

# FINAL TRANSCRIPT

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**SWMAF.PK - Q3 2010 Swedish Match Earnings Conference Call**

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*Normura - Analyst*

**Peter Wallin**

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**Rolf Karp**

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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, also we'll 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 handover to the chairperson, Mr. Emmet Harrison. Please begin the meeting, and I'll be standing by.

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**Emmet Harrison** - *Swedish Match - SVP of Corporate Communications and Sustainability*

Good afternoon. This is Emmet Harrison, Senior Vice President of Corporate Communications and Sustainability. Welcome to the third quarter 2010 results telephone conference for Swedish Match. Lars Dahlgren, President and Chief Executive Officer is joined today by Joakim Tilly, Chief Financial Officer 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 our investor relations section of our website, [swedishmatch.com](http://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](http://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.

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**Lars Dahlgren** - *Swedish Match - President, CEO*

Thank you, Emmet. So today Swedish Match reported its best ever quarterly underlying operating profit reaching SEK1,017 million. We saw strong performances in our Scandinavian snus business, improved performance for our US moist snuff business, and for our US mass market cigars volumes once again reached record levels.

Swedish Match Group sales for the third quarter reached SEK3,823 million, up 6%, and up 7% in local currencies. Sales for all product areas except chewing tobacco grow in local currencies. The stronger sales growth in local currencies came from our US mass market cigars and Scandinavian snus. Including depreciation and amortization on assets held for sale, operating profit grew by 16% in Swedish kroner and 17% in local currencies.

And then I will go into some details by product area, beginning with Snus and snuff. Scandinavian snus sales were up by 9% in the third quarter versus last year, while operating profit was up somewhat more in percentage terms resulting in higher operating margin. Volumes were up by nearly 2% with volume growth in Sweden, Norway, and Travel Retail.

In Sweden, prices were raised on June 7 by approximately 4% at the retail level. 2009 Swedish prices were adjusted, June 22, also by approximately 4% at the retail level. During the third quarter, we started to see some clear effects from productivity measures we have implemented in the Scandinavian snus production.

In Norway, volume growth was stronger than in Sweden as the Norwegian market continued to grow at healthy numbers. In Sweden, according to Nielsen, our market share for snus in value was 88.0% in the August-September period compared to 88.1% for the preceding two-month period. Our market share in volume terms was 85.7% compared to 85.9% June-July period.

Snus volumes for the Swedish market have been flat over the past 12 months according to Nielsen, and we would expect the Scandinavian snus market to grow with around 2% plus for the full year.

In the US market, snuff revenues in the third quarter were up by 6% in local currency on 5% higher volumes. The year-to-date sales in local currency are up 2% on 2% lower volumes. Nielsen reported the overall US snuff market to have been up 10% for the year-to-date period, and in October 2nd, the Swedish Match consumption volume up by 1.5%.

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Nielsen reports that the growth of our low-price brand, Longhorn, was significantly higher than the overall category, while we saw some declines in the rest of the portfolio, [strictly] in terms of price competition.

In the most recent isolated four-week period ending October 2nd, Swedish Match market share increased to 11.7%. Our market share for the year-to-date period ending October 2nd in volume terms according to Nielsen was 11.9% compared to 12.9% for the same period in 2009 with Timber Wolf brand having 5.2% and Longhorn having 5.4% total market.

In Q3, profitability for our US business improved versus first half of the year. In the first half of the year there was significant levels of spending on brand-building activities for the Red Man and Longhorn brands through our sponsorships with NASCAR. These activities took place between February and June. Swedish Match is continuing to invest behind its snus program in the US with General Snus and we are very pleased with the brand's performance.

General Snus is now available in around 1,000 stores in major cities across the US. And the process of store expansion is continuing during the year as we continue to see good turns in stores we add on. General typically sells at a premium price compared to other snus offerings in the US. Excuse me.

In late June we introduced a new and improved packaging for our Red Man moist snuff product with a unique FlavorFresh lid which helps the product stay fresh longer. Freshness is a key issue for consumers, and this new packaging concept directly addresses this consumer need. Since July we have been supporting this concept in our consumer marketing programs.

With regard to SMP International, the joint venture for smoke-free products, we have had a small -- we have a small-scale test launch of Original Swedish Snus in Taiwan. The product is available in a limited number of outlets. It's marketed under the General brand, locally adopted and -- adapted and researched.

In our cigar business sales in local currencies are up by 10% versus the third quarter of 2009, and up by 3% for the year-to-date period. For US mass market cigars third quarter sales in US dollars were up by 26% from the third quarter of 2009 on 43% higher volumes, once again reaching record levels. The reason for the relatively stronger growth in volume than in sales is that we have been particularly successful with our cigarillo, our small cigar assortments.

Year to date, the volume increase for US mass market cigars was 26%. During the quarter, we gained market share and we have had continued good success with our FoilFresh Cigars. We have also continued rolling out our new line of smaller sweet cigars in FoilFresh packaging, and feedback from consumers and retailers is very positive.

For premium cigars in the third quarter, sales increases in our Internet, mail order and catalogue businesses through Cigars International more than offset modest declines in General Cigar. In local currency sales and operating profit in the third quarter were both slightly higher than previous year. Sales volume recovered and were up General Cigar as well, but we saw a mixed shift towards smaller premium cigars in this business.

In local currencies, sales and operating profit in the third quarter were up for European cigars versus Q3 2009 and a strong performance for key brands improved the mix and more than compensated for a modest volume decline. Year to date, both sales and operating profit have increased in euro terms and we have taken market share in a number of important focus markets.

After the close of the third quarter, on October 1st, we completed the transaction with Scandinavian Tobacco Group to create a new company, the new Scandinavian Tobacco Group, or STG, leader for cigars and pipe tobacco in many markets and has a solid position in fine-cut tobacco. Swedish Match holds 49% of STG, which includes all the tobacco business from the old STG and all the cigar and pipe tobacco business of Swedish Match with the exception of our US mass market cigar business and our minority stake in the German company, Arnold Andre. STG is now moving forward with integration process.



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For chewing tobacco, our market share for the year-to-date period ending October 2nd was 45.6% according to Nielsen estimates. This means that Swedish Match has taken some market share in the category that this year shows higher than normal declines, much tighter tax changes in 2009.

In value terms, our market share is about 50%. In local currency, US sales and operating profit virtually unchanged versus last year's third quarter. For the nine-month period US sales for chewing tobacco in dollar terms were down 1% versus prior year by sub-contracting volumes to National Tobacco while operating profit declined by 3%.

Our Lights business continued its stable performance in the third quarter. Sales increased by 1% but operating profit declined by 4%. In the quarter, sales for lighters improved. Sales for matches were marginally below prior year. For the nine-month year-to-date period, sales for both matches and lighters are slightly ahead of last year. Operating profit for the nine-month period is slightly ahead of prior year with lighters showing an improvement but matches not quite reaching last year's levels; a pattern that was repeated in the third quarter.

With that, I will hand over to Joakim for some further comments on the financials.

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**Joakim Tilly - Swedish Match - CFO**

Thank you, Lars. To begin with, the development of exchange rates had a negative effect on our sales and operating profit comparisons due to a strengthening of the Swedish kroner versus the US dollar and the euro compared to last year's first nine months.

The average rate of the dollar versus the SEK has declined by 6.5%, year to date, from 7.86 in the first nine months of 2009 to 7.35 in the first nine months of 2010 which has resulted in translation effects on operating profit for the first nine months of negative SEK78 million.

For the third quarter, the total translation impact on sales was negative SEK39 million of which SEK34 million for Cigars, SEK3 million for snuff, and SEK1 million for Lights. Operating profit including depreciation and amortization on assets held for sale, the total translation impact was negative SEK9 million for the third quarter. If current exchange rates prevail, we would expect continued negative effects on sales and operating profit comparisons for the fourth quarter of 2010 compared to the fourth quarter of 2009.

Net finance cost for the third quarter amounted to SEK128 million compared to SEK117 million previous year, with the increase resulting primarily from costs associated with early repayment of bonds in order to manage to the maturity profile. As of September 30, 2010, Swedish Match had SEK8.6 billion of interest-bearing debt, excluding retirement benefit obligations. The average maturity duration of the bond portfolio is 2.7 years, and the average duration of the interest binding is 2.6 years.

In the fourth quarter, a total of SEK600 million worth of loans have come due for repayment and been paid in October. The weighted average interest rate on bonds issued, including derivative effects is currently 4.3%, and about 20% of total portfolio is exposed to variations in interest rates. As of September 30, 2010, Swedish Match had SEK1.4 billion of cash and cash equivalents including SEK103 million reported as assets held for sale.

During the third quarter we issued SEK1 billion in bonds maturing in 2050 at the rate of 4.34%, while at the same time repaying SEK400 million in bonds maturing in 2012. This improves our financial risk profile with more even more bond maturities in the coming years. As reported in the outlook section of the interim report, we estimate that the full-year tax rate for 2010 will be similar to the underlying tax rate in 2009 of about 22%, depending on, among other factors, currency fluctuations. For the first nine months of the year the reported tax rate was 21%, positively impacted by some smaller one-time items.

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Cash flow from operating activities for the first nine months was SEK1,997 million compared with SEK1,871 million in the first nine months of 2009. Cash flow from working capital was positive SEK12 million in the first nine months versus a negative SEK119 million in the first nine months of 2009 mainly as a result of reduced inventories. Investments in property, plant and equipment amounted to SEK248 million compared with last year's level of SEK324 million. Net investments amounted to SEK396 million including the acquisition of the 20% share in Caribbean Cigar Holdings Group of SEK110 million in the first quarter.

During the first nine months of 2010, 11.2 million shares were repurchased for SEK1,878 million or at an average price of SEK168.32 per share, while 0.5 million treasury shares were sold as a result of option holders exercising their options.

During the third quarter 7.7 million shares were repurchased for SEK1,323 million. The net debt was SEK8.6 billion as per September 30, including net financial assets reported as assets and liabilities held for sale of SEK31 million. The net debt in relation to EBITA was SEK2.4 million for the 12 months period ending September 30, 2010.

The net debt includes the net pension liability of SEK1,153 million based on the actuarial evaluation according to IAS 19, including a pension liability of SEK71 million reported as assets and liabilities held for sale. The net pension liability increased by SEK12 million compared to the December 31, 2009, mainly as a result of actuarial losses from changed assumptions on discount rates on our US pension funds and negative translation effects.

I will now turn the conference call over to Lars.

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**Lars Dahlgren** - Swedish Match - President, CEO

Before we go into the q-and-a session, I would like to point out that in today's interim report we have provided historical information using our new segment reporting and following the transaction with STG. From the fourth quarter, US mass market cigars and chewing tobacco are combined and presented as one reportable segment which is called Other Tobacco Products. The new reportable segments are thus Snus and Snuff as one segment, Other Tobacco Products, Lights and, finally, Other Operations. In the full IR kit we also provide some [pro forma] historic full-year financials for sales and operating profit for those new segments.

As the new segment, Other Tobacco Products consists of US mass market cigars and chewing tobacco. It is very much a US-based business. Strong performance for our US mass market cigar business is contributing to the positive development for other tobacco products and year-to-date nine months 2010, pro forma sales in US dollar is up by 7% for this segment and operating profit is up 18% or excluding the restructuring charge in 2009, up 10%.

With that, operator, we can open up the floor to questions and answers.

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## QUESTIONS AND ANSWERS

### Operator

Thank you, sir. (Operator Instructions)

Our first question comes from the line of David Hayes from Normura in London. The line of David Hayes is now open.

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**Lars Dahlgren** - Swedish Match - President, CEO

David, it sounds like your voice is as good as mine.

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**David Hayes** - Normura - Analyst

I know, exactly. Can you hear me?

**Lars Dahlgren** - Swedish Match - President, CEO

Yes, now we can.

**David Hayes** - Normura - Analyst

Okay. Sorry about that. I was just -- as you just said, (inaudible) as everybody is struggling.

Just on the US smokeless business, obviously your marketing spend is still high in the third quarter. Margin is down, I think you said, still in the third quarter. Just wonder what the profile is for the fourth quarter in terms of marketing spend, whether there is any slow off to come through and then whether you think margins will be up in the fourth quarter? And also looking to next year, whether margins will be up in that US business?

And then, secondly, on the mass US cigar business, obviously, amazing performance in the third quarter with volumes up 40%. [I don't know] whether you can talk about how much of that is maybe a little bit one-off with the channel fill of the sweets products.

And also I guess, just thinking about the FoilFresh success which obviously continues, if you see someone coming in the market replicating that, have you got kind of a feel for how much that might give back if you see new competitors, alternatives coming in that may compete that success away. Thank you.

**Lars Dahlgren** - Swedish Match - President, CEO

Okay, David, this is Lars. I'll try to address all of your questions. When it comes to the moist snuff and marketing spends, I'll tell you, particularly for the first half of the year we pointed out to people that we had relatively high sponsoring costs around Red Man and Longhorn.

So for the moist snuff business, actually marketing spends in the third quarter is not too dissimilar to percentage of sales compared to the third quarter of 2009. However, total marketing spends is higher as we continue to increase our investments behind Swedish snus. And that is something that will definitely continue throughout the fourth quarter and also when we go into the new year. The one reason why that margin was slightly lower in the US business actually is that we saw some quite steep raw material prices coming through in the production stemming from resin prices.

And then you had few questions on the mass market as whether -- I guess your question was whether that was to this pipeline in there.

**David Hayes** - Normura - Analyst

Yes.

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**Lars Dahlgren** - Swedish Match - President, CEO

And [then] maybe some of that still in some store shelves, sitting on the shelf, but, generally speaking, we are very reassured that there is a significant consumer pool for our products. We see that in Nielsen measures. Although Nielsen is not that accurate for mass market cigars, we see very distinct trend shifts where we, within the various sub-segments for mass market cigars, have made serious inroads during the year.

And as a matter of fact, if anything, we actually have to move forward now, advance some capital expenditure to increase capacity. We're not talking any material CapEx amounts for [EBIL], it won't change our full-year capital expenditure budget dramatically, but it's something we saw coming in 2011 that we have to initiate in 2010. And we could have delivered more cigars than we actually did.

In terms of comparative response, the answer is still yes, that both Imperial representing some other varieties in foil-fresh solutions and Swisher is responding with quite heavy promotions on foil packaging on single-stick sweets. And -- I mean this is -- this is expected and -- but we are confident that we have a high quality foil-fresh offering out there in -- with a very attractive cigar as well, and the consumers have discovered it. So we are confident in our ability to compete in this segment going forward as well.

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**David Hayes** - Normura - Analyst

Okay. So you will be comfortable with EBIL forecasting 20% plus volumes fourth quarter and into next year as well. By the sound, it sounds like it's got momentum. Is that right?

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**Lars Dahlgren** - Swedish Match - President, CEO

If it's got momentum, then it's very difficult to put percentages.

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**David Hayes** - Normura - Analyst

Sure, okay. That's great. Thank you very much. Cheers, Lars.

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**Operator**

Our next question comes from the line of Peter Wallin of Handelsbanken in Stockholm.

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**Peter Wallin** - Handelsbanken - Analyst

Yes, thank you and good afternoon. I would like to start off with the previous, one of the previous questions left off. If you would adjust for the promotional spending behind the snus, General Snus expansion in the US would you also then see margin contraction in the US snuff business in the third quarter year-over-year?

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**Emmet Harrison** - Swedish Match - SVP of Corporate Communications and Sustainability

If we look at the margins for Q1, Q2 and Q3 for moist snuff in the US, we should say again that the Q3 margins for the US business were higher than Q1 and Q2. They were slightly lower than year ago, somewhat lower than the year ago, but a big improvement over the Q1 and Q2 numbers.



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When we talk about the General Snuff spending we had said in the past that that had an impact of maybe 1, 1.5 percentage points on the margins there. And we are maintaining that spending level and could be increasing it a bit.

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**Peter Wallin** - *Handelsbanken - Analyst*

Okay, thank you. And then I would go -- like to ask a question about the very strong margins in the snus operation in Scandinavia and the very strong improvement in the third quarter. You are saying that stronger volumes and price mix affects volumes of 1.8%. Is that enough to target margin expansion or what's the price mix here? It seems a bit much.

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**Lars Dahlgren** - *Swedish Match - President, CEO*

No, I mean, the answer to that particular question is no, and I think that's very positive. We see very strong performance because of a number of factors and hard work. I mean we have good volume. We have had volume growth in the whole year. We have worked hard with despite adding volumes rationalized our production setup. We have had successful product introductions, most recently in Norway. And we have good cost control which means that we can still spend on future business, so to say, while running our operations.

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**Peter Wallin** - *Handelsbanken - Analyst*

Okay, well, thank you. That sounds very good. So then we could actually --

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**Lars Dahlgren** - *Swedish Match - President, CEO*

And there is a price mix that you mentioned. And we, as we said, it's -- the average price is up. We had a price increase at retail level around 4% in June.

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**Peter Wallin** - *Handelsbanken - Analyst*

Okay. So, but still and there is this -- it sounds like the kind of margin momentum you're having year-over-year in the third quarter should then be quite sustainable into the fourth quarter as well.

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**Emmet Harrison** - *Swedish Match - SVP of Corporate Communications and Sustainability*

There is always some seasonality between the different quarters. Historically, the third quarter has tended to be somewhat better just because of the flows of people in Sweden; the weather is a bit better in the summer time. And also in the US, you do have some different usage patterns in the summer time versus the winter time.

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**Peter Wallin** - *Handelsbanken - Analyst*

Okay. And then also I would like to ask on the US snuff where you've had, in local currencies, sales up 6% on 5% higher volumes, because [any of] the price increases you've done there also it seems like 6% sales growth is also a bit low considering the volume growth. Is this purely an effect of Longhorn growing faster than the other brands or is there something else there also in term of promotions or --?

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**Lars Dahlgren** - Swedish Match - President, CEO

I mean, the main effect here is really the good traction we see in, for our Longhorn brand, which is consistently this year outpacing category growth, but it's very favorable positioning in this environment. But it is a highly competitive environment. So there is a small element of increased offerings to the consumer as well, but the main thing there is the market shift.

**Peter Wallin** - Handelsbanken - Analyst

Okay. And then a final question of mine, if I may, would be on the European cigars where you're seeing some kind of improved market conditions. Are there any specific markets where you're seeing this? And do you expect this to maintain -- be maintained also in the fourth quarter?

**Lars Dahlgren** - Swedish Match - President, CEO

I mean, to mention a couple of big markets which are big cigar markets where Swedish Match did very well until 1st of October and where we expect STG to continue to do well and even better with a combined brand portfolio going forward, Spain and France, for example, where we have taken market share.

**Peter Wallin** - Handelsbanken - Analyst

Okay, thank you.

**Operator**

Our next question comes from the line of Rolf Karp from Ohman Equities in Stockholm.

**Rolf Karp** - Ohman Equities - Analyst

Hi, most of my questions have been answered, but I have two questions. How should we look upon tax increase as from this year? The -- it's at 11% approximately but should we look at that on a split up for a four-year period or also what do you think retailers will do, will they be putting a -- stocking -- building up stock ahead of this?

**Lars Dahlgren** - Swedish Match - President, CEO

Well, it's good you [answered] the question because there is a little bit of unclarity out there on what has been said, and one has to read the budget proposal from the current government very carefully. There is no -- in the budget proposal, and the way we read it, and I expect everybody else when you read through the details is that there is no proposed increase in Sweden for tobacco taxes in 2011.

Then why this has become a little bit complicated to explain is that the current government, pre election and also post election they have announced reform ambitions during the election period. So they have a set of specific actions that they have included in the budget. And then they have expressed reform ambitions to be implemented in 2012 and going forward.

And in that context, they have said that they would raise -- they look to raise taxes on snus by 11%, and they have mentioned 2012 to us, and 8% on cigarettes. However, we need to recall that the tax is higher on cigarettes, so the pocket outlay tax increase would not be that dissimilar. But there is no such firm proposal as to that tax increase in 2012 or any other year during the election period will actually come through. And I sincerely hope that the government realizes the net public finance effect from such a move is the -- not the correct one since cigarette smoking is costing the society several billions every year.

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There is also a proposal, and this then a real proposal, out there for an amendment to the tobacco excise law in Sweden, which would take effect from 2012, which doesn't change things that dramatically for snus, but they look to index the tobacco tax every year and link to consumer price index or the inflation in Sweden.

One good thing with that proposal is of course that it makes it more predictable. And the second thing is that they basically remove all of the ad valorem component of cigarette taxation, which means that low-price cigarettes should go up in price on the Swedish market when this proposal is enacted. And it's not passed in the parliament yet, but we do expect that one to pass parliament.

And to some extent there is a transition period, typically, in Sweden where former cigarette smokers leave cigarettes and may be under a period of dual use. And to some extent, especially since we have had steep tax increases on snus in some recent years, we are, so to say, competing with low-price cigarettes. So we view that as a positive, and both from Swedish Match and public finance and public health point of view.

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**Rolf Karp** - *Ohman Equities - Analyst*

Okay. That's good, no tax increases in 2011 then. My second question, regarding the operating loss on others of SEK30 million, I see that in the report adjusted for the STG deal, it's SEK35 million. How come it's higher?

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**Lars Dahlgren** - *Swedish Match - President, CEO*

It's that there are some central costs that we maintain that has been part of segments that are contributed to the STG business.

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**Rolf Karp** - *Ohman Equities - Analyst*

So we should expect this to be higher if we compare to the previous year, going forward.

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**Lars Dahlgren** - *Swedish Match - President, CEO*

I mean, it's -- generally speaking, SEK5 million represents relatively little volatility within other operations.

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**Rolf Karp** - *Ohman Equities - Analyst*

Yes.

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**Lars Dahlgren** - *Swedish Match - President, CEO*

You have transactions costs (multiple speakers).

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**Rolf Karp** - *Ohman Equities - Analyst*

Yes.

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**Lars Dahlgren** - Swedish Match - President, CEO

And it can be good to remind yourselves that the second half other operations costs in 2009, they were, compared to historic trends, unusually low costs.

**Rolf Karp** - Ohman Equities - Analyst

Okay. That's all I have. Thank you very much for the -- answering the questions.

**Operator**

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

**Anders Hansson** - Danske Markets - Analyst

Hi, Anders Hansson at Danske Markets. Two questions. First of all on mass market cigars, if you do some calculations with help of the new accounting, it looks like you're rounding around 40% EBIT margin on mass market cigars in Q3.

And if I remember correctly, I think mass market cigars used to do 20% a few years ago. If that is correct, can you help me understand what really --- what took margins from 20% to 40%? I know volumes are up a lot, but what else has helped?

**Lars Dahlgren** - Swedish Match - President, CEO

Yes, I mean -- this is Lars Dahlgren. I mean, we haven't specifically given mass market cigar margins, but we have spoken broadly about different cigar businesses before and indicated that US margins are higher and not necessarily US mass market cigar margins would have been lower than premium cigars. And actually, lately, we have seen the opposite.

And we -- I mean, we see a step change in profitability as we've been successful in bringing relevant innovations to the market. It's of course a much more profitable business today than it was a couple of years ago.

And it's not only the growth, it's also that we have been -- we have executed some significant rationalization measures. If you recall, for example, the charts that you had in Q3 last year which included moving some of the more manual production down to the Dominican Republic while investing in further automated production in the Dothan facility in the US. It's a very good payback on that type of restructuring that we did last year with this kind of momentum in the business.

**Anders Hansson** - Danske Markets - Analyst

Okay. Still 20% this point is quite a large number. The second question is on STG. Now when we have the deal being finalized, I was just wondering if you feel ready to share any details on targeted savings and transactions and so forth.

**Lars Dahlgren** - Swedish Match - President, CEO

I mean, we really have nothing new to report compared to the second quarter there because, as you imagine, we have focused on finalizing the net transaction. But in this process, which has been very good in terms of professional corporation and planning for the integration, nothing else come through that makes us hesitate that those SEK20 million that we [broadly] initially identified are there.

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And now we -- from both owners' side, we put it high on the agenda for the management of the new company to of course look at all the details that now are allowed to be shared in terms of looking for further opportunities. One needs to be little bit careful in terms of timing there because some countries where we know that there are synergies have complex legislation in terms of certain rationalizations which means that it will take -- it will be gradual exercise, but clearly, we will try to effect everything as speedily as possible. And some things can be done very soon, but it's a gradual exercise.

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**Anders Hansson** - Danske Markets - Analyst

Okay. Thank you.

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**Operator**

Our next question comes from the line of Stellan Hellstrom from Nordea in Sweden.

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**Stellan Hellstrom** - Nordea - Analyst

Hi, most of my questions have been answered. But I can at least ask do you have any update on when you expect your first dividends from STG?

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**Lars Dahlgren** - Swedish Match - President, CEO

We'll have to wait and see. It's going to be, normally, dividends two times per year.

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**Stellan Hellstrom** - Nordea - Analyst

Okay, but -- and how soon can joint -- or the STG be gearing up its balance sheet?

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**Joakim Tilly** - Swedish Match - CFO

We will try to do that as soon as it's reasonable from a credit market and et cetera perspective, but we will have to see on that one as well.

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**Stellan Hellstrom** - Nordea - Analyst

Okay. Do you have any -- I mean, your next market in the PMI joint venture, do you have any update there to give us where, in what region that will -- going to be? And maybe also, is -- or -- is this joint venture in any way materially going to impact margins in 2011?

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**Lars Dahlgren** - Swedish Match - President, CEO

No, what we have said this morning on some calls is that plans are that we will introduce the snus in one more test market before year end. And it's a different geography than Asia, but we haven't gone further on that. And we will not do that until we are in that market.

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And in terms of -- it's a bit of a gradual build here as well. We are investing more. It will -- this year will be more than prior year. The fourth quarter will be a little bit higher than the year-to-date average through nine months. And we do expect investments in SMPMI to be higher in 2011 than 2010, but I wouldn't call it material.

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**Stellan Hellstrom** - *Nordea - Analyst*

Okay. Thank you.

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**Operator**

Our next question comes from the line of Kevin Dreyer from Gabelli, Rye in New York.

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**Kevin Dreyer** - *Gabelli - Analyst*

Hi, good morning or good afternoon. My question was actually also about the STG gearing up and potentially paying dividends back, which I guess you've answered, but with the proceeds from that, is it safe to assume that that will also be used for share repurchases?

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**Joakim Tilly** - *Swedish Match - CFO*

Well, it's safe to assume that we will continue with our financial policy and return all cash to shareholders which we don't deem necessary to keep in the operations. And then we will stick to our financial policy. So, it's a fair assumption.

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**Rolf Karp** - *Ohman Equities - Analyst*

Great. Thank you.

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**Operator**

Our next question comes from the line of Niklas Ekman from Carnegie in Stockholm.

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**Niklas Ekman** - *Carnegie - Analyst*

Hi. A couple of questions here. I want to start with STG. I was wondering if there is -- I mean, first of all, if there is any lag in the reporting from STG, or if you will, going forward, be reporting your share of STG on the same quarter as STG reports? And also, if there is any way we can find pro forma seasonality in these figures would really help for modeling purposes.

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**Joakim Tilly** - *Swedish Match - CFO*

We do not expect to -- to have any lag in reporting when it comes to the STG numbers. We will try to report those at the same time in our income statement as they report them.

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**Lars Dahlgren** - *Swedish Match - President, CEO*

There might be, in the beginning there once, you're setting up the functions for the new combined company then it might be that we have to lag one month or so. But clearly, down the road, it will be real numbers so to say.

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**Emmet Harrison** - *Swedish Match - SVP of Corporate Communications and Sustainability*

And in terms of some seasonality, 50% of the business or so is what we are contributing to it, so you have some pretty good idea about the seasonality of the business that we're contributing. A significant part of their business is for European cigars, as are ours, so I think that you should have some pretty good information already in terms of some of the flows.

**Niklas Ekman** - *Carnegie - Analyst*

Okay, great. We'll work backwards.

**Emmet Harrison** - *Swedish Match - SVP of Corporate Communications and Sustainability*

Yes.

**Niklas Ekman** - *Carnegie - Analyst*

Also I was wondering about Taiwan, if you could say anything more about the reception there. I mean, it's early days, but can you say when you launch and what the size of the launch, and if you've had any initial feedback that you can report back to us on the Taiwan business?

**Lars Dahlgren** - *Swedish Match - President, CEO*

I mean, it's still rather limited in scale. We're talking hundreds of outlets, in the hundred, we're not talking thousands of outlets. And therefore, also, it's small in volumes this far, but we do see some interesting consumer reactions, and we do think that there is potential long term.

The reason why it's (inaudible) is that we have been wanting to make sure that, first of all, this is the first time, we do everything right. It's a test of the tests, so to say. It's a test of the model, and we've been engaged in an open dialogue also with the Taiwanese authorities in terms of what snus is about. And given that this product didn't exist there before there have been several meetings held on that topic.

**Niklas Ekman** - *Carnegie - Analyst*

Okay, thanks. Also on the new reporting, the other tobacco segment, here it seems to running at 40% EBIT margins if you adjust for kind of historic one-offs. I was wondering if, first of all, if that's true and if you believe that that should be a run rate, so if there are any -- any one-off here that are distorting that suggest that this margin should actually be a bit lower going forward, because it looks very high.

**Lars Dahlgren** - *Swedish Match - President, CEO*

Well, I mean, the chewing margin does fluctuate. And -- I mean, it's basically been between 30% and 40%. And as you can calculate backwards now, the mass market cigar business is doing very well, and so we believe in continued momentum in that business. But -- and then it's a competitive environment, and we'll see what competitors do and what we do in the future. But on the first question, by the way, whether it's true, I'd say that yes, we report true numbers.



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**Niklas Ekman** - *Carnegie - Analyst*

Thanks. And a final question just on Norway. Around the turn of the year we had this -- the covered fridges in Norway, and you reported that in the beginning you still saw a very good volume growth of around 10%. And I was wondering if that's still the case, or if you've seen any kind of slowdown in Norway, which I believe is approaching Sweden in terms of penetration right now?

**Lars Dahlgren** - *Swedish Match - President, CEO*

No, it's -- I think we went down from around 10% to 7% for a few months, but I think we're up to 10% in the latest periods. And I think it's actually 9.9% year-to-date, from the top of my head. I might have gotten the decimals wrong there, but -- so it's -- the frank answer is, we don't see any negative impact. It's a strong momentum in that business.

**Niklas Ekman** - *Carnegie - Analyst*

Seems interesting. And in terms of penetration, is that close to Sweden right now? Can you put a number to it?

**Lars Dahlgren** - *Swedish Match - President, CEO*

In certain age groups it's even higher than Sweden.

**Niklas Ekman** - *Carnegie - Analyst*

Okay, thanks, thanks a lot.

**Operator**

Our next question comes from the line of Stefan Mattsson from SEB Enskilda. Please go ahead.

**Stefan Mattsson** - *SEB Enskilda - Analyst*

Yes, hello, Stefan Mattsson here. A couple of questions on the STG from me as well. First of all, in order to reach those EUR20 million that you've talked, at least in terms of synergies, what kind of costs or charges do you expect to achieve those?

And secondly, also just to get an indication or feeling for the fourth quarter when it comes to profit for your share in the STG deal, it is fair to take the EBIT that you reported in, or the pro forma of 170 million in EBIT 2009, split that by four and take a tax rate of roughly then 22% and translate it Swedish kroner, ending up with somewhere around SEK100 million, SEK110 million in your share of the profit for that quarter? Or is it -- have I missed something there?

**Joakim Tilly** - *Swedish Match - CFO*

Well, what you have missed is potential integration costs.

**Stefan Mattsson** - *SEB Enskilda - Analyst*

Yes.



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**Joakim Tilly** - Swedish Match - CFO

And you have also missed potentially financial net, if we manage to get that gearing up as we talked about.

**Stefan Mattsson** - SEB Enskilda - Analyst

Okay. How much cost do you think you have to take to reach those 20 million in synergies?

**Lars Dahlgren** - Swedish Match - President, CEO

I mean, that's -- as the synergy estimate is broad at this time, we're going to have to get back on details there as well.

**Stefan Mattsson** - SEB Enskilda - Analyst

Okay.

**Lars Dahlgren** - Swedish Match - President, CEO

But it varies from country to country. And -- yes, there can be some significant costs associated with that, of course.

**Stefan Mattsson** - SEB Enskilda - Analyst

Yes. And also just a question on the CapEx. I think, if I calculated correctly, it was roughly 50 million in the third quarter. It's quite low. Is -- any particular reason for that, or -- and also going forward, excluding the STG, what kind of CapEx levels should we expect?

**Joakim Tilly** - Swedish Match - CFO

I'm in the third quarter number. It's just a matter of timing of certain investments. This is not anything specific expect for that. I mean, some investments -- timing were high -- they were in the first half of the year and there will be some in Q4 of the year as well.

When it comes to future CapEx, I mean, obviously they will go down a bit since part of our CapEx spend was in STG. So it's going to be a bit less than the historical level that you've seen before.

**Stefan Mattsson** - SEB Enskilda - Analyst

Okay. Thank you.

**Operator**

Our next question comes from the line of Toby McCullagh from Morgan Stanley in London.

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**Toby McCullagh** - Morgan Stanley - Analyst

Hi there. Most of mine has been answered as well. But I guess I've got one, which is, in Swedish snus, could you possibly comment on any incremental risk that you perceive of, indeed, or even seeing from Imperial's plan to target the discount segment there, now that it's no longer capacity constrained, as they've stated? Thanks.

**Lars Dahlgren** - Swedish Match - President, CEO

I guess you referred to the Capital Market Day they had, and -- I mean, I think if it's one thing we have done very right from the very beginning, so to say, in the Swedish market is to take all competition seriously. And during 2006 we saw a significant increase of the low-price segment.

Now the tax situation is a little bit different as well with, relatively speaking, higher weight-based tax on the products. But -- I mean, there is always risk in competition. We are a consumer goods company, that's -- across our businesses, that's one of the main factors that we deal with on a daily basis.

**Toby McCullagh** - Morgan Stanley - Analyst

Okay, thanks.

**Operator**

Our next question comes from the line of Chas Manso from Evolution in London.

**Chas Manso** - Evolution - Analyst

Yes, good afternoon. On US snus, your share momentum seems to be coming mostly from the low-price Longhorn. Could you tell us what you're doing to try and get positive share momentum back into your other US snuff brands?

**Emmet Harrison** - Swedish Match - SVP of Corporate Communications and Sustainability

Sure. One -- first thing, you need to remember that with the changeover in FDA legislation on June 22nd our promotional activity this year was very different from last year. We have very few promotions shipping out in May-June of 2010 versus quite heavy promotions shipping on May-June 2009. After July we are moving back to a more normal promotional program, that's one.

Two is we have Red Man now out with the -- with a clear product benefit, which is the FlavorFresh lid, and that is being communicated to the consumers, and in -- it's a clear product benefit. There we are definitely seeing some volume growth in the latest -- in the third quarter, year on year, in terms of shipments going out. And we're also seeing more stability in terms of market shares.

In the latest four-week period, according to Nielsen, October -- ending October 2nd, we gained two-tenths of a share point on that one. So we will work through promotions, product development, we'll look at everything in our marketing mix in order to address the issue. But it is true that Longhorn right now is in a very sweet spot when it comes to its overall position and it's doing extremely well.



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**Chas Manso** - *Evolution - Analyst*

Great. And as to your store expansion for General Snus in the US, I mean at the moment it seems to be running at couple of hundred stores per quarter, I suppose. Given that the universe is a hundred thousand, that's quite a long-term expansion plan. Would you expect that rate to accelerate significantly going forward or given that it's a premium product, is the -- do the real universe of General is somewhat smaller than a hundred thousand?

**Lars Dahlgren** - *Swedish Match - President, CEO*

You should expect our investment in the US snus to grow at an accelerated pace. I mean, the existing store expansion program is built around very core high-involvement consumers who look up the product, where to find it and know what Swedish snus is about. We are developing plans for still very focused and towards the right segments, well-executed offerings. But in 2011 our plan is to complement these store expansion programs with further activities. But having said that, we are not talking any type of national launch and we don't necessarily think that the blanket-type approach is the US is the right thing to do right now.

**Chas Manso** - *Evolution - Analyst*

Okay. And finally from me, your competitors in US snuffs being cigarette companies as well, talking about increasing space allocated to snuffs in US outlets shifting away from cigarette shelf space. Could you tell us a bit about what you see as the potential space uplift to more properly represent snuffs selling, and do you think that's a market share play by a larger rival or is that a market share opportunity for you as well?

**Emmet Harrison** - *Swedish Match - SVP of Corporate Communications and Sustainability*

I think it's an opportunity for everybody. This is Emmet. The snuff category in the US is a very profitable category, in most -- every class of trade. It's a growing category with strong brands and consumers that come into the stores looking for products. It makes sense to increase the space for that area.

We shouldn't think of the tobacco section as being a closed box with a certain amount of linear fees that you can deal with, you can expand beyond that area. I think also -- I don't want to speak for the cigarette companies, but it's clear too that cigarette volumes may require some changes in allocations there. So more space for the snuff category could be a benefit for every one.

**Chas Manso** - *Evolution - Analyst*

How underrepresented do you think snuff shelf space is at the moment?

**Emmet Harrison** - *Swedish Match - SVP of Corporate Communications and Sustainability*

Well, we look at the snuff space as it is for snuff space and not snuff space versus cigarette space. So it's -- I think that's more of a question for the cigarette companies.

**Chas Manso** - *Evolution - Analyst*

Okay, thanks.

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**Emmet Harrison** - *Swedish Match - SVP of Corporate Communications and Sustainability*

But there's room for us to expand.

**Operator**

Our next question comes from the line of [Robbie Asikan] from RBS in London.

**Robbie Asikan** - *RBS - Analyst*

Hi there. Most of my questions have been answered. Just one on the STG transaction, the EUR30 million equalization payment is that hitting in terms of the cash impact this year?

**Joakim Tilly** - *Swedish Match - CFO*

Yes, we expect it to hit this year.

**Chas Manso** - *Evolution - Analyst*

Okay, thanks very much.

**Operator**

(Operator Instructions). If we have no more question at this time, I hand the conference back to you.

**Lars Dahlgren** - *Swedish Match - President, CEO*

Okay, just -- finally, just to conclude, to inform you that the release of our full-year 2010 results will be on February 23, 2011. Thank you.

**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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