

# FINAL TRANSCRIPT

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**SWMA.ST - Full Year 2010 Swedish Match Earnings Conference Call**

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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 a listen-only mode until we 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'll be standing by.

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

Good afternoon. This is Emmett Harrison, Senior Vice President of Corporate Communications and Sustainability. Welcome to the full-year 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 the investor relation 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. The conference call is being recorded, and the recording will be published on the Swedish Match website.

The STG, Scandinavian Tobacco Group transaction closed on October 1, 2010, whereby Swedish Match contributed all of its premium cigar business, all of its pipe tobacco business and its entire machine-made cigar businesses outside the US, with the exception of the minority stake in Arnold Andre to the new Scandinavian Tobacco Group where Swedish Match owns 49%.

In this call, we will be discussing comparable sales and comparable operating profit which excludes businesses transferred to STG, the share loss, the share of loss from STG in 2010, as well as other larger one-time items, including a net gain from pension settlements, the capital gained from the STG transaction, as well as the reversal of depreciation and amortization on assets held for sale.

Some comments to this share of loss from STG, which is a result of significant restructuring charges and the underlying STG business in the fourth quarter will be given separately.

Effective the fourth quarter 2010, we will report our numbers according to our new primary segments. Snus and snuff, other tobacco products, lights, and other operations. Other tobacco products include chewing tobacco and our US mass market cigar business, which is now part of the STG transaction.

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, Emmett. Our comparable operating profit for the fourth quarter increased to SEK836 million, up from SEK740 million previous year, an increase of 13%. In local currencies, the increase was 15%. The increase in operating profit was driven by a very strong performance for other tobacco products as well as a solid profit growth for snus and snuff.

Comparable sales for the fourth quarter increased by 7% to SEK2.801 billion, up from SEK2.620 billion previous year. In local currencies, the increase was 9%. The strongest increase came from other tobacco products where sales increased by 26% in local currency, followed by snus and snuff with a revenue growth of 9% in local currency.

For the full year, comparable sales increased by 5% to SEK11.222 billion and comparable operating profit grew by 9% to SEK3.158 billion. In local currencies, the sales and operating profit growth were 7% and 12% respectively.



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The profit for the year which includes the share of loss from STG and all large one-time items reached SEK4.169 billion, up from SEK3.417 billion previous year. The earnings per share for the full year amounted to SEK13.12, an increase from SEK9.67 in 2010.

Now let me go into some details by product area. Beginning with the snus and snuff product line, Scandinavian snus sales were up by 9% in the fourth quarter versus last year, while operating profit was up somewhat more in percentage terms resulting in a higher operating margin.

Shipment volumes were up by 1.3% with volume growth in Sweden and Norway offsetting some volume decline in Travel Retail. In Sweden, prices were increased on June 7 by approximately 4% at the retail level. In 2009, Swedish prices were adjusted June 22, also by approximately 4% at the retail level.

In Sweden, according to Nielsen, our market share for snus in value terms was 88.0% in the December-January period, unchanged from the preceding two-month period. Our market share in volume terms was 85.8%, up from 85.7% in the October-November period.

Swedish Match estimates that the Scandinavian market grew approximately 3% in volume terms led by growth on the Norwegian market of approximately 8%. For the full year, Scandinavian snus revenues were up 10% on 2.3% higher volumes.

In the US market, snuff revenues in the fourth quarter were up by 6% in local currency on 1% lower volumes. For the full year, US sales in local currency were up by 3% on 2% lower volumes.

Nielsen reported the overall US snuff market ramping up by 9.8% for the year-to-date period ending December 25, with Swedish Match consumption volume up by 1.9%.

Nielsen reports that the growth of our low-priced brand Longhorn was significantly higher than the overall category, while we saw some declines in the rest of our portfolio due to intense price competition.

In the most recent isolated four-week period ending January 22, Swedish Match market share was 11.7% and volume growth for Swedish Match was 3.2% according to Nielsen. Strong market growth is continuing as the four-week market growth according to Nielsen is 9.9% in January.

Since July 2010, Swedish Match share of the overall market has been relatively stable. In Q4, profitability for our US snuff business increased in line with sales in local currency, excluding investments done into support the introduction of Swedish snus in the US market. The profit increase was driven by higher average pricing due to a 7% price increase taken in May 2010 and promotional phasing, that was partly upset by negative mix of their lowest priced brand, Longhorn, increased as a percentage of our portfolio.

Swedish Match will continue to invest and behind its snus program in the US, the General snus, and we are very pleased with the brand's performance. General snus is now available in 1,200 stores in major cities across the country, and the store expansion is continuing as we see good rotation and sell-through in our expansion stores. General typically sells the premium price compared to other snus offerings in the US.

With regard to SMPM International, the joint venture company for smokefree products, we have had a small-scale launch already in the Swedish nation and Taiwan.

Late in 2010, we also began testing the General snus concept in Canada, in and around the Toronto area. The product is available in a limited number of outlets and is marketed under the General brand, low-key adapted and researched.

In our other tobacco products businesses, sales for mass market cigars in local currencies were up by 49% versus the fourth quarter of 2009, and up 22% for the year-to-date period. Mass market cigar volumes increased by 69% from the fourth quarter of 2009.



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The reason for the relatively stronger growth in volume than in sales is that we've been particularly successful with our cigarillo, or small cigar assortments. The year-to-date volume increase for US mass-market cigars was 35%.

During the quarter, we gained market share. So 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.

In the first quarter of 2011, we are introducing a new variant of sweet cigars with a candela wrapper, White Owl green sweet. Initial response from the trade has been very encouraging.

For chewing tobacco, our market share for the year-to-date period ending December 25 was 45.7% according to Nielsen estimates. This means that Swedish Match has taken some market share in a category that this year showed higher than normal declines, the higher than normal decline being in large part due to higher retail prices from tax increase in 2009.

In value terms, our market share is about 50%. In local currency, US sales and operating profit increased versus last year's fourth quarter. For the full year, US sales in chewing tobacco in dollar terms was unchanged versus prior year, aided by sub-contracting volumes for national tobacco, while operating profit grew by 2%.

Shipments were stronger than normal in the fourth quarter with volumes down only 4% year-on-year, reflecting some forward buying from some customers.

For our Lights businesses in the fourth quarter, in local currency terms, sales increased by 5% while operating profit declined by 10%. In the quarter, sales and operating profit of lighters increased, while sales and operating profit for matches were below prior year.

The reduction in profit for matches results from both currency transaction and translational effects as a result of the strength of Swedish krona versus the US dollar and other currencies as well as somewhat lower volumes and higher production cost in our Lights Latin American unit.

For match business Sweden, much of the cost of material production for matches are denominated in Swedish kronor while sales are a blending of kronor, dollars, and euros. For the full-year period, sales for Lights as far as in local currency terms were up by 3%, while operating profit declined by 11%.

As regards Scandinavian Tobacco Group, the integration process is progressing well, and a large part of the integration costs have already been taken in the fourth quarter. The Swedish Match 49% share of STG's net loss after interest and tax amounted to SEK60 million for the fourth quarter. The share of loss from STG includes charges for restructuring, other transaction costs, as well as IFRS acquisition adjustments amounting to SEK175 million before tax.

As noted in the interim report, the net loss from STG has no direct cash flow impact for Swedish Match. During the fourth quarter, STG's premium cigar business continued to be weak in the traditional brick and mortar channel, impacted by inventory reductions from a major customer.

For the Cigars International business, which sells primarily through the Internet and through mail-order catalogues, business performed well, partly offsetting the decline in brick and mortar. For European machine-made cigars, STG maintained or grew market share in most key markets, although the overall European machine-made cigar market is estimated to have declined somewhat.

Trend towards smaller cigars continued. For fine cut and pipe tobacco, branded products performed better than prior year, while sales from contract manufacturing declined. Excluding restructuring charges, other transaction costs, and IFRS acquisition adjustments, the total STG operating profit for the fourth quarter was SEK206 million.

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

**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 kronor versus the US dollar and the euro, compared to last year's full-year results. The average rate of the dollar versus the Swedish krona has declined by 5.8% year-to-date, from 7.65% in 2009 to 7.10% in 2010, which has resulted in a translation effect on operating profit for the year of negative SEK76 million for continuing operations.

For the fourth quarter, the translation effect on operating profit was a negative SEK17 million. For the fourth quarter, the total translation impact on sales was a negative SEK48 million of which SEK17 million for other tobacco products, SEK19 million for snus and snuff, and SEK12 million for lights.

If current exchange rates prevail, we would expect continued negative effects on sales and operating profit comparisons for the first quarter of 2011, compared to the first quarter of 2010.

Net finance cost for the fourth quarter amounted to SEK199 million, compared to SEK111 million previous year, with the increase resulting primarily from cost associated with early repayment of bonus in order to manage the maturity profile.

In November, we issued SEK3.2 billion of bonds maturing in 2017 while at the same time redeeming SEK1.6 billion of bonds maturing in 2013. The redeeming of 2013 bond loans in connection with a new bond issue resulted in net finance cost of SEK77 million, which is the net realized value of discounted interests until maturity, including matched interest-rate derivatives. This transaction improves our financial risk profile with more evenly spread bond maturities in the coming years.

Net finance cost for the year increased to a total of SEK562 million versus SEK443 million for 2009. In addition to the cost for the repurchasing of bonds, the net finance cost for the year includes bondholder consent fees related to the STG transaction of SEK21 million paid during the second quarter of 2010.

On December 31, 2010, Swedish Match had SEK9.9 billion of interest-bearing debt excluding retirement benefit obligations. The average maturity duration of the bond portfolio is 4.1 years and the average duration of the interest binding is 3.9 years.

In the fourth quarter, a total of SEK600 million worth of loans were repaid in October. In 2011, a total of SEK542 million of bonds will come due for repayment. The weighted average interest rates on bonds issued, including derivative effects, is currently 4.73%, and about 10% of the portfolio is exposed to variations in interest rates.

As of December 31, 2010, Swedish Match had SEK3.3 billion of cash and cash equivalents. For the full year, the reported tax expense amounted to SEK649 million, corresponding to a tax rate of 18%. The reported tax rates from continuing operations excluding one-time items as well as profit and loss impact from associated companies, is about 22%.

So I'm coming to the cash flow. Cash flow from operating activities for the full year was SEK2.616 billion compared with SEK2.911 billion in 2009, the main reasons for the decline being higher taxes paid in 2010, the higher finance cost in 2010, and that the businesses transferred to STG only are included for nine months in 2010.

Cash flow from working capital was positive SEK40 million in 2010 versus a negative SEK67 million in 2009, mainly as a result of reduced inventories. Investments in property, plant and equipment amounted to SEK311 million compared with last year's level of SEK471 million. Net investments amounted to positive SEK959 million in 2010 versus positive SEK1.043 billion in 2009.



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In 2010, net investments include SEK1.439 billion relating to the cash flow effect from the transaction with STG. More detail on this effect can be found in note 3 of the interim report.

In 2009, net investments included SEK1.577 billion pertaining to the divestment of Swedish Match South African operations. During 2010, 17 million shares were repurchased for SEK3.014 billion, or at an average price of SEK176.93, while 0.5 million treasury shares were sold as a result of option-holders exercising their options.

During the fourth quarter, 5.9 million shares were repurchased. The net debt was SEK7.65 billion as per December 31st. The net debt in relation to EBITDA, excluding businesses transferred to STG, the share loss in STG, and larger one-time items was 2.4 for the 12-month period ending December 31, 2010.

On December 1, 2010, the pension obligations for salaried personnel and workers in Sweden which were funded by insurance policies into company-specific pension funds were transferred to three insurance companies. As a result of this transaction, a settlement gain of SEK59 million has been recognized in the fourth quarter of 2010.

The settlement gain is the result of the difference in the obligations structure with insurance companies, and the value of the pension obligations in the balance sheet, based on the actuarial assumptions according to IAS 19.

In conjunction with the update of the pension obligations to current actuarial assumptions as per settlement date, an actuarial loss of SEK166 million has been recognized in other comprehensive income in the fourth quarter of 2010. In accordance with IAS 19, the transferred pension obligations are treated as defined contribution plans after the transaction date of December 1, 2010.

Finally, a capital gain was recognized in the fourth quarter from the reevaluation of assets held for sale upon completion of the STG transaction, gains which have no cash flow effect amounting to SEK585 million. The final purchase price and transaction adjustments are expected to be completed in the first half of 2011 and may result in an additional gain or loss.

And I will now turn the conference call over to Lars.

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

Thank you. And Operator, I think we can go ahead and open the floor to questions and answers.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions) Stellan Hellstrom.

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**Stellan Hellstrom** -- Analyst

Thank you. How should we interpret your statement that you expect a flat EBIT margin in snus and snuff in 2011? Is this purely related to higher investments in promoting snus in new markets or it's also implying that you are worried about even higher competitive pressure in the US this year or even that you see lower price increases in Scandinavia?

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

Hello, Stellan, this is Lars here. And if you refer to the statement that's published [on quote] that's just been out from this morning's media calls and -- just to repeat, we don't give any specific guidance on the snuff margin. But we get questions from everybody and let's -- we talk about our indications which is a relatively wide way of looking at the future.

And I mean that -- we look at our different businesses and do what's right in those respective businesses and we are very content with the momentum in the Scandinavian snus business. We think we're well positioned in the US moist snuff business.

And we will continue to invest and increase investments in international expansion efforts for Swedish snus. So when we talk about indications, we say that last year is always a good reference point and that's an indication where it could be, but we will step up investments internationally for Swedish snus.

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**Stellan Hellstrom** - - Analyst

Okay. Could you, in any way, quantify how much you will increase the spend on marketing of General in the US this year?

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

It's likely to be relatively significant.

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**Stellan Hellstrom** - - Analyst

Also I was just having one question also on STG's underlying EBIT here, SEK206 million. How does that compare to Q4 last year, if you do have a proforma?

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

Like as before, last year, since this is a new company, it's a combination. And -- but the one number you can compare it to is the -- we own 49% of those SEK206 million and you can compare it to the SEK109 million that we reported -- isolated fourth quarter prior year, that's business transferred to STG.

And there are of course currency effects and so forth. And it's a different blend of business. But it gives you the magnitude. And overall it's -- which can also be noted in our reports through Q3 in those business transferred and say that the premier cigar business in the US has had a relatively weak year overall in 2010, compared to 2009.

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**Stellan Hellstrom** - - Analyst

Okay. And finally, just when do you expect the effects of synergies to begin to kick in and how soon will they be realized?

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

This is, of course, a gradual thing, but the -- we are deeply impressed I must say with the STG management of putting these two businesses together in such a fast pace. And we spent a lot of time together with them as much as we were allowed to do before, and in looking at the integration phase and planning for that in as much detail as we could.

And they have continued that subsequently when bringing the businesses together. And the speed and the determination with which they are doing that, I must say, is impressive. So a lot of one-time charges have been taken and we should start



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seeing some synergies coming in basically immediately. And then of course, it's some type of synergies take a little bit longer time, but it's a gradual build up of synergies.

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**Stellan Hellstrom** - - Analyst

Okay. Thank you very much.

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

Thank you.

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**Operator**

Anders Hansson.

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**Anders Hansson** - Danske Markets - Analyst

Hi, thank you. Anders Hansson at Danske Markets. First I'd say -- coming back to the statement to news agencies, I saw you talked about double-digit volume growth in mass market cigars in 2011. And can you just give us some flavor on your expectations on the traditional mass market versus sweet cigars and your expectations on the two parts?

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

Sweet is an important part of it but we do very well across our mass-market assortment. But the reason for the spike of the volume growth that is seen in Q3 and now in Q4 with very high volume growth over prior year is that clearly that we've been particularly successful in making a significant inroad in the sweet segment.

And that continues to have very good momentum. And then we are quite excited about the launch of White Owl Green Sweets which has received tremendous reception from the trade and based on our earlier successes.

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**Anders Hansson** - Danske Markets - Analyst

Okay, thanks. Also coming back to the STG, can you talk a bit on where you are in terms of integration? You sound rather optimistic, but are the -- is STG run as two separate businesses or do you share business systems and such already now?

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

It's the same thing, it's a mixed picture. I am very impressed the way they brought it together, and they started to work with one culture and to plan and to execute for the synergies. But of course, you are bringing two large businesses together in different countries. There is a lot of system issues and so forth that need to be worked over there, over the coming quarters.

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**Anders Hansson** - Danske Markets - Analyst

Okay. Thank you.

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**Operator**

David Hayes.

**David Hayes** - *Analyst*

Afternoon, gentlemen, thanks. Just following up on that Sweet success in the US, I just wonder whether you can talk about what Swisher is the market leader in that category has maybe tried to do differently in terms of your gains in 2011 or whether you see no reaction on their part.

And then secondly in terms of PMI joint venture, I just wonder whether you can break out the net cost, your share of that cost, in 2010. And then maybe give us a little bit of background about what the business case would be for when that becomes profit-making. And then also in terms of Taiwan, which I guess for now, up to now, you've been in that market a little while, is there any kind of anecdotal evidence you can give us in terms of the success of that business into Taiwan and then what you might like to replicate in Canada? Thank you.

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

This is Lars here. When it comes to the Swisher, I will say that we have seen some -- definitely seen some response, and we have seen some pretty heavy discounting on their side. But there is definitely room for both of us.

It's a large segment and a lot of their consumers seem to turn to our products. So we're confident that we can continue to have a very meaningful presence of -- in that segment. When it comes to the numbers on SM-PMI, let Joakim or Emmett compare it to the prior year.

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

Well, the cost in 2009 that we booked were about SEK9 million. And in 2010, they were just about double that, slightly more. That's our share.

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

And then we don't make a split of how that cost relates to Canada and to Taiwan respectively. And in terms of when this will -- turning to [real] numbers that -- we do believe that Canada has a better potential than Taiwan. Taiwan is even more of a learning experience than Canada is, because there is a better knowledge and awareness of these types of production in the Canadian market.

But it's extremely recent in -- we have been out in the stores basically in December. So it's too early to read any consumer reactions, but the outlets are quite enthusiastic about this -- where we are quite enthusiastic about the [snus product] offering. In Taiwan, it's definitely going to take some time. But we have started to see some small pockets of certain outlets doing better than others, but it's a challenging environment to communicate with the consumer.

It's hard to give a prediction. I think we have to have some patience for [lack of] numbers in this joint venture, but at the same time we have been clear from the beginning. And the good thing is that both parties acknowledge that the opportunity is very big, but it's also a very long-term exercise to build in snus categories, and so to say in non-existing snus markets across the globe.

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**Anders Hansson** - Danske Markets - Analyst

Just in terms of the rollout, I'm just trying to put into context of at what point the rollout stops, and therefore the profit comes in rather investing mode. Because I guess, is there are danger here that PMI can afford to invest more for longer because it's much smaller in the scale of their business to yours. I just wondered how from a joint-venture perspective that is going to managed in the medium term in terms of the acceleration or the extent of rollout to different markets.

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

I'd say there is no -- the pace we're talking about which is likely to be able to be executed, there is not really any financial constraints. It's more -- we need the organization to be able to manage several projects at the same time.

It's a lot of work that needs to be introduced to do things right because we think it's more important to do things right than to do a lot of things very quickly. And there are a lot of learnings from the various markets that need to be applied on new markets and so forth. So I see that we have a very good fit in our strategic agendas together with PMI on this metric.

**Anders Hansson** - Danske Markets - Analyst

Okay, thanks very much, Lars. Thank you.

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

Thank you.

**Operator**

(Operator Instructions) Peter Wallin.

**Peter Wallin** -- Analyst

Thank you, and good afternoon, gentlemen. I would like to start off also on your extremely strong momentum on small cigars in the US, and also on these dispatches we've seen about you think that you're being able to reach double-digit growth also in 2011.

I would assume that this will be very front-end loaded since you're going to be coming up against very challenging comparables going forward. Or is it -- could you conceive actually having double-digit growth everything this quarter, year-over-year, or [during the mind] considering the momentum you are having right now?

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

I don't have exactly that quarterly breakout in my hand, but -- we basically made step change in that business, and we see that '11 can -- 2011 can be another meaningful addition into that business based on the continued success we have.

But you're right in saying that it's also much easier to predict the near term. And with the introduction of White Owl Green Sweets, we're very confident in a strong first quarter. But we should have a good year.

And then of course, this is early in the year, and we don't know what the competition is going to do exactly and so forth. But we have a good confidence for the full year.

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**Peter Wallin** -- Analyst

Yes, thank you. Then I would like to turn to the US snuff market where at least the year seems to have started the way pretty much as 2010 looked with quite strong volume growth in the market driven by the new definitions, the value segment. Do you expect this volume growth we're seeing and have been seeing now for almost a year to be prevailing during 2010, and how do you think that your volume growth will perform versus the markets?

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

Yes, this is Emmett. A little bit of a difference between when Nielsen reports in terms of market growth rate and what the industry generally feels the underlying growth rate was for the businesses partly because of changes of can sizes, promotional deals, and so forth.

Nielsen showed, in 2009 the market grew by 1.6% and then they said a growth of about 9.8% for 2010. If you take those two years together, you get an average growth rate in the range of 6% per year, which is not that far off from what we've seen over the longer period of time.

You're right, for the four-week period ending January 22nd, you saw good -- a continued good solid growth of the market, up 9.9%. Will that very strong growth continue for some time? Well, it comes to get a little bit tougher late in the spring. So it is possible to see the growth rate slowing down a bit.

But we're just going to have to wait and see what happens. With a dynamic environment, there is a lot of competitive activity going on, a lot of activities from the different competitors when it comes to new product launches and so forth. So let's -- for now, let's stay with a growth range of something more than 5% in terms of overall market growth and see if it gets closer to some of these more recent numbers that we've had.

**Peter Wallin** -- Analyst

Okay, thank you. And then on your General rollout in the US market. You are going to be spending substantially during the year you stated earlier in the press conference. Approximately how many outlets or points of sales do you expect to have at the end of this year considering your marketing plan right now?

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

It's clearly an ambition to expand in the existing store base and actually to complement it with -- let's call it dual offerings, which are not exactly based on the same concept and just expanding store by store.

So we are -- we're working through our plans in the US as we speak, and they can change as well. We can add more stores if we see success and we can slow it down if we think we need to spend more time in educating the consumers.

So this is a dynamic material. What's been very successful so far is that we have been adding stores, and at the same time making sure we work with existing stores to keep the rotation for a store up, or at the same or increasing levels, which means that we're not just shifting volumes from existing outlets to new outlets.

And we're going to continue to work very closely with our existing retailers. So it's hard to give you an exact number, but there is definitely an ambition to expand the base there as well as the consumption of the General product.

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**Peter Wallin** -- Analyst

Okay, thank you. And then I just have one question about -- you just stated that you've taken very large share of the cost associated with implementing the joint venture with STG. Approximately what does that mean?

Are you taking 40% or 50% of the cost and also the remaining part or any of those cash flow related or all -- could it have any impact on your cash flows on a quarterly basis in terms of -- for example, how much potentially you would buy back if it would coincide with also paying back debt?

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

Yes, first of all, the cash flow from the STG businesses will come in twice per year through dividends. But clearly, the size of the dividends will depend on the cash flow of STG. We've taken a large part of the integration cost that we had planned. I'd say it's more than 50% and the remaining part, there are definitely some that we know is going to come into 2011 as well.

But then it's possible that there are some beyond 2011 and into 2012 as well, as some type of synergies take a little bit longer time to work through exactly what is the right step for the future.

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**Peter Wallin** -- Analyst

Okay, thank you. That's all from me.

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

Okay.

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**Operator**

Adam Spielman.

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**Adam Spielman** -- Analyst

Hello, yes. First of all, can I ask you a question about the growth of the mass market cigars. Now I'm -- so to get this clear in my mind because I have to confess I don't really understand.

My understanding is there are two things going on here. One is the success of the FoilFresh wrapping, and that's been applied right across the portfolio including some of your largest cigars.

And as far as I can tell, the growth is coming from that, but also from the launch of sweet small cigars. And I just wanted to check that's right. And then the follow-up to that question is you're obviously talking about the White Owl Sweet Green launch.

But how significant is that because you have a huge number of SKUs, of White Owls and different blunts, and non-blunts and strawberry and pineapple and blackberry. It's -- is that a really significant launch that will keep the growth going for many months, or is it just equivalent to another flavor, raspberry perhaps to add to blackberry.

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

Hello Adam. When it comes to the FoilFresh you're right and that we've basically converted our entire assortment into FoilFresh and that's been extremely successful with the consumers as you know.

And it's definitely been good momentum across that portfolio, but the combination of the FoilFresh offering and entering into the sweet segment has been very nice add-on for 2010. And I think it's fair to say that FoilFresh packaging and the success we've had with that has been an enabler for us to break into a segment which has been dominated by some very strong brands.

And then you have this shift between large and small cigars. Generally speaking small cigars are done very well, but it's not only then the sweet, it's to be other flavor type of cigarette as well. And we've been extremely successful with the great cigarillo before. And to your question whether the sweet -- the green sweet is just another add-on, I'd say that the grape was an example of that which was more than just another flavor.

It was a very good introduction into the market that made a meaningful difference, and we are confident that green sweets will clearly be noted in our numbers based on the enthusiasm we have from that trade and the kind of displays they are putting up and -- very early, but more anecdotal type of feedback from the consumers as well.

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**Adam Spielman** -- Analyst

And so just to clear up in my mind, thank you for that. There is obviously this big acceleration of growth in the second quarter of 2010. I wonder what actually happened there, what was the product or thing that you launched? Because my understanding was you've had FoilFresh for a number of years. And you've had sweet cigars, and mostly in [the largest items] for a number of years. But of course I can be completely wrong on that.

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

The sweet cigar -- we really entered into the sweet cigar business I might add -- entered into the sweet cigar segment with pipeline segments in April, May of 2010. Before that we were not present in the sweet cigar segment. It was basically just Swisher which was carrying that segment.

So prior to that, we had White Owl in large and small cigars in different types of sizes and variety. We had Garcia y Vega and Game, large and small, natural and some flavored products. So part of the step-up, if you will, was the pipeline of our sweet assortment of White Owl cigars, particularly strong growth for the smaller cigarillo type of cigars during Q2, Q3 and to Q4. And now we're talking about another extension on the sweet assortment which is that green cigar.

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**Adam Spielman** -- Analyst

And we've talked about a little bit of -- and have you seen any response from either -- from your other competitors in the market, by which I really mean Middleton and the Imperial tobacco/former Altadis?

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

If we talk about -- if we talk about Altadis and Swisher, Altadis which probably has the biggest overlap in terms of the overall portfolio of our existing portfolio, but now Swisher -- with Swede. But both of the competitors have launched a foil variety, so foil wrapping on their products.



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So we are the only company that has our entire assortment moved over to the foil-wrap, which really has quite an impact at retail in terms of overall management of the category. So we have the look of the foil, we have the momentum; we have the innovation in new products going on in there.

So there have been some competitive activity on pricing, some competitive activity in terms of packaging, but we are the only one that has the entire mix of foil on everything, first going into new market segments.

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**Adam Spielman** - - Analyst

Thank you very much. And can I just turn quickly to STG -- I think I heard, but I just want to make sure I heard -- that you said most of the synergies would come in 2011. And I was also wondering if you'd given any guidance on to the scale or would be willing to give any guidance on the scale of the synergies within STG?

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

No, we said that we'll start to see synergies. They're coming now in 2011. And -- but there'll definitely be a taste of -- a phased benefit on the synergies. So not all of it will be realized in 2011, probably less than half. And -- but we have indicated before it's around EUR20 million. But now when the new company is operating as really one company, and that a chance to get a little bit closer into the various businesses and planning an integration even more in detail, we've raised that estimate to say that it's at least going to be EUR25 million.

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**Adam Spielman** - - Analyst

Thank you very much.

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**Operator**

Andreas Lundberg.

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**Andreas Lundberg** - - Analyst

Yes, thank you guys. Could you give us some indication on the US mass market cigar and margin in Q4 versus Q3? And also let us know if capacity is still an issue for you in that business? And my last question is on your CapEx guidance for 2011. Thank you.

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

Yes, I'll start off talking about the profitability on the other tobacco product segment in the fourth quarter. The number in the fourth quarter was around a bit more than [37%]. The profitability or the margin difference between chewing tobacco and cigars really wasn't all that different between the two products.

Chewing tobacco had a good strong quarter. Volumes decline was a bit less than you otherwise would have expected. We did announce a price increase toward the end of the year. And there was some forward buying going on by some accounts. So that helped in the volume side in terms of allocations and cost and so forth. So that helped the margins a bit on the chewing tobacco side.

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On the cigar side, you are going to have that enclosed in margin from period to period. But we're entering a situation where we have -- right now where we've got -- we had a lot of pipeline volume going out. We got now offerings to the consumer. And that includes some promotions there. So that's going to affect the margin somewhat.

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

Yes, on capacity, we don't see any issue there. But we have been forced to accelerate some capacity investment decisions lately. And -- but it's not been any material amounts. We're talking a couple of million dollars and so forth, add-on capacity. But we basically have moved from 2012 to immediately.

And if you look at the CapEx guidance, we don't give an exact numbers. We had a CapEx of about EUR311 million now in 2010. and of course a small part of that is from the former STG entities, which will go out. And I expect that the number will be a bit shy above EUR300 million for 2011. So it's somewhere around there.

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**Andreas Lundberg** - *Analyst*

Thanks a lot guys. That concludes my questions.

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**Operator**

Erik Bloomquist.

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**Erik Bloomquist** - *Analyst*

Hi, good afternoon. I wanted to turn back to the US mass cigar business. Firstly, can you talk about what the category growth was, and the category pricing and who is the leader in that pricing?

And then secondly, I was wondering with respect to your mass cigar productions, some of that is coming out of the Dominican Republic. Is there a risk of tax law changes that could disadvantage you? Or to put it in another way, do you have a competitive advantage in terms of tax burden, at the moment, with the cigars that come in from the Dominican Republic?

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

I'll start off with the overall market. I'll start off with a caveat of, the Nielsen numbers for overall market changes do vary quite a bit sometimes. So you have to be a little bit careful with them. But for the full-year 2010, Nielsen indicates that the total market, which includes little cigars, the way they're defined, was up about 2.4%. But when we look at the total market excluding little cigars, packs of let's say 20, very small cigars, the market was down about 3.8%. So let's say that the total market excluding these little cigars was probably down a bit.

Those same numbers show that for the year Swedish Match's volume was up -- consumption volume was up by about 11.3%. The latest reporting period ending January 22nd, the numbers are, the Swedish Match consumption was up about 19% in a market where, again be very careful with this because it's only a four-week period, the market was also down around 8% or so.

The main competitors on the US mass markets, when we exclude the little cigars are -- Swedish Match which has for the year-to-date ending December 25th about 11.6% of the market. Then you have Altadis or Altadis USA, part of Imperial, 23.8%, and then Swisher 33%, and then Middleton. Outside of that, when we're including these little cigars, you also have a very large number of other manufacturers in there as well.



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Before we go into the last part of your question, a lot of the cigars that we're making, a lot of the growth we've had, and a lot of the mixture that we've had has been moving over towards smaller White Owl cigars. Those smaller White Owl cigars generally are made in Dothan, Alabama.

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

Yes, I was going to get to that. When it comes to the cigar production, we have two locations. We are producing some in the US and some in the Dominican Republic, and we can also produce the smaller ones in the Dominican Republic.

It's basically a matter of allocating resources, but typically it's the larger cigars that we make in the Dominican Republic. It's more of a tradeoff of capacity utilization and their labor cost and so forth. And that's on the agenda and then particular change or differences in tax environment and so forth.

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**Erik Bloomquist** - *Analyst*

Okay, thank you. And then with respect to the launch in Canada, I was wondering if you could comment a little bit further on that given that BAT launched there in 2007 with Du Maurier Snus and result appeared to be a bit mixed.

Obviously, you're using General, but is the product different? Can you talk about how that's a different product, say than what was used earlier in the United States or how that might be different from what BAT is doing?

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

Yes. It's -- our product in Canada, I say, is more similar to the existing Swedish ones. We have a mint version and we have a -- I think it we call Snus --

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

Right.

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

-- and the other version which is more of a natural flavor. And there are some mini-pouches, but there are also the standard-size pouches of the Swedish type of product that we have been very successful in the US market in the stores that we're in, and building up the General brand.

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**Erik Bloomquist** - *Analyst*

Okay. And so it's the product that's somewhat similar to the General that you are rolling out across the United States, is that fair?

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

Yes, it's fair to say that there are clearly similarities there.

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**Erik Bloomquist** - - Analyst

Okay. And then lastly, with the strong pricing you had in snus in Scandinavia, was a chunk of that due to pricing ahead of a tax increase in Norway, or was that a reasonable underlying number that we can use, going forward?

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

You mean the pricing for 2010?

**Erik Bloomquist** - - Analyst

Yes.

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

Then -- there was a tax increase in Norway at the beginning of 2010 and there was one in the beginning of 2011. There was no tax increase on the Swedish market which is the bulk of the Scandinavian business.

And when it comes to the pricing in Scandinavia, it's clearly something that we revisit every year. And it's part of our marketing mix effort and it's a long-term decision and something we evaluate very carefully. But we don't communicate any decisions until we have had a chance to discuss it and communicate with the trade.

**Erik Bloomquist** - - Analyst

Right, understood on that. And in terms of tax risk, at this point the indications are still that we may see a tax increase in Sweden in 2012, is that right?

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

Yes, that's correct. That's the latest we heard, that it's 12% excise tax rate increase in the Swedish market, 1st of January 2012.

**Erik Bloomquist** - - Analyst

Great. Thank you.

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

Thank you.

**Operator**

(Operator Instructions) Rogerio Fujimori.

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**Rogério Fujimori** - - Analyst

Hello everyone. Could you comment on the level of input cost inflation you anticipate for Swedish Match in 2011 relative to what you saw in 2010?

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

It's different across different businesses. But generally speaking, you can say that if you look at the snus and snuff production, we have some cost increases in the beginning of 2010, but -- that were notable so to say on our gross margin basis. But then we worked through our -- with various supply-chain initiatives and managed to increase productivity during the year and towards the second half of the year. Costs have been much more in line with the prior year.

**Rogério Fujimori** - - Analyst

Thanks. And Lars, thinking about your recent innovation in US snuffs, you flagged the new packages on for Timber Wolf, the flavor Fresh for Red Man, I think, in the third quarter. Is there anything else in the pipeline for these two brands that I've missed? And separately, how much pouches represent out of your total US snuff business approximately? Thanks.

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

Yes, the pouch segment continues to be the fastest growing sub-segment in the US market. And the pouch segment in the US market is now about 10% of the total market, about 130 million cans, give or take, total market and it's growing at a 20%-plus rate for a year.

Our share within the pouch segment over the last three years has gone up. It fluctuates a little bit depending on launches and so forth. We had -- we did have a change as well on our Longhorn pouches. It's now a bigger and bolder pouch of Longhorn available from the second half of 2010 along with some of the other things that you had mentioned.

So a lot of activity going on in the pouch segment. Right now, our Timber Wolf -- what we call Timber Wolf packs, have been repackaged. We have an upgraded packaging on the Timber Wolf brand and now they're called Timber Wolf pouches as well.

**Rogério Fujimori** - - Analyst

That's great. Thank you.

**Operator**

Preeti Rambhiya.

**Preeti Rambhiya** - - Analyst

Well, I have a few questions on the US snuff side. One is, would you please care to quantify the impact that the raw material costs and marketing expend has had on the US snuff margin in the Q4? And stripping out those effects, do you see any expansion in 2011 on the underlying EBIT margin for US snuff?

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

When it comes to the Q4 in US snuff, the operating profit, if you exclude the investments behind General snus in the US, the operating profit grew pretty much in line with the sales. And it's a similar picture too in Scandinavia, where we didn't see the type of cost-of-goods increases on a comparable basis as we did in the beginning of the year.

**Preeti Rambhiya** -- Analyst

Yes.

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

And the same goes for the marketing spending. And I'd say for 2011, we are very content with the positioning of Longhorn. We have good momentum there. And a lot of the things here depend on the outside world and competitive activity as they should. It's a bit hard to quantify, but we don't have any plans to share with you either stepped up or stepped down --

**Preeti Rambhiya** -- Analyst

Yes.

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

-- here and now today in terms of extraordinary marketing activities for the moist snuff business. We envision more of a normal support in relation to the size of the business.

**Preeti Rambhiya** -- Analyst

Sure. And would you be willing to guide as to what percentage of your margin you plan to invest on General in 2011? I know you've said a significant percentage, but if could give us some guidance?

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

These are also the types of things as I addressed earlier that we can rework over the years. So -- but if you take 2010 as some kind of guidance for this as well, if you can make a simple back-of-the-envelope calculation, or if I do --

**Preeti Rambhiya** -- Analyst

Yes.

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

-- you have -- and take out the investments behind snus outside Scandinavia, it's basically 1 percentage points on the operating margin for the total product with snus and snuff. And I'd say an additional effect comparing 2011 to 2010 --

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**Preeti Rambhiya** -- Analyst

Yes.

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

-- we're probably talking same level, but maybe slightly a bit more -- so maybe 1.5 point or something like that. But these are plans that can change on a weekly basis and so forth.

**Preeti Rambhiya** -- Analyst

Okay.

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

And the direction is an increase in the investments.

**Preeti Rambhiya** -- Analyst

Okay. Thank you. And another question on snus basically in the US. When do we start seeing some positive impact from the investments you are making, like what time line are we looking at?

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

When it comes to US business, I mean, in the 1,200 stores where we are selling, it's a premium priced product in the US. So it's clearly profitable on gross margin basis.

But then we continue on an existing store that's been there for some time; it's already today a profitable business, but we will continue to invest as long as we see that it makes sense to spend more of the money into growth activities.

And it's hard to give you an exact timeline there. But it's likely to be a few years [from] where we're investing more than we can get back on a gross margin basis from that business.

**Preeti Rambhiya** -- Analyst

Okay. Thank you. And one last question. If I'm reading the news and data correctly, basically you've been losing market share on the US snuff side. Is that a concern and how do you plan to position yourself in the US?

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

Actually --

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

It is a concern that clearly that in 2010 it's a lower market share than 2009. If you look at the curve and dissect a little bit; it's relatively stable since the summer of 2010.

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And if you look through our various brands, it's Timber Wolf and Red Man that has some challenges in the competitive environment with some -- a lot of price promotions. And some premium brands offer that \$1.55 to the trade, which is a price point used for many of the value price brands, including Red Man and Timber Wolf.

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**Preeti Rambhiya** -- Analyst

Yes.

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

While Longhorn has continued its momentum. So it is a very competitive environment out there, but we are confident in continuing success for the Longhorn brand. That's strong momentum in both consumers and retailers in the US market.

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**Preeti Rambhiya** -- Analyst

Okay, thank you very much. That's all from me.

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

Thank you.

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**Operator**

Toby McCullagh. Toby McCullagh, your line is open, please go ahead.

Doesn't get any response. We'll continue with the next question. Chas Manso. Please go ahead

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**Chas Manso** -- Analyst

Yes, hi. Just picking up from the last question really, you're saying your US snuff market share has stabilized in the second half. But just what you commented on earlier about your four-week to January 22nd volumes, up 3.2% versus the market up pretty much 10%, it doesn't sound as if it stabilized.

I mean, does -- has your repackaging not really worked or is to soon to -- for that to have an impact and just pointing to that early 2011 momentum? Secondly, I don't know whether I missed it, but have you said what your market share is now in sweets, let's say exiting 2010?

And finally on the dividend payout, which has gone up, I know you've pretty much given out all your spare free cash, but should we now have the dividend payout at the new level, or should we start expecting you to take the payout up progressively from here?

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

Okay, this is Lars. First on the US market share, again, your reading of course, we shouldn't stare ourselves blind on the four-week period. It's a point-in-time measurement. But when you compare it to one year ago, you get the effect though, based -- when we have -- that we lost some share especially in the beginning of 2010, but stabilized towards the second half.



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Then of course, we are comparing with a clearly higher market share one year ago; and so it's natural that we also came out as in Nielsen data having grown less than the overall markets. On sweet segment, it's very hard for us to get an accurate read at this point of the consumer market share.

But if you look at our shipments that we had during 2010, clearly, there is some pipeline in there, but clearly also there is a very strong consumer pull on our products. But we estimate that our shipment market share there is -- given that it started in April, is not too far from 10% of the overall segment.

And we have to wait for more accurate consumer data there. Then on the dividend payout, I'm not 100% sure I understood your question. But you're right in saying that we haven't changed our dividend payout policy or our financial policy. I'd like Joakim or somebody to comment to that.

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

I guess that you are referring to that the payout ratio was around 55%. That's everything in the report, which is a bit higher than we've had before.

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**Chas Manso** - *Analyst*

That's right, yes.

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

Yes, and that's excluding large one-time items. But really you should be looking at the dividend policy. And we've said many times in the past that we intend to try to keep an increase in the dividends in absolute terms, we aren't looking at the payout ratio.

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**Chas Manso** - *Analyst*

Okay.

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**Operator**

Wish to take the next question? Do you wish to take the next question

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

Sorry?

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**Operator**

Do you want to take the next question?

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

We can take one more.



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**Operator**

Toby McCullagh.

**Toby McCullagh** - - *Analyst*

Yes, sorry, I had a telephone problem before. Just a quick question back on the US mass market cigars. I was wondering if you could just break down the drivers of growth. And obviously we've had FoilFresh across the portfolio, but also going into the sweet segment. I just wanted to break down the growth between those two drivers, and would also be interested to know what percentage of your portfolio now is in flavored cigars and perhaps where do we stand now in the context of potential FDA regulation and their position on the flavored tobacco products?

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

If you take the full year volume which is up 35%, if I have my numbers right in my head, it would have been about 20% if you exclude the sweets introduction. So it's still a very solid performance for the rest of that portfolio.

The split on flavors, and then of course the -- I guess the important news is that we haven't heard any -- we haven't heard any more news on potential FDA regulation in the cigar area from when they first said that they -- that scenario that they will look into.

So, we don't expect anything happening in 2011 and maybe not in 2012 either, but it remains to be seen. And on the split there on the flavored and non-flavored, I don't have that in my head.

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

It's -- still a significant percentage of the business is flavored, but it's so hard to get it exactly -- and to get one exact number because there are a lot of different ways you can identify what a flavor is; is the sweet cigar flavored or not flavored? One might argue it is, one might argue it isn't; what is a flavor versus what is not a flavor.

Overall in the cigar category, if you go back to 1996, most years the market has been up. Some years you've sold a lot of natural cigars, natural wrapper cigars, or unflavored cigars, some years very large cigars or small cigars. A lot of dynamics and a lot of movement in the category driven by innovation. Yes, there's been movements in flavors, but even that's changed a lot.

So you do see a lot of sub-trends going, but if you look at the bigger picture, the market is rather stable there. So we -- what we get -- we need to do is make sure that we have the right offerings within the marketplace as the market changes for whatever reason.

**Toby McCullagh** - - *Analyst*

That's great, thanks. I think pretty much everything else was already answered.

**Operator**

We have no further questions at this time.



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

Okay, just to conclude then that the release of our first quarter results 2011 will be on May 4th. Thank you for listening.

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**Operator**

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

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