8	17.3
<b>Operating margin from product areas<sup>2)</sup></b>	<b>26.9</b>	<b>27.9</b>	<b>26.8</b>
<b>Operating margin<sup>3)</sup></b>	<b>28.5</b>	<b>29.2</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	January-March		Chg %	Full year 2013
	2014	2013		
Snus and moist snuff	546	574	-5	2,358
Other tobacco products	279	273	2	1,081
Lights	64	67	-5	263
Other operations	-7	-15		-52
<b>EBITDA from product areas</b>	<b>881</b>	<b>899</b>	<b>-2</b>	<b>3,650</b>
Share of net profit in STG	49	39	24	319
<b>EBITDA<sup>2)</sup></b>	<b>930</b>	<b>938</b>	<b>-1</b>	<b>3,968</b>

1) Excluding larger one-time items.

2) Including share of net profit in STG.

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

Percent	January-March		Full year
	2014	2013	2013
Snus and moist snuff	47.3	49.0	48.4
Other tobacco products	40.6	41.1	42.2
Lights	20.2	20.4	19.8
<b>EBITDA margin from product areas<sup>2)</sup></b>	<b>29.2</b>	<b>30.1</b>	<b>28.9</b>
<b>EBITDA margin<sup>3)</sup></b>	<b>30.8</b>	<b>31.5</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.

### Snus and moist snuff

Sweden is the world's largest snus market measured by per capita consumption. A substantially larger proportion of the male population uses Swedish snus compared to cigarettes. The Norwegian market is smaller than the Swedish market but has experienced strong volume growth in recent years. The US is the world's largest moist snuff market measured in number of cans and is about five times larger than the Scandinavian snus market. In Sweden and Norway, Swedish Match has a leading position. In the US, the Group is the third largest player in moist snuff, and has a growing position in Swedish snus. Some of the best known brands include General, Ettan, Grov, Göteborgs Rapé, Catch, Kaliber, and Kronan in Sweden, General, Nick and Johnny, and The Lab in Norway, and Longhorn, Timber Wolf, and General in the US.

#### The first quarter

In local currencies, sales for the product area Snus and moist snuff declined by less than 1 percent during the first quarter compared to the same quarter of the previous year. Reported sales declined by 2 percent to 1,154 MSEK (1,173). Operating profit declined by 5 percent to 505 MSEK (534) and includes an operating loss for international snus expansion in the US and through SMPM International amounting to 78 MSEK (63). The operating margin for the product area was 43.8 percent (45.5).

In Scandinavia, shipment volumes measured in number of cans, were up by close to 1 percent compared to the same period of the previous year, and on an underlying basis (adjusted for differences in Easter timing and hoarding effects between the years) the estimated volume growth for Swedish Match is also 1 percent in the quarter. Volumes increased in Sweden and Norway but declined in Travel Retail.

The Swedish market continued to exhibit strong volume growth measured by the number of cans in the first quarter. Swedish Match estimates the total market growth to have been above 5 percent compared to the first quarter of the prior year, with strong growth for value priced products and relatively stable volumes for premium products. Value priced products comprise somewhat more than 40 percent of the Swedish market in volume terms. Swedish Match actively participates in the growth of the value segment, and its market share within this segment has increased compared to the first quarter of the prior year. However, Swedish Match's market share in the value segment is lower than in the premium segment, which is the main explanation why Swedish Match's volumes on the Swedish market grew by less than the estimated market growth.

The Norwegian market continued to show very good volume growth in the quarter, up by approximately 9 percent, driven by strong growth for pouch products, while volumes in the smaller Travel Retail market declined. Swedish Match estimates that the total

Scandinavian snus market increased by somewhat more than 5 percent in volume terms versus the prior year in the first quarter.

Sales revenues for Swedish Match in Scandinavia were essentially flat in local currencies but declined by 2 percent in SEK in the first quarter compared to the first quarter of the prior year. Operating profit declined somewhat more in percentage terms, mainly as a result of the weaker Norwegian krona.

*General* snus in the US is now available in more than 23,000 stores and investments behind this brand in the first quarter were increasingly directed at brand development and consumer engagement activities. Volume share for the *General* brand, the second largest snus brand on the US snus market, amounted to 9 percent during the quarter according to Nielsen.

For the US moist snuff business, volume measured in number of can equivalents was down by 1 percent versus the prior year's first quarter. For both tubs under the *Longhorn* brand as well as for the pouch portfolio, volumes in can equivalents increased significantly versus prior year. For total moist snuff, sales were flat while operating profit in local currency grew as a result of lower cost of goods sold.

### **Other tobacco products**

*The product area Other tobacco products consists of US cigars and chewing tobacco. Swedish Match is a major player in the US mass market cigar market, with such well known brands as White Owl, Garcia y Vega, and Game by Garcia y Vega. Swedish Match is the leading producer of chewing tobacco in the US. Well known brands include Red Man and Southern Pride. The market for chewing tobacco shows a declining trend.*

#### *The first quarter*

During the first quarter, sales for the product area Other tobacco products were 3 percent higher in local currency compared to the same period of the previous year, while operating profit in local currency grew by 2 percent. Reported sales for the product area amounted to 687 MSEK (664) and operating profit was 267 MSEK (260). In local currency, sales were up for chewing tobacco and flat for cigars. The operating margin was 38.8 percent (39.2).

US chewing tobacco shipments in the first quarter were up by 9 percent compared to the first quarter of the prior year, with higher volumes versus prior year for both Swedish Match brands and contract manufacturing deliveries. Volumes fluctuate from quarter to quarter due to inventory and promotional phasing, and the first quarter year on year volume growth was above trend levels. Sales in local currency were up in line with volume growth and operating profit was also higher, with higher average prices and unusually strong shipment volumes contributing to this profit growth.

For cigars in the US, volumes increased by 5 percent compared to the first quarter of the prior year driven by strong growth for natural cigars. Sales were flat in local currency as the average price per cigar was adversely affected by an increased promotional product mix. Operating profit was below the level of the prior year.

### **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.*

### *The first quarter*

During the first quarter, sales for the Lights product area amounted to 315 MSEK (328). Currency translation effects have affected the sales comparison negatively by 17 MSEK and, in local currencies sales were up by 1 percent. Operating profit amounted to 55 MSEK (59) and the operating margin was 17.6 percent (17.8). In local currencies, operating profit declined by 3 percent. In local currencies, sales were higher for both lighters and matches compared to the first quarter of the prior year, while operating profit was higher for lighters, but lower for matches.

### **Other operations**

*Other operations are primarily the distribution of tobacco products on the Swedish market, and corporate overhead costs.*

### *The first quarter*

Sales in Other operations for the first quarter amounted to 858 MSEK (816). Operating loss for Other operations was 18 MSEK (20).

### **Scandinavian Tobacco Group**

Scandinavian Tobacco Group (STG) was established on October 1, 2010, following a merger between the tobacco activities in Scandinavian Tobacco Group A/S and the European mass market cigar, US premium cigar and pipe tobacco businesses of Swedish Match. The Danish company Skandinavisk Holding A/S holds 51 percent of the shares in STG, and the remaining 49 percent are held by Swedish Match. STG is the world's largest manufacturer of cigars and pipe tobacco, and holds a strong position within fine cut tobacco in Scandinavia and the US. STG's leading brands include Café Crème, La Paz, Henri Wintermans, Macanudo, CAO, Partagas (USA), Cohiba (USA), Erinmore, Borkum Riff, Colts and Tiedemanns.

Please see Note 3 for a summary of the STG consolidated income statement.

### *The first quarter*

Reported sales for STG during the first quarter totaled 1,310 MDKK (1,305). In local currencies, sales were up by 3 percent driven by increased sales for all product areas. Gross profit also increased in local currencies compared to the first quarter of the prior year. Reported EBITDA increased by 3 percent to 221 MDKK (215), with higher sales and lower operating expenses this quarter.

For machine made cigars, sales in local currencies were somewhat higher as a result of higher volumes, general price increases offset by a weaker product mix. The volume increase in machine made cigars compared to the prior year was partly due to the low volumes in the first quarter 2013 due to distributor inventory movements. The increase in sales did not fully compensate for adverse mix effects and gross profit declined this quarter.

For handmade cigars, both sales and gross profit in local currencies were up compared to the first quarter of the prior year, driven by positive mix effects and higher volumes in the US.

For both the fine cut and the pipe tobacco businesses, higher volumes contributed to increases in sales and gross profit, which more than compensated for negative country mix effects in pipe tobacco.

Operating expenses in the quarter were lower than in the first quarter of the prior year despite the fact that the company incurred costs of temporary nature of about 20 MDKK, including rationalization costs relating to the ongoing supply chain optimization program.

Net finance costs for the quarter increased to 25 MDKK (18), mainly due to exchange gains in the first quarter of the prior year.

Net profit for the period amounted to 75 MDKK (74).

The Swedish Match share of net profit in STG for the first quarter amounted to 49 MSEK (39). Excluding accounting adjustments from differences between actual and estimated results, Swedish Match's share of net profit amounted to 43 MSEK (41).

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

### **Taxes**

For the first quarter the reported tax expense amounted to 152 MSEK (154), corresponding to a tax rate of 20.7 percent (17.2). The reported tax rate, excluding one-time items, associated companies and joint ventures, was 22 percent (22). The earnings from associated companies and joint ventures are reported net after tax, and relate mainly to the share of earnings from STG. The low reported tax rate for the first quarter of 2013 is explained by a non-taxable additional capital gain from the sale of a parcel of land.

### **Earnings per share**

Basic EPS for the first quarter amounted to 2.91 SEK (3.72) and diluted EPS was 2.91 SEK (3.71).

Basic EPS for the first quarter, excluding larger one-time items, amounted to 2.91 SEK (2.92) and diluted EPS, excluding larger one-time items, was 2.91 SEK (2.91).

### **Depreciation, amortization and write down**

In the first quarter, total depreciation, amortization and write down amounted to 72 MSEK (66), of which depreciation and write down on property, plant and equipment amounted to 61 MSEK (60) and amortization and write down of intangible assets amounted to 10 MSEK (7).

### **Financing and cash flow**

Cash flow from operating activities for the first quarter amounted to 1,027 MSEK (643). The cash flow from operations increased compared to the prior year mainly as a result of positive changes in working capital. Investments in property, plant and equipment during the first quarter amounted to 56 MSEK (70). Net cash used in investing activities amounted to 56 MSEK (72).

Net finance cost for the first quarter decreased to 126 MSEK (136), mainly due to decreased debt and lower interest rates on debt.

The net debt as of March 31, 2014 amounted to 7,533 MSEK compared to 8,615 MSEK at March 31, 2013 and 8,388 MSEK at December 31, 2013.

During the first quarter no new bond loans were issued. Repayments of bond loans for the same period amounted to 485 MSEK. As of March 31, 2014 Swedish Match had 10,021 MSEK of interest bearing debt excluding retirement benefit obligations. During the remainder of 2014, 460 MSEK of this debt falls due for payment.

In the first quarter, share repurchases of 68 MSEK were made. During the same period the Company sold treasury shares of 53 MSEK as a result of option holders exercising options.

As of March 31, 2014, Swedish Match had 1,432 MSEK in unutilized committed credit lines.

Cash and cash equivalents amounted to 3,640 MSEK at the end of the period, compared to 3,164 MSEK at December 31, 2013.

## **Share structure**

During the first quarter, Swedish Match repurchased 0.3 million shares for 68 MSEK at an average price of 205.34 SEK, following authorization from the Annual General Meeting held in 2013. Total shares bought back by Swedish Match since the buyback program started have been repurchased at an average price of 106.37 SEK.

During the first quarter, the Company sold 0.4 million treasury shares at an average price of 141.24 SEK, totaling 53 MSEK, as a result of option holders exercising options.

As per March 31, 2014 Swedish Match held 2.9 million shares, corresponding to 1.44 percent of the total number of shares. The number of shares outstanding, net, as per March 31, 2014, amounted to 199.1 million. As of March 31, 2014, the Company has outstanding call options corresponding to 0.7 million shares that expire in February 2015.

## **Annual General Meeting and repurchase of own shares**

The Annual General Meeting held on May 7, 2014, re-elected Andrew Cripps, Karen Guerra, Conny Karlsson, Wenche Rolfsen, Robert Sharpe, Meg Tivéus and Joakim Westh as Board members. Conny Karlsson was re-elected Chairman of the Board and Andrew Cripps was re-elected Deputy Chairman of the Board.

The Annual General Meeting approved the Board's proposal of a dividend in the amount of 7.30 SEK per share to be paid to the shareholders, in a total amount of 1,453 MSEK, based on the number of outstanding shares as per March 31, 2014. In addition, the Meeting resolved to reduce the share capital by means of withdrawal of 1.5 million shares in the Company, held in treasury, with a simultaneous bonus issue, without issuing any new shares, of a corresponding amount to restore the share capital. The total number of registered shares in the Company before the withdrawal of shares was 202.0 million.

The 2014 Annual General Meeting further authorized the Board of Directors to resolve on acquisition of the Company's own shares, a mandate which the Board now utilizes. The Board has decided to implement a repurchase program in accordance with the Commission Regulation (EC) No 2273/2003 of December 22, 2003 ("EC-Regulation"). The repurchase of own shares shall meet the following conditions. The shares shall be acquired on NASDAQ OMX Stockholm in accordance with the rules regarding purchase of own shares as set out in the EC-Regulation and the NASDAQ OMX Stockholm's Rule Book for Issuers. Further, the shares may be acquired on one or several occasions from May 12, 2014 up and until May 5, 2015, provided that the Company's holding does not at any time exceed 10 percent of all shares in the Company. In one day, a maximum of 25 percent of the average daily volume may be purchased. Repurchases shall be made at a price within the price interval registered at any given time, i.e. the interval between the highest bid price and lowest selling price. The price may not exceed the higher of the price of the last independent trade and the highest current independent bid price. Payment for the shares shall be in cash. As per May 9, 2014, Swedish Match holds 2,911,271 treasury shares.

The purpose of the repurchasing right is to enable Swedish Match to adapt its capital structure to its capital needs over time, and thereby contribute to an increased shareholder value and to fulfil its obligations under the Company's former option program.

## **Outlook**

We expect both the Scandinavian snus market and the US market for moist snuff and snus to continue to grow in volume terms in 2014. 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 is likely to imply some negative mix effects.

During the year we will continue to invest in growth for snus internationally, particularly in the US, and also continue to invest for share growth in the fast growing pouch segment of the US moist snuff market.

For cigars in the US, Swedish Match expects the market to remain highly competitive during 2014.

The tax rate for 2014, excluding one-time items as well as associated companies and joint ventures, is expected to be around 22 percent.

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.

Sales in the Parent Company for the first quarter amounted to 12 MSEK (13). Loss before income tax amounted to 288 MSEK (profit 414) and net result for the quarter amounted to a loss of 225 MSEK (profit 490).

The main sources of income for the Parent Company are dividends and Group contributions from subsidiaries. No dividends have been recognized during the first quarters of 2014 or 2013. Previous year's first quarter included a gain on sale of a subsidiary amounting to 757 MSEK.

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 and hence any changes in interest rates would have an immaterial impact on the result of the Parent Company.

No capital expenditures on tangible and intangible fixed assets have been recognized during the first quarters of 2014 or 2013. During the previous year's first quarter, an investment in software development for an ERP system for the Group was transferred to a Group company.

During the first quarter no new bond loans were issued and repayments of bond loans amounted to 485 MSEK. During the period, the Parent Company made share repurchases of 0.3 million (0.6) shares for 68 MSEK (138) and sold 0.4 million (0.5) treasury shares for 53 MSEK (89).

### **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 half year 2014 report will be released on July 18, 2014.

Stockholm, May 9, 2014

Lars Dahlgren  
President and CEO

## Key data

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

	January-March		12 months ended	Full year
	2014	2013	March 31, 2014	2013
Operating margin, %	28.5	29.2	29.1	29.3
Operating capital, MSEK	7,490	7,290	7,490	7,729
Return on operating capital, %			49.8	49.3
EBITDA, MSEK <sup>1)</sup>	930	938	3,960	3,968
EBITA, MSEK <sup>2)</sup>	868	878	3,715	3,725
Net debt, MSEK	7,533	8,615	7,533	8,388
Net debt/EBITA <sup>2)</sup>			2.0	2.3
Investments in property, plant and equipment, MSEK <sup>3)</sup>	56	70	291	306
EBITA interest cover	7.0	6.6	7.1	7.0
<i>Excluding share of net profit in STG</i>				
EBITA, MSEK <sup>2)</sup>	820	839	3,387	3,406
Net debt/EBITA <sup>2)</sup>			2.2	2.5
<i>Share data</i>				
Earnings per share, basic, SEK				
Including larger one-time items	2.91	3.72	12.79	13.63
Excluding larger one-time items	2.91	2.92	12.78	12.82
Earnings per share, diluted, SEK				
Including larger one-time items	2.91	3.71	12.78	13.61
Excluding larger one-time items	2.91	2.91	12.77	12.80
Number of shares outstanding at end of period	199,088,729	199,293,600	199,088,729	199,045,521
Average number of shares outstanding, basic	199,121,311	199,261,303	199,448,328	198,930,422
Average number of shares outstanding, diluted	199,209,072	199,790,902	199,677,417	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 5 MSEK (6).

## Consolidated income statement in summary

MSEK	January-March		Chg %	12 months ended	Full year	Chg %
	2014	2013		March 31, 2014		
Sales, including tobacco tax	5,697	5,759		24,929	24,991	
Less tobacco tax	-2,683	-2,777		-12,287	-12,381	
<b>Sales</b>	<b>3,014</b>	<b>2,982</b>	<b>1</b>	<b>12,642</b>	<b>12,610</b>	<b>0</b>
Cost of goods sold	-1,561	-1,527		-6,682	-6,647	
<b>Gross profit</b>	<b>1,452</b>	<b>1,455</b>	<b>0</b>	<b>5,960</b>	<b>5,963</b>	<b>0</b>
Selling and administrative expenses	-637	-618		-2,576	-2,556	
Share of profit/loss in associated companies and joint ventures	43	35		295	287	
Capital gain from sale of land	-	159		2	161	
<b>Operating profit</b>	<b>858</b>	<b>1,031</b>	<b>-17</b>	<b>3,681</b>	<b>3,855</b>	<b>-4</b>
Finance income	8	8		34	34	
Finance costs	-134	-144		-568	-578	
Net finance cost	-126	-136		-535	-544	
<b>Profit before income tax</b>	<b>732</b>	<b>895</b>	<b>-18</b>	<b>3,147</b>	<b>3,310</b>	<b>-5</b>
Income tax expense	-152	-154		-597	-600	
<b>Profit for the period</b>	<b>580</b>	<b>741</b>	<b>-22</b>	<b>2,550</b>	<b>2,711</b>	<b>-6</b>
<i>Attributable to:</i>						
Equity holders of the Parent	580	740		2,551	2,712	
Non-controlling interests	0	0		-1	-1	
<b>Profit for the period</b>	<b>580</b>	<b>741</b>	<b>-22</b>	<b>2,550</b>	<b>2,711</b>	<b>-6</b>
Earnings per share, basic, SEK						
Including larger one-time items	2.91	3.72		12.79	13.63	
Excluding larger one-time items	2.91	2.92		12.78	12.82	
Earnings per share, diluted, SEK						
Including larger one-time items	2.91	3.71		12.78	13.61	
Excluding larger one-time items	2.91	2.91		12.77	12.80	

## Consolidated statement of comprehensive income

MSEK	January-March		12 months	Full year
	2014	2013	ended March 31, 2014	2013
<b>Profit for the period</b>	<b>580</b>	<b>741</b>	<b>2,550</b>	<b>2,711</b>
<i>Other comprehensive income that have or will be reclassified to the income statement</i>				
Translation differences related to foreign operations	22	-117	267	127
Translation differences included in profit and loss	-	-	0	0
Effective portion of changes in fair value of cash flow hedges	-32	19	-80	-28
Share of other comprehensive income in associated companies and joint ventures	11	75	-211	-147
Income tax relating to components of other comprehensive income	7	-4	18	6
<b>Subtotal, net of tax for the period</b>	<b>8</b>	<b>-27</b>	<b>-7</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	-81	183	96	359
Share of other comprehensive income in associated companies and joint ventures	0	-	5	5
Income tax relating to components of other comprehensive income	32	-73	-38	-144
<b>Subtotal, net of tax for the period</b>	<b>-49</b>	<b>109</b>	<b>63</b>	<b>221</b>
<b>Total comprehensive income for the period</b>	<b>539</b>	<b>823</b>	<b>2,606</b>	<b>2,889</b>
<i>Attributable to:</i>				
Equity holders of the Parent	539	822	2,607	2,890
Non-controlling interests	0	0	-1	-1
<b>Total comprehensive income for the period</b>	<b>539</b>	<b>823</b>	<b>2,606</b>	<b>2,889</b>

## Consolidated balance sheet in summary

MSEK	March 31, 2014	December 31, 2013
Intangible assets	963	973
Property, plant and equipment	2,026	2,027
Investments in associated companies and joint ventures	4,342	4,506
Other non-current financial receivables <sup>1)</sup>	1,207	1,165
Current operating assets	2,686	3,038
Other current investments and current financial assets <sup>2)</sup>	3	8
Cash and cash equivalents	3,640	3,164
<b>Total assets</b>	<b>14,866</b>	<b>14,881</b>
Equity attributable to equity holders of the Parent	-262	-786
Non-controlling interests	1	1
<b>Total equity</b>	<b>-261</b>	<b>-785</b>
Non-current provisions	1,012	1,031
Non-current loans	8,432	9,420
Other non-current financial liabilities <sup>3)</sup>	1,574	1,440
Current provisions	96	103
Current loans	1,447	920
Other current liabilities <sup>4)</sup>	2,566	2,751
<b>Total equity and liabilities</b>	<b>14,866</b>	<b>14,881</b>

1) Includes pension assets of 83 MSEK (84) and derivative financial instruments of 62 MSEK (55) used to hedge the Parent Company's bond loans denominated in currencies other than Swedish kronor.

2) Financial derivatives of 3 MSEK (8) used to hedge the Parent Company's bond loans.

3) Includes pension liabilities of 1,235 MSEK (1,128) and derivative financial instruments of 194 MSEK (202) used to hedge the Parent Company's bond loans denominated in currencies other than Swedish kronor.

4) Includes current financial derivatives of 13 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-March	
	2014	2013
<i>Operating activities</i>		
<b>Profit before income taxes</b>	<b>732</b>	<b>895</b>
Share of profit/loss in associated companies and joint ventures	-43	-35
Dividend received from associated companies	225	229
Other non-cash items and other	110	-55
Income tax paid	-66	-128
<b>Cash flow from operating activities before changes in working capital</b>	<b>958</b>	<b>907</b>
Cash flow from changes in working capital	69	-264
<b>Net cash from operating activities</b>	<b>1,027</b>	<b>643</b>
<i>Investing activities</i>		
Purchase of property, plant and equipment	-56	-70
Proceeds from sale of property, plant and equipment	0	0
Purchase of intangible assets	-	-5
Proceeds from sale of subsidiaries, net of cash disposed of <sup>1)</sup>	-	5
Changes in financial receivables etc.	0	-1
<b>Net cash used in investing activities</b>	<b>-56</b>	<b>-72</b>
<i>Financing activities</i>		
Changes in loans	-485	-12
Repurchase of own shares	-68	-138
Stock options exercised	53	89
Other	0	-8
<b>Net cash used in financing activities</b>	<b>-501</b>	<b>-69</b>
<b>Net increase in cash and cash equivalents</b>	<b>470</b>	<b>502</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	5	5
<b>Cash and cash equivalents at the end of the period</b>	<b>3,640</b>	<b>3,331</b>

1) The cash flow from sale of subsidiaries in 2013 is related to additional payment relating to the divestment of Swedish Match UK sold in 2008.

## Change in shareholders' equity

MSEK	Equity attributable	Non-controlling	Total equity
	to holders of the Parent	interests	
<b>Equity at January 1, 2013</b>	<b>-2,053</b>	<b>2</b>	<b>-2,051</b>
Profit for the period	740	0	741
Other comprehensive income, net of tax for the period	82	0	82
<b>Total comprehensive income for the period</b>	<b>822</b>	<b>0</b>	<b>823</b>
Repurchase of own shares	-138	-	-138
Stock options exercised	89	-	89
<b>Equity at March 31, 2013</b>	<b>-1,280</b>	<b>3</b>	<b>-1,277</b>
<b>Equity at January 1, 2014</b>	<b>-786</b>	<b>1</b>	<b>-785</b>
Profit for the period	580	0	580
Other comprehensive income, net of tax for the period	-41	0	-41
<b>Total comprehensive income for the period</b>	<b>539</b>	<b>0</b>	<b>539</b>
Repurchase of own shares	-68	-	-68
Stock options exercised	53	-	53
<b>Equity at March 31, 2014</b>	<b>-262</b>	<b>1</b>	<b>-261</b>

## Parent Company income statement in summary

MSEK	January-March	
	2014	2013
Sales	12	13
Administrative expenses	-45	-57
<b>Operating loss</b>	<b>-32</b>	<b>-44</b>
Result from participation in Group companies	-	757
Net finance cost	-255	-298
<b>Profit/Loss before income tax</b>	<b>-288</b>	<b>414</b>
Income tax	63	75
<b>Profit/Loss for the period</b>	<b>-225</b>	<b>490</b>

## Parent Company statement of comprehensive income

MSEK	January-March	
	2014	2013
<b>Profit/Loss for the period</b>	<b>-225</b>	<b>490</b>
<i>Other comprehensive income that have or will be reclassified to the income statement</i>		
Effective portion of changes in fair value of cash flow hedges	-32	19
Income tax relating to components of other comprehensive income	7	-4
<b>Subtotal, net of tax for the period</b>	<b>-25</b>	<b>15</b>
<b>Total comprehensive income for the period</b>	<b>-250</b>	<b>505</b>

## Parent Company balance sheet in summary

MSEK	March 31, 2014	March 31, 2013	December 31, 2013
Intangible and tangible assets	1	1	1
Non-current financial assets	51,106	51,338	51,092
Current assets	139	140	2,140
<b>Total assets</b>	<b>51,245</b>	<b>51,479</b>	<b>53,233</b>
<b>Equity</b>	<b>21,927</b>	<b>21,686</b>	<b>22,192</b>
<b>Untaxed reserves</b>	<b>290</b>	<b>230</b>	<b>290</b>
Provisions	69	85	77
Non-current liabilities	26,860	27,300	27,820
Current liabilities	2,099	2,178	2,853
<b>Total liabilities</b>	<b>29,028</b>	<b>29,563</b>	<b>30,750</b>
<b>Total equity and liabilities</b>	<b>51,245</b>	<b>51,479</b>	<b>53,233</b>

### Note 1 – Accounting principles

This interim 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 any changes 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 the first quarter 2014, receivables from these companies amounted to 41 MSEK (38) and total payables to these companies amounted to 9 MSEK (6). During the first quarter 2014, total sales to associated companies and joint ventures amounted to 52 MSEK (50) and total purchases from associated companies and joint ventures amounted to 27 MSEK (15).

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-March		Change %	Full year 2013
	2014	2013		
Sales	1,310	1,305	0	5,925
Gross profit	635	646	-2	2,914
Operating expenses	-510	-528		-2,134
Operating profit	126	118	6	780
Net finance cost	-25	-18		-104
Income tax expense	-26	-27		-103
<b>Net profit for the period</b>	<b>75</b>	<b>74</b>	<b>1</b>	<b>573</b>
<b>EBITDA</b>	<b>221</b>	<b>215</b>	<b>3</b>	<b>1,180</b>
<i>MSEK</i>				
<b>Swedish Match's share of net profit</b>	<b>43</b>	<b>41</b>	<b>6</b>	<b>326</b>
Adjustment to estimate vs. actual	5	-2		-7
<b>Swedish Match's reported share of net profit</b>	<b>49</b>	<b>39</b>	<b>24</b>	<b>319</b>

The STG result, and consequently the Swedish Match reported share of the net result in STG, may for some reporting periods be partly based on estimates due to differences in reporting time schedules. Any differences between such estimates and the actual result of STG for the period are adjusted in the following reporting period.

## Note 4 – Carrying value and fair value

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

### Carrying value and fair value

<i>MSEK</i>	Items carried at fair value		Other financial liabilities	Cash flow hedges	Total carrying value	Fair value
	via the income statement	Loans and receivables				
Trade receivables	-	1,106	-	-	1,106	1,106
Non-current receivables	-	-	-	62	62	62
Other receivables	3	-	-	-	3	3
Cash and cash equivalents	-	3,640	-	-	3,640	3,640
<b>Total assets</b>	<b>3</b>	<b>4,746</b>	<b>-</b>	<b>62</b>	<b>4,811</b>	<b>4,811</b>
Loans and borrowings	-	-	9,879	-	9,879	10,508
Other liabilities	-	-	-	349	349	349
Trade payables	-	-	449	-	449	449
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>10,328</b>	<b>349</b>	<b>10,677</b>	<b>11,306</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 the reporting period since the annual report for 2013.

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 6,760 MSEK of which 5,931 MSEK is in cash flow hedges.

## Quarterly data

### Consolidated income statement in summary

MSEK	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q4/12	Q3/12	Q2/12	Q1/12
Sales, including tobacco tax	5,697	6,284	6,518	6,430	5,759	6,461	6,651	6,568	5,769
Less tobacco tax	-2,683	-3,106	-3,288	-3,210	-2,777	-3,313	-3,443	-3,355	-2,852
<b>Sales</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>	<b>3,208</b>	<b>3,213</b>	<b>2,917</b>
Cost of goods sold	-1,561	-1,698	-1,749	-1,673	-1,527	-1,586	-1,617	-1,558	-1,376
<b>Gross profit</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>	<b>1,591</b>	<b>1,655</b>	<b>1,541</b>
Selling and administrative expenses	-637	-633	-638	-668	-618	-667	-640	-710	-635
Share of net profit/loss in associated companies and joint ventures	43	84	81	87	35	91	72	107	66
	<b>858</b>	<b>932</b>	<b>924</b>	<b>966</b>	<b>872</b>	<b>986</b>	<b>1,022</b>	<b>1,052</b>	<b>972</b>
<i>Larger one-time items</i>									
Adjustment to capital gain from transfer of businesses to STG	-	-	-	-	-	-	-	30	-
Capital gain from sale of land	-	-	-	2	159	-	-	-	-
<b>Operating profit</b>	<b>858</b>	<b>932</b>	<b>924</b>	<b>968</b>	<b>1,031</b>	<b>986</b>	<b>1,022</b>	<b>1,082</b>	<b>972</b>
Finance income	8	9	9	8	8	10	11	12	6
Finance costs	-134	-137	-151	-146	-144	-146	-152	-151	-140
Net finance cost	-126	-128	-142	-138	-136	-137	-141	-140	-134
<b>Profit before income tax</b>	<b>732</b>	<b>804</b>	<b>782</b>	<b>830</b>	<b>895</b>	<b>850</b>	<b>881</b>	<b>942</b>	<b>838</b>
Income tax expense	-152	-128	-154	-163	-154	-63	-188	-183	-170
<b>Profit for the period</b>	<b>580</b>	<b>675</b>	<b>628</b>	<b>667</b>	<b>741</b>	<b>787</b>	<b>693</b>	<b>759</b>	<b>668</b>
<i>Attributable to:</i>									
Equity holders of the Parent	580	675	629	667	740	787	693	759	667
Non-controlling interests	0	0	-1	0	0	0	0	0	0
<b>Profit for the period</b>	<b>580</b>	<b>675</b>	<b>628</b>	<b>667</b>	<b>741</b>	<b>787</b>	<b>693</b>	<b>759</b>	<b>668</b>

### Sales by product area

MSEK	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q4/12	Q3/12	Q2/12	Q1/12
Snus and moist snuff	1,154	1,247	1,217	1,230	1,173	1,280	1,263	1,300	1,206
Other tobacco products	687	590	622	687	664	601	689	696	675
Lights	315	345	332	326	328	341	311	336	350
Other operations	858	996	1,058	976	816	926	944	880	687
<b>Sales</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>	<b>3,208</b>	<b>3,213</b>	<b>2,917</b>



## Operating profit by product area

MSEK	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q4/12	Q3/12	Q2/12	Q1/12
Snus and moist snuff	505	562	553	546	534	593	607	581	568
Other tobacco products	267	228	246	295	260	248	300	316	297
Lights	55	63	56	53	59	61	44	60	57
Other operations	-18	-18	-19	-22	-20	-18	-8	-20	-19
<b>Operating profit from product areas</b>	<b>809</b>	<b>835</b>	<b>836</b>	<b>871</b>	<b>832</b>	<b>883</b>	<b>942</b>	<b>938</b>	<b>903</b>
Share of net profit in STG	49	97	88	95	39	103	80	114	69
<b>Subtotal</b>	<b>858</b>	<b>932</b>	<b>924</b>	<b>966</b>	<b>872</b>	<b>986</b>	<b>1,022</b>	<b>1,052</b>	<b>972</b>
Adjustment to capital gain from transfer of businesses to STG	-	-	-	-	-	-	-	30	-
Capital gain from sale of land	-	-	-	2	159	-	-	-	-
<b>Total larger one-time items</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>159</b>	<b>-</b>	<b>-</b>	<b>30</b>	<b>-</b>
<b>Operating profit</b>	<b>858</b>	<b>932</b>	<b>924</b>	<b>968</b>	<b>1,031</b>	<b>986</b>	<b>1,022</b>	<b>1,082</b>	<b>972</b>

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

Percent	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13	Q4/12	Q3/12	Q2/12	Q1/12
Snus and moist snuff	43.8	45.1	45.4	44.4	45.5	46.3	48.0	44.7	47.1
Other tobacco products	38.8	38.6	39.6	42.9	39.2	41.2	43.5	45.4	44.0
Lights	17.6	18.1	16.8	16.2	17.8	17.9	14.0	17.9	16.3
<b>Operating margin from product areas<sup>2)</sup></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>29.4</b>	<b>29.2</b>	<b>31.0</b>
<b>Operating margin<sup>3)</sup></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>	<b>31.9</b>	<b>32.7</b>	<b>33.3</b>

1) Excluding larger one-time items.

2) Excluding share of net profit in STG.

3) Including share of net profit in STG.

For further information, please contact:

Lars Dahlgren, President and Chief Executive Officer  
Office +46 8 658 0441

Thomas Hayes, Acting Chief Financial Officer  
Office +46 8 658 0309

Emmett Harrison, Senior Vice President Investor Relations and Corporate Sustainability  
Office +46 8 658 0173

Richard Flaherty, President US Division, US Investor Relations contact  
Office +1 804 787 5130

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 May 9, 2014 at 08.15 a.m. (CET).

Swedish Match AB (publ), Box 7179, SE-103 88 Stockholm, Sweden  
Visiting address: Västra Trädgårdsgatan 15. Telephone: +46 8 658 0200  
Corporate Identity Number: 556015-0756  
[www.swedishmatch.com](http://www.swedishmatch.com)