



NASDAQ OMX Stockholm: SWMA

## **PRESS RELEASE**

*15 January, 2010*

### **Swedish Match has signed a Letter of Intent with Scandinavian Tobacco Group to form a new worldwide company with focus on cigars**

- **Swedish Match to contribute all of its cigar business with the exception of US mass market cigars, as well as its remaining pipe tobacco and accessories businesses**
- **Scandinavian Tobacco Group to contribute all of its tobacco business (cigars, pipe tobacco and fine cut tobacco)**
- **Completion of the transaction is subject to due diligence by both parties, final transaction agreements, bondholder approval, and regulatory review and approval**

Swedish Match AB has signed a letter of intent with Scandinavian Tobacco Group (STG) to form a company (the Combined Entity) combining the tobacco businesses of STG with the premium and machine made cigar businesses of Swedish Match (with the exception of the US mass market cigar business). This follows a strategic review of Swedish Match and is consistent with the goals of becoming the global smokefree leader while developing the cigar business to be best in class. The Combined Entity would also include the pipe tobacco and accessories businesses of Swedish Match, as well as distribution of lights products in relevant markets.

Based on the Swedish Match and STG 2008 full year results, the Combined Entity would have had an annual turnover of approximately 670 MEUR and an EBITDA of approximately 125 MEUR and a combined cigar volume of more than 2.5 billion cigars. The Combined Entity would have leading positions for US premium cigars, for European cigars, and strong positions in a number of other markets. Leading cigar brands would include Macanudo, Partagas (US), Punch (US) and La Paz, among others, from Swedish Match as well as Café Crème, Henri Wintermans, Colts, and Mercator, among others, from STG. Leading pipe tobacco brands would, among others, include Borkum Riff and Half & Half from Swedish Match and Erinmore, Clan, and W.Ø. Larsen from STG.

Swedish Match would hold 49 percent of the shares in the Combined Entity, with the remaining 51 percent of the shares held by STG. Anders Colding Friis, the CEO of STG, would assume the role of CEO of the Combined Entity. On the basis of preliminary valuations, which are subject to due diligence by both parties, STG would compensate Swedish Match by approximately 40 MEUR to account for the planned shareholding and the relative differences in enterprise values on a cash and debt free basis. In the letter of intent, a financial strategy for the Combined Entity has been agreed to, stipulating a net debt of two to

three times EBITA, ensuring distribution of free cash flow and financial discipline for the Combined Entity. The letter of intent also includes minority protection clauses.

STG produces cigars, pipe tobacco, and fine cut tobacco, having divested its cigarette and snus businesses in 2008. STG is headquartered in Denmark with production facilities in Belgium, the Netherlands, Denmark, Indonesia, the Dominican Republic, Nicaragua and Honduras.

The STG tobacco business normalized full year 2008 sales and EBITDA were approximately 310 MEUR and 60 MEUR respectively, employing about 3,400 employees. For the full year 2008, the normalized sales and EBITDA for the businesses to be contributed to the Combined Entity by Swedish Match were approximately 360 MEUR and 65 MEUR respectively, employing approximately 7,000 employees. For the first six months of 2009 the corresponding normalized figures for Swedish Match were approximately 180 MEUR and 36 MEUR respectively.

“The letter of intent marks the intention of both parties to form a value enhancing business combination within the global cigar industry. Such a business combination would be complementary and synergistic, demonstrating Swedish Match’s commitment to the cigar business and long term value creation,” said Lars Dahlgren, President and CEO of Swedish Match AB.

The completion of this transaction is subject to due diligence by both parties and final transaction agreements, as well as bondholder and regulatory approvals. Signing is expected to take place during the first half of 2010 with completion as soon as possible thereafter. Please note that there can be no assurance as to whether the transaction will be completed.

#### ***Additional information***

*The completion of the transaction is subject to the approval of the holders of the notes that are issued and outstanding under the Swedish Match GMTN Program (the Notes). As a result, Swedish Match intends to invite the holders of the Notes of each such series, by way of the execution of a consent solicitation process, to approve separate extraordinary resolutions to (i) confirm that should the transaction take place, its effectuation would not constitute an event of default under the Notes and (ii) waive any rights the note holders may otherwise have as a result of the transaction taking place under the events of default condition in the Notes, in each case as more particularly described in the consent solicitation memorandum dated January 15, 2010 (the Consent Solicitation Memorandum).*

#### ***Financial information (as included in the Consent Solicitation Memorandum)***

*The table below sets out certain key financial information relating to Swedish Match (SM), Swedish Match excluding the businesses to be divested (SM excl. BD), and the businesses to be divested (BD) for the financial year ending December 31, 2008 and the six month period ending June 30, 2009. The financial information for the businesses to be divested is a normalized approximation based on the structure of the proposed transaction. The information set out in this table has been extracted from the most recently published consolidated financial statements for the periods specified in the table, but has not been audited or reviewed.*

(MEUR)	FY 2008			Six months ending June 30, 2009		
	SM <sup>1)</sup>	SM <sup>1)</sup> excl. BD	BD	SM <sup>1)</sup>	SM <sup>1)</sup> excl. BD	BD
Sales <sup>2</sup>	1,313	980	360	649	480	180
EBIT	292	240	52	156	126	30
EBITA	304	245	60	161	128	34
EBITDA	335	270	65	177	140	36
Operating capital	807	360	447	808	348	460

1) Amounts exclude Swedish Match South African operations, which were divested in September 2009.

2) Swedish Match internal sales to the Business to be Divested (BD) have been eliminated in the sales numbers for Swedish Match (SM), but are included in the sales numbers for Swedish Match excluding the businesses to be divested (SM excl. BD).

#### *Minority protection and dividend policy*

*The Combined Entity would have a financial policy stating that the capital structure shall be managed such that the net interest bearing debt at the end of each financial year shall be between two and three times Combined Entity EBITA for the preceding 12 months.*

*The dividend policy would be such that, at the request of any shareholder, at least 66.6 percent of the consolidated net income after tax of the Combined Entity, adjusted for extraordinary items and subject to compliance with applicable laws, shall be distributed annually to the shareholders. At the request of the minority shareholders, the majority shareholder would support any corporate actions such as distribution of dividends as required to move profits earned in subsidiaries up into the Combined Entity in accordance with the dividend policy, subject to compliance with applicable law. Distribution shall, however, be adjusted to take into effect any deviation from the agreed financial policy (as stated above or as subsequently decided by the board with a qualified majority) such that any dividend is decreased if the parties have agreed on transactions which have caused the debt ratio to be above the agreed debt and shall be increased by any amount by which the debt ratio falls below the agreed debt ratio.*

*Furthermore, among other things, changes in the financial policy and dividends, unless in line with the dividend policy, require a qualified majority.*

#### *Credit Ratings*

*The Company expects no negative rating impact as a result of the implementation of the proposed creation of the Combined Entity. Swedish Match has informed Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and Moody's Investors Service Limited about the proposed creation of the Combined Entity.*

*Further information on the consent solicitation*

*Further information on the consent solicitation can be found in the Consent Solicitation Memorandum which can be requested from Deutsche Bank AG, London Branch, acting as the solicitation agent (tel: +44 20 7545 8011; att: Liability Management Group; email: liability.management@db.com) or Lucid Issuer Services Limited, acting as the tabulation agent (tel: +44 20 7704 0880; att: Yves Theis; email: swedishmatch@lucid-is.com). The distribution of this announcement and the Consent Solicitation Memorandum in certain jurisdictions may be restricted by law and persons into whose possession this announcement and the Consent Solicitation Memorandum comes are requested to inform themselves about, and to observe, any such restrictions.*

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*Swedish Match produces and sells market-leading brands in smokefree tobacco products, cigars and lights products. The Company sells products across the globe, with production units in 10 countries. The Group's global operations generated sales of 14,139 MSEK for the twelve month period ending September 30, 2009. The Swedish Match share is listed on the NASDAQ OMX Stockholm (SWMA).*

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The character of this information is such that it shall be disclosed by Swedish Match AB (publ) in accordance with the Swedish Securities Markets Act. The information was disclosed to the media on January 15, 2010 at 08.30 a.m. (CET).