

FINAL TRANSCRIPT

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Swedish Match conference call. At this time all participants are in listen-only mode until we will conduct a question-and-answer session and instructions will be given at that time.

(Operator Instructions)

Just to remind you, this conference call is being recorded. I would now like to hand over to the Chairperson, Emmett Harrison. Please begin your meeting and I will be standing by.

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Emmett Harrison - *Swedish Match - VP of IR*

Good afternoon. This is Emmett Harrison, Vice President of Investor Relations. Welcome to the fourth quarter 2009 results telephone conference for Swedish Match. Lars Dahlgren, President and Chief Executive Officer is joined today by Joakim Tilly, Chief Financial Officer, Henrik Brehmer, Senior Vice President of Corporate Communications and myself.

The conference call should last about an hour and will include an overview by Lars Dahlgren and a review of the financials from Joakim Tilly. A question-and-answer period will follow.

A shortened version of our investor kit accompanies this presentation via webcast and a complete investor kit is available in the investor relations section of our website, swedishmatch.com. During today's conference call, we will discuss certain items which may constitute forward-looking statements. Because such statements deal with future events, they are subject to various risks and uncertainties.

Although management believes that its expectations are based on reasonable assumptions, it can give no assurance that its expectations will be achieved. Risk factors are outlined in the latest annual report which is available on our website, swedishmatch.com. Swedish Match assumes no obligation to update information concerning its expectations. This conference call is being recorded and the recording will be published on the Swedish Match website.

I would now like to turn the conference call over to Lars Dahlgren.

Lars Dahlgren - *Swedish Match - President and CEO*

Thank you, Emmett. First, a quick summary. Swedish Match group sales for the fourth quarter reached SEK3.545 billion and brought two year sales to SEK14.204 billion, which was an increase of 13% versus 2008. Full year sales were up 5% in local currencies. Sales growth for the fourth quarter came primarily from organic growth for snus, while for the full year there were solid gains in both the snus, and snuff and cigar businesses.

Operating profit, excluding larger onetime items showed continued gains with fourth quarter operating profit up 9% in local currencies and full year operating profit up 13% in local currencies. Gains in operating profit were driven by our snus and snuff businesses. For the full year, operating profit was up all product areas.

Now I will go into some further details by product area beginning with snus and snuff. Scandinavian snus sales were up 13% in the fourth quarter versus last year on 3% higher volumes, and operating profit was up. Margins in Scandinavia were somewhat higher than prior year. For the full year, sales in Scandinavia were up by 11% while operating profit was up by 10%. Year-on-year volumes were up by nearly 6% with volume growth in Sweden, Norway and travel retail.

In Norway, after a successful limited launch of the last year's tier one and tier two brands, the product has now in Q1 been launched nationwide. The last year's product is unlike any other product in our portfolio with a new pouch design, flavor profile and optimized moisture level that makes it ideal for the Norwegian consumer.

In Sweden, according to Nielsen, our market share for snus in value was unchanged at 88.6% in the December/January period, compared to the preceding two month period. Our market share in volume terms were down just one tenth of a point to 86.1% as we lost a little bit of share in the low price segment, which was unchanged in relative size compared to the preceding two month period.

Snus volumes for the Swedish market have been growing at a strong rate over the past 12 months, due in part to more a benign retail pricing environment, but also due to a number of new product launches, as well as our strong focus on the trade and



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[new] consumers. We are hopeful to see growth on the Swedish market in 2010 as well, but it is likely to be less pronounced than in 2009 when Nielsen estimates indicate the growth of some 5%.

In the US markets, net revenues were down by less than 1% in local currency on flat volumes in Q4. In Q4, profitability for our US business contracted somewhat versus prior year, in part due to higher cost to goods sold, as well as higher costs related to activities relating to Swedish snus and the General brand.

In the fourth quarter, Longhorn continued to grow faster than the category despite intense promotional activity from competition, while we saw some declines in the rest of our portfolio. Our market share for the full year 2009 in volume terms, according to Nielsen, was 12.9%, up from 12.4% for all of 2008 with Timber Wolf having 6.0% and Longhorn having 5.1% of the total snuff markets. Nielsen reported the overall US snuff markets have been up by 1.6% with Swedish Match volume up by 5.9%.

In the most recent isolated four week period ending January 23, Swedish Match market share was 12.3%, impacted by high levels of competitive activity. At the end of the year, Swedish Match and Lorillard agreed to terminate a joint venture used as the Triumph brand for snus Ohio and Georgia.

Swedish Match is continuing its snus program in General snus and we are very pleased with its performance. General snus is now available in more than 600 stores in major cities across the US.

In March of this year, the Timber Wolf brand will be launching a new line extension, Peach Packs. This line extension, one of the more popular varieties of Timber Wolf loose snuff is in pouch form. Pouch products remain one of the most rapidly growing segments of the US moist snuff market.

The US pouch segment is estimated to grow into a level of more 100 million cans annually, making it more than one third of the size of the entire Scandinavian snus market. Timber Wolf and Peach Packs will join our other pouch products sold under the Timber Wolf, Longhorn and Renegades brands.

In our Cigar business, sales in local currency were up by 6% versus the fourth quarter of 2008. In local currencies, sales in the fourth quarter grew by 3% for European cigar versus Q4 2008, while sales for our US machine made and premium cigars were up by 7%.

For premium cigars, sales increases in our Internet mail order and catalog businesses through Cigars International set declines in the general Cigar business. During the fourth quarter, we incurred a SEK29 million charge relating to restructuring of our European and machine made Cigar business. Excluding this charge, our operating volume was 19.6%, slightly above last year's Q4 level.

The Federal excise tax changes in the US in April made 2009 a particularly challenging year in terms of inventory management, as significant hoarding effects in the first quarter were followed by some trade destocking in the second and third quarters. We do not expect a repeat of this kind of situation as we enter in 2010, making margin comparisons in the first half of the year very difficult. Nonetheless, we believe that we are well positioned in the true underlying market and that the efficiency measures put in place in the second half of 2009 will bring improved profitability over time.

In January, we announced that Swedish Match had signed a letter of intent with Scandinavian Tobacco Group, or STG, to form a new company. If an agreement is reached, this company would combine the Cigar and Pipe Tobacco businesses of Swedish Match, excluding our US machine made cigar business with a cigar, pipe, tobacco and fine cut tobacco businesses of STG, and would bring enhanced opportunities for growth and improve efficiencies helping Swedish Match through its 49% ownership of the new entity to be best-in-class in cigars.

The final agreement is subject to ongoing diligence by both parties, as well as regulatory approval. On February 15, Swedish Match received the necessary bondholder consent.

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For chewing tobacco, our market share in January was 45.1% according to Nielsen estimates. In local currency, US sales increased by 2% while operating profit declined by 7% due in part to volume declines in Texas and Florida following significant tax increases, which in some cases doubled the retail price of a pouch of chewing tobacco.

Operating margin was 32.5% in the quarter, primarily affected by lower volumes for our core brands. In late December 2009, chewing tobacco prices were raised by an average of 5%, following a price increase in April 2009 of 4% above Federal excise tax. For the full year in the US, chewing tobacco sales in local currency were up 2% while operating profit was up by 7%. The improved profit level resulted from a combination of pricing and cost effect, aided by our manufacturing agreement with National Tobacco.

Our Lights business also continued to perform well in the fourth quarter. Sales increased by 4% while operating profit increased by 29% to SEK92 million, owing to the strong performance from matches as well as production efficiencies. The full year operating profit increased by 1% to SEK279 million.

Now I will hand over to Joakim, for some more comments on the financials.

Joakim Tilly - Swedish Match - CFO

Thank you, Lars. I would like to start off by saying that for the development of exchange rates, it had a positive effect on our sales and operating profit comparison since the fourth quarter 2009, brought on by significant strengthening of the dollar versus the Swedish krona. From the fourth quarter 2009, however, the dollar weakened, causing negative effects for the quarter on sales and operating profits comparisons.

For the full year, though, translation effects were still positive. The total translation impact on sales in the fourth quarter was a negative SEK82 million, of which SEK57 million for cigars, SEK21 million for snuff, SEK31 million for chewing tobacco and a positive SEK25 for lights. For operating profit, the total translation impact was a negative SEK30 million for the fourth quarter.

At current exchange rates, we would expect negative effects on sales and operating profit comparisons for the first and second quarters of 2010 compared to the first half of 2009. Net finance cost for the fourth quarter amounted to SEK111 million, compared to SEK97 million previous year. The increase in the finance cost is mainly attributable to higher interest costs on pensions and timing of bank fees.

The effect of the reduced interest rates on our variable rate financing was offset by reduced interest income from cash positions. As of December 31, 2009, Swedish Match had SEK8.578 billion of interest bearing debt, excluding retirement benefit obligations.

The average maturity duration of the bond portfolio is three years and the average duration of the interest binding is 2.7 years. During 2010, a total of SEK1.2 billion worth of loans comes due for repayment, of which SEK302 million in the first quarter and SEK100 million in the second quarter.

The weighted average to interest rate on bonds issued, including derivative effects, is currently 4.1% and about 23% of the portfolio as exposed to variations in the interest rates. As reported with our section of the inventory report, we estimate that the full year tax rate for 2010 will be similar to the underlying tax rate in 2009 of 22%, depending on among other factors currency fluctuations.

Some comments to the cash flow -- cash flow from operating activities for the year was SEK2.911 billion compared with SEK1.838 billion in 2008. The increase in cash flow from operations is a result of increased operating profits, but also from improvements in working capital. Cash flow from operations in the first quarter of 2008 was negatively affected by timing differences in working capital and excise tax payments from the hoarding in the Swedish market at the end of 2007.

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Net cash received from investing activities was SEK1.043 billion for the full year, compared to a net investment of SEK61 million for all of 2008. The 2009 figure includes net proceeds of SEK1.577 billion from the sale of subsidiaries, most notably the South African businesses.

Investments in property, plant and equipment amounted to SEK471 million, compared with last year's level of SEK319 million. The higher 2009 figure is due primarily to the expansion of the Kungälv snus factory in Sweden.

During 2009, 18.4 million shares were repurchased for SEK2.598 billion, while 0.6 million treasury shares were sold as a result of option holders exercising their options. The net debt was SEK7.2 billion as per December 31, and the net debt in relation to EBITDA was 2.0 for the 12 month period ending December 31, 2009.

The net debt includes a net pension liability of SEK1.1 billion based on the actuarial valuation according to IAS 19 as per December 31, 2009. The net pension liability decreased by SEK24 million compared to December 31, 2008, mainly as a result of a higher actuarial tone on planned assets.

The Board of Directors will propose to the AGM a dividend for 2009 of 4.75 krona per share, up from 4.10 krona per share for 2008, an increase of 16%. This is equivalent to 49% of the earnings per share for the year. The Board will also propose to the AGM a mandate to repurchase shares of the Company up to a total holding in treasury not exceeding 10% of the total number of registered shares until the AM in 2011.

I will now hand over the Lars, for any other remarks before going into Q&A. Thank you.

Lars Dahlgren - Swedish Match - President and CEO

Yes, just a few words on our smokefree partnership with PMI, to start, that was announced in February which is this is a very significant long-term opportunity and a major step in developing the smokefree soft side of our core snus and moist snuff markets. And we look forward to the next phase of this joint venture as it begins testing products in one of our markets during the course of 2010.

We are also very excited about the potential of the cigar, pipe, tobacco and fine cut tobacco company that we intend to create together with Scandinavian Tobacco Group. And again, our hope is that an agreement will be reached during the first half of 2010, and this action will be a major step in line with our strategy to develop our Cigar business to best-in-class.

And with that, I think we should open up the floor to questions-and-answers.

QUESTIONS AND ANSWERS

Operator

Thank you, sir.

(Operator Instructions)

Our first question comes from the line of Stellan Hellstrom. Please go ahead with your question.

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Stellan Hellstrom - *Nordea - Analyst*

Hi. I have a question, first, on the Chewing Tobacco business where we are seeing quite substantial volume declines lately, I guess most -- and lately due to tax hikes, for example, in Texas. What is your take for 2010? Do you think that you will be able to compensate volumes, going forward, by price increases? Or, is that -- those times past?

Lars Dahlgren - *Swedish Match - President and CEO*

As I said from the script there, what we did so far is that have taken a 5% price increase, which was effective, basically, in January. And right now, that category was down a little bit more than that in 2009. It was down a little bit more in the second half than the first half.

At the same time, although very short, we were a bit pleasantly surprised by the January Nielsen measure which showed, if I -- from the top of my head, but I can check. I think it was down 9% or so there -- the category, so a little bit mind there again. And we will have to see during the year in terms of the competitive situation what we can do there. But it also the case that now we have the -- a full year of contract manufacturing for National Tobacco, and of course, that helps our factory efficiencies despite the pressure on volumes.

Stellan Hellstrom - *Nordea - Analyst*

Okay. Also, you have been quoted saying here that the snuff margin for 2010 -- the 2009 level is good indication. Could you maybe give some help to understand why the price hike that did in June won't translate into a margin improvement? Or, is it just a cautionary guidance there?

Lars Dahlgren - *Swedish Match - President and CEO*

First of all, we are at the beginning of the year and we focus very much on growing both top line and profitability. And it is kronors and dollars that mean the most to us and then, of course, that we have a good return on the capital that we invest into the business.

One should be aware that we do think that the US market growth will be higher in 2010 than it was in 2009 so we do expect to grow our volumes in the US market. And we will also, and we are gradually investing more and more in markets -- in snus markets outside Scandinavia (inaudible) some spending in the US for the General brand. As well as although not any material numbers, you will see a little bit more result impact from our share of the joint venture with PMI.

But it is hard to predict full year margins. But what we say is that the 2009 margins may be a good indication for the level that we should expect in 2010.

Stellan Hellstrom - *Nordea - Analyst*

Okay. Thank you.

Operator

Our next question comes from the line of Anders Hansson. Please go ahead with your question.

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Anders Hansson - Danske Bank - Analyst

Thank you, Anders Hansson at Danske Bank. Two questions on the 13% sales growth in Scandinavian snuff. First of all, on Norway, because you had 3% volume growth in total and a few months ago you talked about market share losses in Norway slowing down quite a bit. Can you give an update on Norwegian's volumes in Q4 and also on the market share development?

Lars Dahlgren - Swedish Match - President and CEO

Yes. This is Lars here. I think your line if you can mute it is -- thanks. In terms of the decomposition the Scandinavian volumes, I think one should really look at longer periods and so we stick to the fact that the Scandinavian volumes are up in the third quarter like they were in the second quarter, as well, in all three segments of the Scandinavian market, Sweden, Norway and tax free. And again, the growth has not been too dissimilar between Sweden and Norway.

In terms of market share development in Norway, our market share has been under pressure, and it is an intense, competitive environment. But there is a, basically, a trend shift since after the summer. Most of the market share erosion that we incurred happened during the first half of 2009.

So if you take the volume market shares, for example, in January 31, they were unchanged from January 3. They were 73.2%. I believe even gained a little bit in value terms on the Norwegian market. And you can go back to August. It was 73.4%. So we have lost two tenths of a share point. But if you look at the January through August period in Norway, that is where we have, and more notable share erosion of three full points.

So our focus, not only the Sierra One and Sierra Two launch, but our focus on key brands in the Norwegian market has definitely helped us to stem this trend.

Anders Hansson - Danske Bank - Analyst

Okay, thanks. On the price mix, which was plus 10%, is it reasonable to assume rather similar levels in the first half of 2010 if we don't get any major changes in geographic mix or down trading to value?

Lars Dahlgren - Swedish Match - President and CEO

Yes, you know the pricing, basically is volume plus pricing, and then anything else goes up and down, so to say. And 13% is relatively high since that price increase have been less than that. But you do have mixed shift between the value sort of portion and loose in the Sweden and the Norway, et cetera. That can skew the picture (inaudible) quarter, so I think you should look at the longer periods than three months.

Anders Hansson - Danske Bank - Analyst

Okay. Thanks.

Operator

Our next question comes from the line of Helen Brand. Please go ahead with your question.

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Helen Brand - *Nomura - Analyst*

Hi. Good afternoon. Two questions if I can, firstly on the US, can you talk about how the termination of the Lorillard JV impacts the US business going forward? And then, secondly, on the agreement with the Scandinavian Tobacco Group and cigars, can you discuss any potential cost in revenue synergies for that business? And also, is the long-term plan to hold 49%, or would you look to change that? Thanks a lot.

Emmett Harrison - *Swedish Match - VP of IR*

Okay. Hi, Helen, this is Emmett.

Helen Brand - *Nomura - Analyst*

Hi.

Emmett Harrison - *Swedish Match - VP of IR*

Starting off, I will take the Lorillard part. And we had entered into a joint venture with Lorillard a few years -- a couple years ago, to test a concept. And that was basically to try out product close to or on the cigarette rack. And we did this in Ohio and Georgia.

At the same time, we were also doing some other testing with our General snus brand in tobacco [news] shops, starting off with rather upscale tobacco news shops in some cities. We have done -- we have learned a lot from the joint venture with Lorillard. We have ended that agreement at the end of the year.

And the market has moved on a bit since we went into that joint venture. We now are selling snus under the General brand in refrigerators in more than 600 stores. We have been continuing to increase our distribution for that business.

We are also doing a lot of activity right now at the end of the year, at the end of the 2009. And into 2010, we are engaged in a great deal of awareness and sampling activities, trial activities for the General brand tied to winter sports events, like skiing and so forth.

So we are very pleased with the results we have seen so far with the General snus activities that we have. And we also are pleased with the learnings that we have gotten from the Lorillard joint venture. So I don't think there will be any real changes from ending the Lorillard JV, and we have a lot of opportunities with the General brand.

Lars Dahlgren - *Swedish Match - President and CEO*

And this is Lars here, and when it comes to STG, as we signed a letter of intent, but we have not made the final agreement, so I am afraid most of the detailed answers will have to wait. But it is very clear that there are synergies in the combination. And that is why we are both eager to complete this transaction, and I would say, predominantly, on the cost side where we have rough estimates of maybe EUR20 million. That is a very rough estimate, so we need to look closer into that after the final agreement.

When it comes to revenue synergies, I would say it is -- we are very complementary. And we are strong in different markets, so I do think that there are revenue synergies in the sense that we can grow volumes by having a more complete product portfolio. And when it comes to the ownership, we have no other plans than 49%. That is why we have agreed to 49% because we think that is the right level.

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Helen Brand - *Nomura - Analyst*

Great. Thanks a lot.

Operator

The next question comes from the line of Peter Wallin. Please go ahead with your question.

Peter Wallin - *Ålandsbanken - Analyst*

Thank you, and good afternoon. Just a quick follow up on the previous question on the synergies. These EUR20 million, were those referring to the combined entity or to your share of those 49%?

Lars Dahlgren - *Swedish Match - President and CEO*

That it is a combined entity. But again, that is very rough numbers.

Peter Wallin - *Ålandsbanken - Analyst*

Okay. And then, I would like to jump, also referring to media flashes this morning that you are saying that you believe that the US snuff market could grow about 5% this year. How do you see that as growth distributed over the year? Do you think it will be backend loaded, or will it come fairly soon? And also, how do you think the growth will be looking between the segments, between premium and value?

Emmett Harrison - *Swedish Match - VP of IR*

Hi, Peter. This is Emmett. In the investor kit, you have a 2010 estimate between premium and low price segments to get you to the 5% growth rate. So, I won't go into all that. The year started off pretty well. It was up 6.2% for the four week period ending January 23. A lot of changes from last year are going to start to be anniversaried. Now it could -- it does fluctuate from period to period.

We do have some key dates that come up. In April of last year, you had the changes in pricing that were coming up from one of our -- from one of the largest competitors on the premium end, so we will watch that timing. There might be some, also, some small variations that come around in the March/April period because of some hoarding and then destocking, I'm sorry, destocking and then hoarding effects that we will go through.

I don't see any major period where you are going to see significant increases or decreases off of that kind of run rate of around 5%. One thing, though, we should bear in mind, when we do look at the break between price value and premium segments, right now Copenhagen long-cut and wintergreen from Altria was introduced at more of a price value type of price point -- an introductory price point. So, you have to take the break between price value and premium with a little bit of a grain of salt.

Peter Wallin - *Ålandsbanken - Analyst*

Yes. Okay, great. Thanks. And then, also, final question on this guidance for the 45% snus or snuff margin over the year. Is that your best guess given the current exchange rates? And -- or do you take any kind of price adjustment into account when you are having this guidance? Or, is this at the current price levels assuming you do nothing?

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Lars Dahlgren - Swedish Match - President and CEO

I would not really call it a guidance. I would call it an indication of a level and it is based on current exchange rates and broad plans in the way we intend to run the business -- invest into the business.

Peter Wallin - Ålandsbanken - Analyst

Yes. Okay, and then just final detail question on -- you are also referring to the slighting when you are stating that 46% which is sort of like the current market levels for 2010, and that you also are having increased COGS, or cost of production. What exactly are those stemming from?

Joakim Tilly - Swedish Match - CFO

Well, there are -- this Joakim here. There are some different factors. One is, of course, the input costs. We have some increases in tobacco. That is rather marginal though. But another part is costs in association with the Kungälv expansion that we have done, where we higher depreciations and also some indirect investment costs that go into the COGS line. So those are the main explanations, actually.

Peter Wallin - Ålandsbanken - Analyst

Okay.

Lars Dahlgren - Swedish Match - President and CEO

And we should remember the oil prices sort of had a ride during 2009, so we started the year with very low oil prices which affected plastic cans. And we ended the year with more -- maybe more normal oil prices. So, we had a gradual increase there.

Peter Wallin - Ålandsbanken - Analyst

Okay. Great. Thank you.

Operator

Our next question comes from the line of Martin Sikorski. Please go ahead with your question.

Martin Sikorski - Cheuvreux - Analyst

Good afternoon. It's Martin Sikorski with Cheuvreux. Thanks for taking my question. You have mentioned additional marketing activities for snus in the US in the report today. If you could perhaps -- can you give us an idea of where the US snus market is currently in terms of annualized volumes, and also perhaps an idea of how you would like to position General snus against the Marlboro and Camel snus brands? Thank you.

Lars Dahlgren - Swedish Match - President and CEO

Emmett?

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Emmett Harrison - *Swedish Match - VP of IR*

Sure. The markets -- the market run rate, right now -- and it is a moving target, but let's say kind of in the range of 16 million to 18 million cans annually, and the lion share right now of that market is with Camel snus. With General snus -- is significant when we look at our average sales per store per week, but we are only in about 602 stores for that market. And it has been growing. So it is running, right now, at around 1.5 million, 1.7 million cans per four week period.

Lars Dahlgren - *Swedish Match - President and CEO*

And when it comes to the General and positioning, we are working on that long-term, of course, and see the best positioning in the US market. But it is safe to say that there is a demand for the real thing from Sweden there in the US market.

We see that in ecommerce channels. We see that in the stores. And the well informed US consumers, they are prepared to pay a premium for the real, authentic and Swedish type of products. And as Emmett mentioned, right now in terms of awareness and brand building, we are quite active in several skiing resorts in the US with sampling activities and event activities.

Those include -- so in Aspen, Vail, Breckenridge. It's Telluride, Jackson Hole, Killington and Bartlett, to name a few. So it is rather extensive activities going on at the moment, as an example of what we are trying to do to build awareness for the General brand in the US.

Peter Wallin - *Ålandsbanken - Analyst*

Thank you. That is very helpful. And if you need anyone to go to Aspen to do the sampling work for you, I am happy to go. Thanks.

Lars Dahlgren - *Swedish Match - President and CEO*

I wish I had time to go myself.

Operator

Our next question comes from the line of Anders Hansson. Please go ahead with your question.

Anders Hansson - *Danske Bank - Analyst*

Hi. It's Anders Hansson again. Just on cigars, on premium you had a 6% positive price mix. At the same time you say you have the higher share of sales in Cigar International. And doesn't that normally have a negative impact on the average selling price? Is there anything else as retail is coming back on more expensive cigars, or is there any other explanation? Thanks.

Lars Dahlgren - *Swedish Match - President and CEO*

I am not sure exactly where you are referring to the positive price mix.

Emmett Harrison - *Swedish Match - VP of IR*

Sales were up [6%] in the fourth quarter while volumes were basically flat, slightly.

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Lars Dahlgren - *Swedish Match - President and CEO*

Yes. It is quite tricky in the premium cigar business to count volumes in [sticks] to be honest. It is a lot of -- it might be that some brands are selling better than others and you have new launches at the different price levels and so forth. So it is -- we have some -- we have had some price increases here of late, also after the SCHIP that has been helpful. But overall, I would say we still see an increased demand for a little bit of down trading and for smaller premium cigars that also follows with the smoking restrictions in the US market.

Anders Hansson - *Danske Bank - Analyst*

But normally, Cigar International, don't they have lower average selling price versus they have remainder of the business? Is that something I remember correctly?

Lars Dahlgren - *Swedish Match - President and CEO*

Yes.

Anders Hansson - *Danske Bank - Analyst*

Okay. Thanks.

Operator

Our next question comes from the line of [Matthew Greenberg]. Please go ahead with your question.

Matthew Greenberg - *Analyst*

Hi. Thank you. Just a few questions on the US market. First, with US snuff in the fourth quarter, there obviously -- there was very limited pricing across the entire marketplace in the fourth quarter, and I just wanted to get your sense of how the current promotional environment looks now that we are a few months into the first quarter. And also, looking out over the first half of 2010, given the large number of product launches, is it really realistic to expect any meaningful degree of net pricing during the next two quarters?

Lars Dahlgren - *Swedish Match - President and CEO*

Emmett?

Emmett Harrison - *Swedish Match - VP of IR*

I'll attack that one a little bit. Let me start off by giving you some of the Nielsen numbers that we have for the fourth quarter for average retail price of some of the different products and some of the different segments.

In the fourth quarter of 2009, according to Nielsen data, Timber Wolf's average retail price, or average takeaway price that they are showing, is around \$2.45, Red Man around \$2.38, Longhorn around \$1.95, Copenhagen loose \$4.22, and Copenhagen long-cut wintergreen around \$3.07 and Grizzly, just to round it off, is \$2.72. So you see the difference in price between the Copenhagen long-cut wintergreen and the other premium products there.

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In terms of pricing, you note that we are -- we follow pricing in the US. The last price increase was in the middle of the year in June after a price decrease between April and June, when we rolled back the price by not changing our list price when the Federal excise tax increased by \$0.07 a can.

So we are going to have to wait and see a bit what the competition does in terms of their pricing activity going forward. But you are also correct in saying that there is a lot of activity going on. Not only do you have the launch of the line extension for Copenhagen, but you some packaging changes -- packaging upgrades. And we have our own product launch, the Timber Wolf Peach pouch product.

So it is going to be a pretty exciting time over the next few months. And we will have to see how pricing goes on that.

Matthew Greenberg - - Analyst

Okay. Thank you, Emmett. And just one quick question on the US mass market cigars; the 8% growth that you saw in the fourth quarter, could you just give us a sense of how that breaks out between pricing and volume?

Lars Dahlgren - Swedish Match - President and CEO

It is, basically -- prices are up, but what is selling very well in the -- also very well in the fourth quarter were our White Owl cigarillos. So, they had a mixed effect offsetting the price increase. So volumes are up about 7%, and net sales up 8%.

Matthew Greenberg - - Analyst

Okay. Thank you.

Operator

Our final question comes from the line of [Charles Evans] (inaudible). Please go ahead with your question.

Charles Evans - - Analyst

Yes, hi. I was just wondering -- obviously, you have not mentioned the test market that you are going to go for with the PMI joint venture. When will we find out about this?

Lars Dahlgren - Swedish Match - President and CEO

During 2010. What we have said is that the first test market is likely to be in the Asian region.

Charles Evans - - Analyst

Okay. And when does the actual testing start? Is it Q1, or is Q2? Can you give me an idea of how long does a testing period normally run? It is not something I am aware of.

Lars Dahlgren - Swedish Match - President and CEO

It is not likely to be in Q1.

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Charles Evans - - Analyst

Brilliant. Thank you very much.

Operator

(Operator Instructions)

The next question comes from the line of Henrik Frojd. Please go ahead with your question.

Henrik Frojd - Swedbank - Analyst

Yes. Hi, this is Henrik Frojd from Swedbank in Stockholm. I had just one question with regards to the continued possible agreement with STG, and is that is what -- how will this deal affect your tax rate, and what type of tax rate should we calculate on this new entity?

Joakim Tilly - Swedish Match - CFO

It's a bit early to talk about the tax rate, as we still just have a letter of intent here and are negotiating a final deal. But we have said the effect on the group will be very marginal. So I think it is -- what you should use here is what we have said that we indicate similar tax rate as we had in 2009 for the group, regardless of this deal.

We will get back with any more information we have on that later when we have some more details.

Henrik Frojd - Swedbank - Analyst

Right. Okay, thank you very much.

Operator

Our next question comes from the line of Niklas Ekman. Please go ahead with your question.

Niklas Ekman - Carnegie - Analyst

Hi. Niklas Ekman here from Carnegie. I just wondered if you can tell us a little bit more about the due diligence process here with STG, any kind of soft factors here on how that due diligence has worked out so far, and also if you have heard any initial comments from the competition authorities?

Lars Dahlgren - Swedish Match - President and CEO

This is Lars here. We will -- we are in the middle of the due diligence process and we have some Q&As running both ways, but I think we limit that to discussion between the parties, and we will let you know when we, hopefully, can come out with a final agreement. What I said before, and which definitely is true, is that we remain very committed, both parties, to the value creation opportunity in this combination.

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So we really want to make it happen from both sides. And when it comes to competition, authorities want us to take one step at a time. It is a matter of final agreements before we can present any findings. But it is going to be very few markets where that is going to be applicable, due to our complementary market positions.

Niklas Ekman - *Carnegie - Analyst*

Great, and thanks. Can I also ask you about whether this new STG entity, have you come any further here in determining whether that will be a debt free unit, or if it will have similar debt to Swedish Match?

Lars Dahlgren - *Swedish Match - President and CEO*

It is not going to be debt free. We have agreed on a financial structure which basically means that when we take in dividends we should look so that we take dividends to restore capital ratios to between two and three times net debt to EBITDA.

Niklas Ekman - *Carnegie - Analyst*

Okay. Great. Thanks. Can I also ask you about the very strong lights margin here in Q4 -- whether that was a kind of a seasonal adjustment or if anything particular happened here in Q4?

Lars Dahlgren - *Swedish Match - President and CEO*

When it comes to lights, one should really look at longer periods. In an isolated quarter it can go up and down, market mix and between matches, and lighters, and different countries and so forth. Look at the full year. But we are very pleased in lights performance. They have delivered in line with a strategy of continued operational excellence.

Niklas Ekman - *Carnegie - Analyst*

Great. I would also like to ask about Norway. I saw some comment here from an interview early today. If you could just add some flavor on that, your experience so far from the covered fridges. It appears that that has a very limited impact on the sales volumes. Is that true?

Lars Dahlgren - *Swedish Match - President and CEO*

It is a very short period of time, so one needs to be careful here. But the only real data we have is the Nielsen data from January. And that indicates that the market continues to grow, so far, seems to be limited impact. But it is only four weeks, so we have to take it for what it is.

Niklas Ekman - *Carnegie - Analyst*

Okay. Great. Thanks.

Lars Dahlgren - *Swedish Match - President and CEO*

Thank you.

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Operator

Our final question comes from the line of Kevin Dreyer. Please go ahead with your question.

Kevin Dreyer - *GAMCO Investors/Gabelli & Co. - Analyst*

Hi. Good morning, or good afternoon, I should say. First just a quick clarification, on the Copenhagen wintergreen selling price at retail, was that \$3.07 or \$2.07?

Emmett Harrison - *Swedish Match - VP of IR*

\$3.07.

Kevin Dreyer - *GAMCO Investors/Gabelli & Co. - Analyst*

\$3.07, okay. Thank you. And just curious what your view is. I was somewhat surprised at how well, actually, your volumes held up given the intense promotional activity from Altria. How long do you expect them to continue to promote at that level. And do you see them pulling off from that at some point this year?

Emmett Harrison - *Swedish Match - VP of IR*

That's -- I hate to say it. That is really a question for Altria, in terms of the promotional level. In the environment that we are in right now, they are very active with two SKUs. One is the Copenhagen long-cut wintergreen, which has that introductory price. And the other is with the Skoal Edge product.

And there are -- regionally, there are, or state by state basis, there is some fairly heavy sense off activity going on. Where we are getting a lot of traction, where we are doing very well is with our Longhorn product where the volumes are up about 20%.

And there, we have a unique position -- a very good value product that is doing very, very well. Where the brands seem to be affected a little bit more is more at the traditional value price, and both for Swedish Match and for the competition.

Kevin Dreyer - *GAMCO Investors/Gabelli & Co. - Analyst*

Great. And then just, finally, with General, at some point did you rollout the coolers to more mainstream outlets?

Lars Dahlgren - *Swedish Match - President and CEO*

That depends on what the consumer wants; where they want to buy the product. And we will take it gradually. For us, it is important as well that retailers continue to like having General in their stores.

Kevin Dreyer - *GAMCO Investors/Gabelli & Co. - Analyst*

Great. Thank you.

Emmett Harrison - *Swedish Match - VP of IR*

Thank you.

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Operator

We have an additional question from the line of Rolf Karp. Please go ahead with your question.

Rolf Karp - *Ohman Securities - Analyst*

Hi, Rolf Karp at Ohman. Like to ask you a question regarding the pouch products in the US. How large are Swedish Match total snuff sales in the US does the pouch product account for?

Emmett Harrison - *Swedish Match - VP of IR*

The total pouch segment is about 9% of the overall market. It really depends on the different bits and pieces. About 6%, or a little bit more, of our portfolio is in the pouch segment. But the number can go up to about 11% for the Timber Wolf portfolio.

Lars Dahlgren - *Swedish Match - President and CEO*

It's 14% for Timber Wolf.

Rolf Karp - *Ohman Securities - Analyst*

Okay. And what would you say about growth rate for the pouch products, going forward, in the US?

Emmett Harrison - *Swedish Match - VP of IR*

Again, there is a lot of activity going on and depending on what that activity is in terms of new product introductions by Swedish Match or its competitors that may accelerate the number a little bit. But over the past several years, the market -- the growth rate of the pouch segment has been, let's say, in the range of 15% plus per year.

Rolf Karp - *Ohman Securities - Analyst*

Okay. That's all I had. Thanks.

Operator

We appear to have no further questions at this time. I hand the conference back to you.

Lars Dahlgren - *Swedish Match - President and CEO*

Thank you. My concluding remarks, then. The annual report for 2009 is expected to be released at the end of March and distributed in early April. The Annual General Meeting will be held on April 27, 2010 in Stockholm in Sweden, and January to March 2010 report will be released on April 29, 2010.

And please note that we have changed the time for our telephone conference following the release of the Q1 results on April 29; it has been changed to 1:30 Central European Time. Thank you.

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Operator

Ladies and gentlemen, thank you for your participation. This concludes today's conference. You may now disconnect your lines. Thank you. ??

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