



Half Year Report January – June 2012

- Sales for the second quarter increased by 9 percent to 3,213 MSEK (2,944) and by 6 percent in local currencies
- Operating profit from product areas¹⁾ for the second quarter increased by 13 percent to 938 MSEK (829) and by 9 percent in local currencies
- Operating profit²⁾ increased by 20 percent to 1,082 MSEK (904) for the second quarter
- EPS (basic) for the second quarter increased to 3.72 SEK (2.94)

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:

The second quarter was another strong quarter for Swedish Match with growth in both sales and operating profit.

In local currencies, sales as well as operating profit increased for all our product areas compared to the second quarter of the prior year. Sales were up by 6 percent and operating profit increased by 9 percent, despite significantly higher investments for Swedish snus internationally, especially in the US.

In the US, we are encouraged by the development for *General* snus, and we continued to expand the distribution and increased marketing investments in the quarter. Test market activities for snus through SMPM International show promising signs in Canada, and St. Petersburg, Russia.

In Scandinavia, the snus business delivered a solid 8 percent increase in sales, led by continued high volume growth in Norway. Profitability in the second quarter improved versus prior year.

In the US moist snuff business, sales in local currency were flat on somewhat lower volumes, while operating profit declined modestly.

Our US mass market cigar business continued its strong performance. When compared to the prior year's second quarter, which included a large new product launch, shipment volumes grew by 11 percent.

Our Lights business performed very well, driven by volume gains for lighters, especially in Asia and East Europe.

Summary of consolidated income statement

MSEK	April-June		January-June		Full year
	2012	2011	2012	2011	2011
Sales	3,213	2,944	6,130	5,591	11,666
Operating profit from product areas ¹⁾	938	829	1,841	1,558	3,365
Operating profit ²⁾	1,082	904	2,054	1,698	3,702
Profit before income tax	942	773	1,780	1,438	3,180
Profit for the period	759	616	1,427	1,148	2,538
Earnings per share, basic (SEK)	3.72	2.94	6.99	5.44	12.14

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

2) Including share of net profit in STG, as well as a larger one time item of 30 MSEK in Q2 2012.

Sales and results for the second quarter

Sales for the second quarter of 2012 increased by 9 percent to 3,213 MSEK (2,944) compared to the same period of the previous year. Currency translation has affected the sales comparison positively by 90 MSEK. In local currencies, sales increased by 6 percent.

In the second quarter, sales for the product area Snus and snuff increased by 9 percent to 1,300 MSEK (1,193) and operating profit improved by 8 percent to 581 MSEK (540) despite significantly higher international snus investments. In local currencies sales increased by 6 percent, driven by strong performance in Scandinavia, while operating profit increased by 7 percent. The operating margin for the Snus and snuff product area was 44.7 percent (45.3).

Scandinavian snus sales were up by 8 percent compared to the second quarter of the prior year, on 3 percent lower shipment volumes. Adjusted for timing effects related to Easter and trade hoarding in the prior year, volumes in Scandinavia are estimated to have declined slightly in the quarter compared to the same period year ago. Volume growth in Norway continued to be strong. For the January to June period underlying volumes for Swedish Match in Scandinavia are estimated to have been flat versus the same period of the prior year. In the US, sales of snus and moist snuff in local currency in the second quarter were slightly higher than in the same period of the previous year, with volume declines for moist snuff being partly offset by growth for Swedish snus.

For Other tobacco products, sales in the second quarter increased by 14 percent, to 696 MSEK (613). In local currency, sales increased by 3 percent. Operating profit in local currency increased by 6 percent and reported operating profit increased 16 percent to 316 MSEK (272). Currency translation has affected the sales and operating profit comparison positively by 67 MSEK and 29 MSEK respectively. Compared to the second quarter of the prior year, sales and operating profit in local currency grew for the US mass market cigar business while for chewing tobacco, sales and operating profit were in line with previous year. Operating margin for Other tobacco products increased to 45.4 percent (44.4).

Operating profit from product areas increased by 13 percent to 938 MSEK (829). In local currencies, the operating profit increased by 9 percent. Currency translation has affected the comparison positively by 31 MSEK. Operating margin for the second quarter was 32.7 percent (30.7). EBITDA margin was 35.1 percent (33.1).

Operating profit, including share of net profit from STG and larger one time items, increased to 1,082 MSEK (904) during the second quarter. The share of net profit from STG, after interest and tax, amounted to 114 MSEK (74) for the second quarter.

Larger one time items in the second quarter consist of a positive adjustment of 30 MSEK to the capital gain from transfer of businesses to STG as a consequence of a reversal of a provision relating to transaction guarantees.

Basic earnings per share for the second quarter amounted to 3.72 SEK (2.94) while diluted earnings per share amounted to 3.69 SEK (2.92).

Sales and results for the first six months

Sales for the first six months amounted to 6,130 MSEK (5,591). Operating profit from product areas increased to 1,841 MSEK (1,558). In local currencies, sales increased by 7 percent and operating profit increased by 15 percent. Currency translation has affected the operating profit comparison positively by 44 MSEK. Operating margin from product areas for the first six months was 30.0 percent (27.9).

Operating profit, including share of net profit from STG and larger one time items, reached 2,054 MSEK (1,698). The share of net profit from STG amounted to 183 MSEK (139) for the first six months. Operating margin, including share of net profit in STG and larger one time items, was 33.5 percent (30.4).

EPS (basic) for the first six months was 6.99 SEK (5.44), while diluted EPS was 6.94 SEK (5.41).

Sales by product area

<i>MSEK</i>	April-June		Chg %	January-June		Chg %	Full year 2011
	2012	2011		2012	2011		
Snus and snuff	1,300	1,193	9	2,506	2,261	11	4,726
Other tobacco products	696	613	14	1,371	1,196	15	2,388
Lights	336	313	8	686	649	6	1,346
Other operations	880	826	7	1,567	1,484	6	3,206
Sales	3,213	2,944	9	6,130	5,591	10	11,666

Operating profit by product area

<i>MSEK</i>	April-June		Chg %	January-June		Chg %	Full year 2011
	2012	2011		2012	2011		
Snus and snuff	581	540	8	1,149	1,010	14	2,181
Other tobacco products	316	272	16	613	517	19	1,049
Lights	60	44	38	117	102	15	240
Other operations	-20	-26		-39	-70		-105
Operating profit from product areas	938	829	13	1,841	1,558	18	3,365
Share of net profit in STG	114	74	53	183	139	31	337
Subtotal	1,052	904	16	2,024	1,698	19	3,702
Adjustment to capital gain from transfer of businesses to STG	30	-		30	-		-
Total larger one time items	30	-		30	-		-
Operating profit	1,082	904	20	2,054	1,698	21	3,702

In order to reconcile to the Group's profit before income tax amounting to 942 MSEK (773) for the second quarter and 1,780 MSEK (1,438) for the first six months, the Group's net finance cost needs to be deducted from the operating profit with an amount of 140 MSEK (131) for the second quarter and 274 MSEK (259) for the first six months.

Operating margin by product area¹⁾

Percent	April-June		January-June		Full year
	2012	2011	2012	2011	2011
Snus and snuff	44.7	45.3	45.9	44.6	46.1
Other tobacco products	45.4	44.4	44.7	43.2	44.0
Lights	17.9	13.9	17.0	15.7	17.9
Operating margin from product areas²⁾	29.2	28.2	30.0	27.9	28.8
Operating margin³⁾	32.7	30.7	33.0	30.4	31.7

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 area¹⁾

MSEK	April-June			January-June			Full year
	2012	2011	Chg %	2012	2011	Chg %	2011
Snus and snuff	622	577	8	1,233	1,083	14	2,337
Other tobacco products	338	292	16	657	557	18	1,130
Lights	69	54	30	136	122	12	281
Other operations	-16	-23		-32	-64		-94
EBITDA from product areas	1,013	900	13	1,993	1,697	17	3,655
Share of net profit in STG	114	74	53	183	139	31	337
EBITDA²⁾	1,128	974	16	2,176	1,836	19	3,992

1) Excluding larger one time items.

2) Including share of net profit in STG.

EBITDA margin by product area¹⁾

Percent	April-June		January-June		Full year
	2012	2011	2012	2011	2011
Snus and snuff	47.8	48.4	49.2	47.9	49.4
Other tobacco products	48.6	47.6	47.9	46.5	47.3
Lights	20.7	17.2	19.8	18.8	20.9
EBITDA margin from product areas²⁾	31.5	30.6	32.5	30.4	31.3
EBITDA margin³⁾	35.1	33.1	35.5	32.8	34.2

1) Excluding larger one time items.

2) Excluding share of net profit in STG.

3) Including share of net profit in STG.

Snus and snuff

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

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

The second quarter

In local currencies, sales for the product area Snus and snuff increased by 6 percent during the second quarter compared to the same quarter of the previous year. Reported sales increased by 9 percent to 1,300 MSEK (1,193) and the operating profit amounted to 581 MSEK (540).

For the second quarter, sales and operating profit improved in Scandinavia versus the second quarter of the prior year. In the US, sales for moist snuff grew slightly versus prior year in local currency, while operating profit declined somewhat. Significant investments were incurred in the US to support the expansion of snus in that market.

In Scandinavia, shipment volumes measured in number of cans, declined by 3 percent in the second quarter compared to the second quarter of the prior year. When adjusted for timing effects related to Easter and trade hoarding in the prior year, volumes in Scandinavia are estimated to have declined slightly versus the second quarter of the prior year. Strong volume increases in Norway offset decreased volumes for the Swedish and travel retail markets combined. Sales revenues in Scandinavia grew by 8 percent in the second quarter. Operating profit and operating margin in Scandinavia in the second quarter improved versus the same quarter of the previous year.

In the US, moist snuff volumes measured in number of cans were down by less than 2 percent versus the prior year's second quarter, while sales were flat. Operating profit declined somewhat. For *General* snus in the US the trends are encouraging, and the Company continued to increase distribution in the quarter. *General* snus has now been launched in seven additional cities and is currently available in more than 6,000 stores across the US. Marketing investments related to Swedish snus in the US were significantly higher in the second quarter compared to both the first quarter of 2012 and the second quarter of the prior year.

The operating margin for the product area was 44.7 percent (45.3).

The first six months

For the first six months of the year, sales for the product area increased to 2,506 MSEK (2,261) and operating profit increased to 1,149 MSEK (1,010). Operating margin was 45.9 percent (44.6).

In Scandinavia, sales revenues increased by 12 percent, while shipment volumes declined by 2 percent. When adjusting for hoarding/destocking effects, Scandinavian volumes for the first six months of the year are estimated to have been flat. Operating margin was higher than previous year.

In the US, sales revenues for moist snuff for the first six months were flat versus prior year on 3 percent lower volumes. Operating profit for moist snuff was somewhat higher, while investments in support of the snus expansion in the US were significantly higher than during the first six months of the prior year.

During the first six months of 2012, SMPM International (the joint venture between Swedish Match and Philip Morris International; 50 percent owned by Swedish Match) continued to expand the test market activities for snus in Canada and in St. Petersburg, Russia. While it takes time to build the category, both test markets show promising signs, and distribution is being expanded in both markets.

The operating profit for the product area includes investments behind Swedish snus internationally, which increased by about 50 MSEK in the first half of 2012 compared to the same period of 2011, with the large majority of the increase in the second quarter.

Other tobacco products

The product area Other tobacco products consists of US mass market 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 offers a wide range of sizes, styles, and price points for US mass market cigars. Swedish Match is the leading producer of chewing tobacco in the US where the product is mainly sold in the southern states of the country. Well known brands include Red Man and Southern Pride. The market for chewing tobacco shows a declining trend.

The second quarter

During the second quarter, sales for the product area Other tobacco products increased by 3 percent in local currency compared to the same period of the previous year, and operating profit increased by 6 percent in local currency, driven by US mass market cigars. Reported sales for the product area amounted to 696 MSEK (613) and reported operating profit was 316 MSEK (272). The operating margin was 45.4 percent (44.4).

During the second quarter, US mass market cigar volumes grew by 11 percent and sales increased by 4 percent in local currency compared to the same period in the previous year, despite the launch of *White Owl Green Sweets* in the second quarter of 2011. The growth for US mass market cigars is attributable to the continued success of recent product introductions. The line of sweets cigars in FoilFresh[®] packaging, remains an important contributor to the strong volume growth. This has been further supported by the launch earlier in the year of *White Owl Silver* cigars, as well as strong growth in *Game* small cigars. Operating profit and operating margin increased versus prior year.

US chewing tobacco sales in the second quarter were up by 1 percent in local currency, and operating profit was flat. Shipment volumes grew by 3 percent, with higher contract manufacturing volumes following inventory reductions in the prior year more than offsetting a decline of 6 percent for own brands.

The first six months

Sales for the product area for the first six months amounted to 1,371 MSEK (1,196) while operating profit amounted to 613 MSEK (517). In local currency, sales for the first six months were up 7 percent, while operating profit was up by 11 percent. Sales and operating profit were higher for cigars, and were down somewhat for chewing tobacco. Operating margin was 44.7 percent (43.2).

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 second quarter

During the second quarter sales for the product area Lights increased to 336 MSEK (313). In local currencies, sales increased by 10 percent. Operating profit increased to 60 MSEK (44) and the operating margin was 17.9 percent (13.9).

For lighters, sales and operating profit in local currencies increased significantly compared to the second quarter of the prior year as a result of strong volume performance especially in Asia and East Europe. Also for matches, sales and operating profit increased in local currencies. Operating margin improved for both lighters and matches.

The first six months

Sales for the product area for the first six months increased to 686 MSEK (649), and operating profit increased to 117 MSEK (102). Compared to the first six months of the previous year, operating profit increased for lighters and declined for matches. Operating margin was 17.0 percent (15.7).

Other operations

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

The second quarter

Sales in Other operations for the second quarter amounted to 880 MSEK (826). Operating loss for Other operations was 20 MSEK (26).

The first six months

Sales for the first six months amounted to 1,567 MSEK (1,484). Operating loss for the first six months was 39 MSEK (70). During the first six months of 2011 the operating loss included redundancy costs following an organizational change.

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, a world leader in 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. On March 1, 2011, STG acquired Lane Limited in the US (Lane) from Reynolds American Inc. Lane produces pipe tobacco, fine cut tobacco and little cigars.

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

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.

The second quarter

Sales for Scandinavian Tobacco Group increased by 7 percent to 1,556 MDKK (1,458) during the second quarter compared to the same quarter of the previous year. In local currencies, sales increased by 3 percent. Reported EBITDA increased

by 12 percent to 350 MDKK (314). On a comparable basis, excluding currency translation effects and one time items, EBITDA increased by 4 percent.

For premium cigars, both sales and operating profit increased in local currencies primarily as a result of price/mix effects. Sales through mail order and Internet channels in particular showed a strong performance in the quarter.

For mass market cigars, total volumes declined modestly, but sales were higher owing to price increases and an improved market and product mix. Operating profit for mass market cigars was significantly higher than in the same period of the previous year, due to lower operating expenses as a result of realized synergies.

Pipe tobacco/fine cut sales and operating profit declined, mainly as a result of volume declines in export markets.

For Lane, sales improved versus prior year in local currency, while operating profit declined, primarily as a result of higher operating expenses in the US market.

Net finance cost for STG for the quarter amounted to a positive 2 MDKK (negative 34), with positive exchange rate gains more than offsetting net interest costs.

Net profit for the period amounted to 194 MDKK (132).

The Swedish Match share of net profit in STG for the second quarter amounted to 114 MSEK (74).

On April 26, 2012, the Annual General Meeting of STG decided that a dividend of in total 350 MDKK would be paid to the shareholders and Swedish Match received its share of the dividend, 204 MSEK, on April 27.

The first six months

Sales for Scandinavian Tobacco Group increased by 10 percent to 2,891 MDKK (2,637) during the first six months compared to the same period of the previous year. In local currencies, excluding Lane effects for January/February 2012, sales increased by 4 percent.

Reported EBITDA amounted to 609 MDKK (549). On a comparable basis (excluding currency translation effects and one time items and after adjusting for Lane being acquired March 1, 2011), EBITDA increased by 3 percent for total STG.

For premium cigars, sales and operating profit increased in local currency on higher shipment volumes. Sales through mail order and Internet channels in particular showed a strong performance.

For mass market cigars, sales increased despite somewhat lower volumes, while operating profit increased significantly, driven by improved gross profit and lower operating expenses.

Pipe tobacco/fine cut sales and operating profit declined, mainly as a result of volume declines in export markets.

For Lane, during the March-June period (Lane was acquired in March 2011) sales improved in local currency, while operating profit declined, primarily as a result of higher operating expenses in the US market.

Net finance cost for the first six months amounted to 31 MDKK (44). The reported tax rate for the first six months was 26.3 percent (27.0). Net profit for the period amounted to 295 MDKK (243).

The Swedish Match share of net profit in STG for the first six months amounted to 183 MSEK (139).

Taxes

For the first half of the year, the reported tax expense amounted to 353 MSEK (290), corresponding to a tax rate of 19.9 percent (20.1). The reported tax rate excluding associated companies and joint ventures was 22 percent (22).

Earnings per share

Basic earnings per share (EPS) for the second quarter amounted to 3.72 SEK (2.94), while diluted EPS was 3.69 SEK (2.92).

Basic EPS for the first six months of the year amounted to 6.99 SEK (5.44), while diluted EPS was 6.94 SEK (5.41).

Depreciation and amortization

In the second quarter, total depreciation and amortization amounted to 75 MSEK (70), of which depreciation on property, plant and equipment amounted to 61 MSEK (56) and amortization of intangible assets amounted to 15 MSEK (14).

In the first six months, total depreciation and amortization amounted to 152 MSEK (139), of which depreciation on property plant and equipment amounted to 123 MSEK (111) and amortization of intangible assets amounted to 29 MSEK (28).

Financing and cash flow

Cash flow from operating activities for the first six months amounted to 1,323 MSEK compared with 1,228 MSEK for the same period of the previous year. The cash flow from operations increased compared to the same period previous year as a result of improved EBITDA and dividends received from associated companies, partly offset by higher tobacco tax payments in the beginning of the year relating to hoarding in Sweden at the end of 2011.

Investments in property, plant and equipment during the first six months amounted to 104 MSEK (132).

Net finance cost for the first six months increased to 274 MSEK (259). The increase is mainly due to a higher average interest bearing debt.

The net debt as per June 30, 2012 amounted to 9,362 MSEK compared to 8,886 MSEK at December 31, 2011.

In the first half of the year, Swedish Match paid dividends totaling 1,334 MSEK and made share repurchases, net, of 257 MSEK. During the first six months new bond loans of 1,836 MSEK were issued. Repayment of loans for the same period amounted to 761 MSEK. As of June 30, 2012 Swedish Match had 11,128 MSEK of interest bearing debt excluding retirement benefit obligations compared to 10,038 MSEK at December 31, 2011. During the remainder of 2012, 556 MSEK of this debt falls due for payment. As of June 30, 2012, Swedish Match had 1,404 MSEK in unutilized committed credit lines.

Cash and cash equivalents amounted to 3,223 MSEK at the end of the period, compared with 2,533 MSEK as of December 31, 2011.

Average number of employees

The average number of employees in the Group during the first half of 2012 was 3,832 compared with 3,880 for the full year 2011.

Share structure

During the first six months of 2012, Swedish Match repurchased 2.6 million shares for 671 MSEK at an average price of 259.53 SEK, following authorizations from the Annual General Meetings held in 2011 and 2012. Total shares bought back by Swedish Match since the buyback program started have been repurchased at an average price of 101.77 SEK.

During the first six months of 2012 the Company sold 2.7 million treasury shares at an average price of 154.81 SEK, totaling 414 MSEK, as a result of option holders exercising options.

In accordance with the resolution at the Annual General Meeting on May 2, 2012, 7 million shares held in treasury have been cancelled. The total number of registered shares in the Company after the cancellation of shares is 206.0 million.

As per June 30, 2012 Swedish Match held 1.7 million shares, corresponding to 0.84 percent of the total number of shares. The number of shares outstanding, net as per June 30, 2012, amounted to 204.3 million. The Company has issued call options of which an amount corresponding to 2.3 million shares exercisable in gradual stages from 2012-2015 were outstanding as of June 30, 2012.

Outlook

For the full year 2012, we expect continued growth in revenues and operating profit led by a solid development for Snus and snuff and Other tobacco products.

During the year, we will continue to invest for growth for snus internationally. In the US we will expand distribution and invest further in marketing activities to build awareness and generate trial. In SMPM International, the plan is to add at least one additional test market during the year.

We expect both the Scandinavian snus market and the US market for moist snuff to continue to grow in volume terms in 2012.

In the US mass market cigar business, we will launch additional innovative products and we expect to continue to grow faster than the overall market and generate increased sales and profits in local currency. The trend of declining volumes for US chewing tobacco is expected to continue.

The tax rate for 2012, excluding one time items as well as associated companies and joint ventures, is expected to be around 22 percent. It is probable that the corporate income tax rate for the Group will increase slightly in 2013. A new Swedish tax regulation limiting tax deductions on interest expenses on intra-group loans from January 1, 2013, is under preparation. No finalized proposal has been submitted to the Parliament and the exact effects on the Group are therefore difficult to estimate.

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

Risk factors

Swedish Match faces intense competition in all of its markets and for each of its products and such competition may increase in the future. In order to be successful the Group must promote its brands successfully and anticipate and respond to new consumer trends. Restrictions on advertising and 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 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 2011.

Swedish Match AB (publ)

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

Sales in the Parent Company, for the first six months amounted to 39 MSEK (26). Profit before income tax amounted to 2,979 MSEK (231) and net profit for the first six months amounted to 3,187 MSEK (390).

The main sources of income for the Parent Company are dividends and Group contributions from subsidiaries. During the period the Parent Company received dividends amounting to 3,772 MSEK (2,091). In the second quarter of 2011, an impairment loss on shares in subsidiaries of 1,143 MSEK was recognized as a result of dividends paid out of retained earnings from subsidiaries.

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 fixed assets have been recognized during the first six months 2012, nor during 2011. During the period 19 MSEK (9) have been capitalized in intangible assets as an investment in software development on an ERP system for the Group.

In the first six months of 2012 a shareholder contribution was provided to a Group company, in the amount of 2,025 MSEK.

The total cash flow for the period was zero (0) as the Parent Company does not hold any cash and bank balances.

During the first six months, new bond loans of 1,836 MSEK were issued and repayment of loans amounted to 759 MSEK. During the period the Parent Company made share repurchases of 671 MSEK (1,180) and sold 2.7 million (0.5) treasury shares for 414 MSEK (67).

Dividend of 1,334 MSEK (1,152) have been paid during the period.

Forward-looking information

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

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

Additional information

This report has not been reviewed by the Company's auditors. The January-September 2012 report will be released on October 30.

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

Stockholm, July 20, 2012

Conny Karlsson
Chairman of the Board

Andrew Cripps
Deputy Chairman

Kenneth Ek
Board member

Karen Guerra
Board member

Håkan Johansson
Board member

Eva Larsson
Board member

Robert F. Sharpe
Board member

Meg Tivéus
Board member

Joakim Westh
Board member

Lars Dahlgren
President and CEO

Key data

All key data, with the exception of share data, have been calculated excluding larger one time items.

	January-June		12 months ended	Full year
	2012	2011	June 30, 2012	2011
Operating margin, %	33.0	30.4	33.0	31.7
Operating capital, MSEK	7,478	7,024	7,478	7,224
Return on operating capital, %			55.6	51.7
EBITDA, MSEK ¹⁾	2,176	1,836	4,333	3,992
EBITA, MSEK ²⁾	2,053	1,725	4,087	3,759
Net debt, MSEK	9,362	8,699	9,362	8,886
Net debt/EBITA ²⁾			2.3	2.4
Investments in property, plant and equipment, MSEK ³⁾	104	132	217	245
EBITA interest cover	7.7	7.0	7.8	7.4
<i>Excluding share of net profit in STG</i>				
EBITA, MSEK ²⁾	1,870	1,586	3,706	3,422
Net debt/EBITA ²⁾			2.5	2.6
<i>Share data</i>				
Earnings per share, basic, SEK	6.99	5.44	13.70	12.14
Earnings per share, diluted, SEK	6.94	5.41	13.60	12.07
Number of shares outstanding at end of period	204,261,243	209,408,074	204,261,243	204,172,141
Average number of shares outstanding, basic	204,216,689	211,107,994	205,555,537	209,001,190
Average number of shares outstanding, diluted	205,623,350	212,264,437	207,011,636	210,296,918

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 14 MSEK (13).

Consolidated income statement in summary

MSEK	April-June		Chg %	January-June		Chg %	12 months ended	Full year	Chg %
	2012	2011		2012	2011		June 30, 2012		
Sales, including tobacco tax	6,568	6,033		12,337	11,192		24,808	23,662	
Less tobacco tax	-3,355	-3,089		-6,207	-5,601		-12,602	-11,997	
Sales	3,213	2,944	9	6,130	5,591	10	12,205	11,666	5
Cost of goods sold	-1,558	-1,467		-2,934	-2,764		-5,944	-5,774	
Gross profit	1,655	1,478	12	3,196	2,826	13	6,262	5,892	6
Selling and administrative expenses	-710	-647		-1,345	-1,265		-2,597	-2,516	
Share of net profit/loss in associated companies and joint ventures	107	74		173	136		364	327	
Adjustment to capital gain from transfer of businesses to STG	30	-		30	-		30	-	
Operating profit	1,082	904	20	2,054	1,698	21	4,059	3,702	10
Finance income	12	9		17	18		36	37	
Finance costs	-151	-140		-291	-277		-574	-560	
Net finance cost	-140	-131		-274	-259		-537	-523	
Profit before income tax	942	773	22	1,780	1,438	24	3,522	3,180	11
Income tax expense	-183	-157		-353	-290		-705	-642	
Profit for the period	759	616	23	1,427	1,148	24	2,817	2,538	11
<i>Attributable to:</i>									
Equity holders of the Parent	759	615		1,427	1,148		2,816	2,538	
Non-controlling interests	0	0		0	0		0	1	
Profit for the period	759	616	23	1,427	1,148	24	2,817	2,538	11
Earnings per share, basic, SEK	3.72	2.94		6.99	5.44		13.70	12.14	
Earnings per share, diluted, SEK	3.69	2.92		6.94	5.41		13.60	12.07	

Consolidated statement of comprehensive income

MSEK	April-June		January-June		12 months	Full year
	2012	2011	2012	2011	ended June 30, 2012	2011
Profit for the period	759	616	1,427	1,148	2,817	2,538
<i>Other comprehensive income</i>						
Translation differences related to foreign operations	6	190	-120	-33	-144	-57
Translation differences included in profit and loss	1	0	-1	0	-1	0
Effective portion of changes in fair value of cash flow hedges	-8	-10	56	-58	93	-22
Reclassification adjustments for gains/losses on cash flow hedges included in profit and loss	-	-	-	-	0	0
Actuarial gains and losses attributable to pensions, including payroll tax	-171	-91	-57	5	-415	-353
Share of other comprehensive income in associated companies and joint ventures	116	-46	25	-128	243	90
Income tax relating to components of other comprehensive income	71	38	8	13	138	143
Other comprehensive income, net of tax for the period	13	82	-89	-202	-86	-199
Total comprehensive income for the period	773	698	1,338	947	2,731	2,340
<i>Attributable to:</i>						
Equity holders of the Parent	773	698	1,338	947	2,730	2,339
Non-controlling interests	0	0	0	0	1	1
Total comprehensive income for the period	773	698	1,338	947	2,731	2,340

Consolidated balance sheet in summary

MSEK	June 30, 2012	December 31, 2011
Intangible assets	988	992
Property, plant and equipment	2,038	2,076
Investments in associated companies and joint ventures	4,411	4,481
Other non-current financial receivables ¹⁾	1,378	1,395
Current operating assets	3,088	3,031
Other current investments and current financial assets	0	0
Cash and cash equivalents	3,223	2,533
Total assets	15,126	14,507
Equity attributable to equity holders of the Parent	-1,855	-1,602
Non-controlling interests	2	2
Total equity	-1,853	-1,599
Non-current provisions	1,121	1,070
Non-current loans	9,147	8,535
Other non-current financial liabilities ²⁾	1,860	1,787
Current provisions	107	84
Current loans	1,657	1,283
Other current liabilities ³⁾	3,086	3,347
Total equity and liabilities	15,126	14,507

1) Includes pension assets of 69 MSEK (67) and derivative financial instruments of 47 MSEK (62) used to hedge the Parent Company's bond loans denominated in euro.

2) Includes pension liabilities of 1,525 MSEK (1,449) and derivative financial instruments of 281 MSEK (247) used to hedge the Parent Company's bond loans denominated in euro.

3) Includes current financial derivatives of 90 MSEK (33) used to hedge the Parent Company's bond loans denominated in euro.

Consolidated cash flow statement in summary

MSEK	January-June	
	2012	2011
<i>Operating activities</i>		
Profit before income taxes	1,780	1,438
Adjustment for share of net profit/loss in associated companies and joint ventures	-173	-136
Adjustments for other non-cash items and other	177	204
Dividends received from associated companies	209	10
Income tax paid	-309	-332
Cash flow from operating activities before changes in working capital	1,683	1,185
Cash flow from changes in working capital	-360	43
Net cash from operating activities	1,323	1,228
<i>Investing activities</i>		
Purchase of property, plant and equipment	-104	-132
Proceeds from sale of property, plant and equipment	1	1
Purchase of intangible assets	-19	-9
Investments in associated companies and joint ventures ¹⁾	-20	-15
Investments in other companies ²⁾	-	-4
Proceeds from sale of subsidiaries, net of cash disposed of ³⁾	9	143
Changes in financial receivables etc.	0	1
Net cash used in investing activities	-133	-14
<i>Financing activities</i>		
Changes in loans	1,075	-364
Dividend paid to equity holders of the Parent	-1,334	-1,152
Repurchase of own shares	-671	-1,180
Stock options exercised	414	67
Other	9	-7
Net cash used in financing activities	-506	-2,636
Net increase/decrease in cash and cash equivalents	683	-1,422
Cash and cash equivalents at the beginning of the period	2,533	3,275
Effect of exchange rate fluctuations on cash and cash equivalents	6	-52
Cash and cash equivalents at the end of the period	3,223	1,801

1) Investments in associated companies and joint ventures pertain to additional investments in SMPM International of 20 MSEK in 2012 and 15 MSEK in 2011.

2) Investments in other companies 2011 pertain to acquisition of 13 percent of the shares in Secure Vending AB in an amount of 4 MSEK.

3) The cash flow from sale of subsidiaries during the first half of 2012 includes an additional payment of the purchase price of 3 MSEK relating to the divestment of Swedish Match UK during 2008 and 5 MSEK received in additional payment of the purchase price relating to the divestment of Swedish Match Plam Bulgaria DA during 2011. During 2011, 140 MSEK pertains to the closing settlement of the STG transaction and 3 MSEK to the divestment of Swedish Match Plam Bulgaria DA.

Change in shareholders' equity

<i>MSEK</i>	Equity attributable to holders of the Parent	Non-controlling interests	Total equity
Equity at January 1, 2011	-484	2	-482
Profit for the period	1,148	0	1,148
Other comprehensive income, net of tax for the period	-202	0	-202
Total comprehensive income for the period	947	0	947
Dividend	-1,152	0	-1,152
Repurchase of own shares	-1,180	-	-1,180
Stock options exercised	67	-	67
Cancellation of shares	-30	-	-30
Bonus issue	30	-	30
Equity at June 30, 2011	-1,803	2	-1,801
Equity at January 1, 2012	-1,602	2	-1,599
Profit for the period	1,427	0	1,427
Other comprehensive income, net of tax for the period	-89	0	-89
Total comprehensive income for the period	1,338	0	1,338
Dividend	-1,334	0	-1,334
Repurchase of own shares	-671	-	-671
Stock options exercised	414	-	414
Cancellation of shares	-13	-	-13
Bonus issue	13	-	13
Equity at June 30, 2012	-1,855	2	-1,853

Parent Company income statement in summary

<i>MSEK</i>	January-June	
	2012	2011
Sales	39	26
Administrative expenses	-121	-102
Operating loss	-82	-76
Result from participation in Group companies	3,771	849
Result from participation in joint ventures	-	-9
Net finance cost	-710	-533
Profit before income tax	2,979	231
Income tax	208	159
Profit for the period	3,187	390

Parent Company statement of comprehensive income

<i>MSEK</i>	January-June	
	2012	2011
Profit for the period	3,187	390
<i>Other comprehensive income</i>		
Effective portion of changes in fair value of cash flow hedges	56	-58
Income tax relating to components of other comprehensive income	-15	15
Other comprehensive income, net of tax for the period	42	-43
Total comprehensive income for the period	3,229	347

Parent Company balance sheet in summary

<i>MSEK</i>	Jun 30, 2012	Jun 30, 2011	Dec 31, 2011
Intangible and tangible assets	75	51	60
Non-current financial assets	51,370	49,524	49,373
Current assets	447	297	2,172
Total assets	51,892	49,872	51,605
Equity	21,163	19,660	19,525
Untaxed reserves	124	1	124
Provisions	81	113	71
Non-current liabilities	27,570	26,707	26,960
Current liabilities	2,955	3,391	4,924
Total liabilities	30,605	30,211	31,955
Total equity and liabilities	51,892	49,872	51,605

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 is prepared in accordance with the Annual Accounts Act, Chapter 9 and RFR 2.

The new or amended IFRS standards and IFRIC interpretations, which became effective January 1, 2012, have had no material effect on the consolidated financial statements. In all other aspects, the accounting principles and basis of calculations in this report are the same as in the annual report of 2011.

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 half of year 2012, receivables from these companies amounted to 38 MSEK (26) and total payables to these companies amounted to 3 MSEK (9). During the first six months 2012, total sales to associated companies and joint ventures amounted to 107 MSEK (88) and total purchases from associated companies and joint ventures amounted to 43 MSEK (54).

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

MDKK	January - June		Change %
	2012	2011	
Sales	2,891	2,637	10
EBITDA (excluding one time items)	609	574	6
EBITDA	609	549	11
Operating profit	432	376	15
Net finance cost	-31	-44	
Income tax expense	-105	-90	
Net profit for the period	295	243	22
<i>MSEK</i>			
Swedish Match's share of net profit	173	142	21
Adjustment estimate vs. actual from previous period	10	1	
Adjustment estimate vs. actual for the period	-	-4	
Swedish Match's reported share of net profit	183	139	31

Quarterly data¹⁾

<i>MSEK</i>	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10
Sales, including tobacco tax	6,568	5,769	6,262	6,208	6,033	5,158	5,471	7,044	6,676
Less tobacco tax	-3,355	-2,852	-3,198	-3,198	-3,089	-2,512	-2,671	-3,221	-2,976
Sales	3,213	2,917	3,064	3,011	2,944	2,646	2,801	3,823	3,701
Cost of goods sold	-1,558	-1,376	-1,515	-1,495	-1,467	-1,298	-1,338	-1,896	-1,805
Gross profit	1,655	1,541	1,549	1,516	1,478	1,348	1,463	1,927	1,896
Selling and administrative expenses	-710	-635	-648	-604	-647	-617	-621	-878	-955
Share of net profit/loss in associated companies and joint ventures	107	66	120	71	74	62	-65	1	4
	1,052	972	1,022	983	904	793	777	1,049	945
<i>Larger one time items</i>									
Capital gain from transfer of businesses to STG	30	-	-	-	-	-	585	-	-
Net gain from pension settlements	-	-	-	-	-	-	59	-	-
Operating profit	1,082	972	1,022	983	904	793	1,421	1,049	945
Finance income	12	6	8	10	9	10	8	6	5
Finance costs	-151	-140	-142	-140	-140	-138	-207	-134	-134
Net finance cost	-140	-134	-134	-130	-131	-128	-199	-128	-129
Profit before income tax	942	838	888	853	773	665	1,221	921	816
Income tax expense	-183	-170	-183	-169	-157	-132	-148	-192	-180
Profit for the period	759	668	705	684	616	533	1,074	729	637
<i>Attributable to:</i>									
Equity holders of the Parent	759	667	705	684	615	533	1,073	729	636
Non-controlling interests	0	0	0	0	0	0	0	0	0
Profit for the period	759	668	705	684	616	533	1,074	729	637

1) The second and the third quarter of 2010 include businesses that were transferred to STG on October 1, 2010.

Sales by product area

<i>MSEK</i>	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10
Snus and snuff	1,300	1,206	1,266	1,199	1,193	1,068	1,178	1,174	1,116
Other tobacco products	696	675	578	613	613	583	557	631	664
Lights	336	350	364	333	313	336	379	352	347
Other operations	880	687	856	866	826	659	687	806	722
Sales from product areas	3,213	2,917	3,064	3,011	2,944	2,646	2,801	2,964	2,849
Businesses transferred to STG ¹⁾	-	-	-	-	-	-	-	859	852
Sales	3,213	2,917	3,064	3,011	2,944	2,646	2,801	3,823	3,701

1) The second and the third quarter of 2010 include sales for businesses that were transferred to STG on October 1, 2010.

Operating profit by product area

MSEK	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10
Snus and snuff	581	568	581	590	540	469	567	592	487
Other tobacco products	316	297	255	278	272	245	208	259	270
Lights	60	57	80	59	44	58	87	58	68
Other operations	-20	-19	-18	-18	-26	-43	-26	-35	-32
Operating profit from product areas	938	903	898	909	829	729	836	874	793
Share of net profit/loss in STG	114	69	124	74	74	65	-60	-	-
Businesses transferred to STG ¹⁾	-	-	-	-	-	-	-	143	118
Subtotal	1,052	972	1,022	983	904	793	777	1,017	911
Capital gain from transfer of businesses to STG	30	-	-	-	-	-	585	-	-
Net gain from pension settlements	-	-	-	-	-	-	59	-	-
Reversal of depreciation and amortizations relating to assets held for sale	-	-	-	-	-	-	-	32	34
Total larger one time items	30	-	-	-	-	-	644	32	34
Operating profit	1,082	972	1,022	983	904	793	1,421	1,049	945

1) The second and the third quarter of 2010 include operating profit for businesses that were transferred to STG on October 1, 2010.

Operating margin by product area¹⁾

Percent	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10
Snus and snuff	44.7	47.1	45.9	49.2	45.3	44.0	48.1	50.4	43.6
Other tobacco products	45.4	44.0	44.1	45.3	44.4	41.9	37.4	41.0	40.7
Lights	17.9	16.3	21.9	17.7	13.9	17.3	23.0	16.3	19.6
Operating margin from product areas²⁾	29.2	31.0	29.3	30.2	28.2	27.5	29.9	29.5	27.8
Operating margin³⁾	32.7	33.3	33.4	32.7	30.7	30.0	27.7	26.6	24.6

1) Excluding larger one time items.

2) Excluding share of net profit/loss in STG.

3) Including share of net profit/loss in STG.

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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 July 20, 2012 at 08.15 a.m. (CET).

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