

FINAL TRANSCRIPT

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Jul. 21. 2010 / 12:30PM, SWMAF.PK - Q2 2010 Swedish Match Earnings Conference Call

CORPORATE PARTICIPANTS

Emmett Harrison

Swedish Match - SVP, IR and Corporate Sustainability

Lars Dahlgren

Swedish Match - President and CEO

Henrik Brehmer

Swedish Match - SVP, Corporate Communications

Joakim Tilly

Swedish Match - CFO

CONFERENCE CALL PARTICIPANTS

Stellan Hellstrom

Nordea - Analyst

Anders Hansson

Danske Bank - Analyst

Mats Larsson

- Analyst

Rolf Karp

Ohman Securities - Analyst

Rogério Fujimori

Credit Suisse - Analyst

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Swedish Match AV conference call. At this time all participants are in listening-only mode until we conduct a question and answer session, and instruction will be given at that time. (Operator Instructions). Just to remind you, this conference call is being recorded. I would now to hand over to the chairperson of today, Mr. Emmett Harrison. Please begin your meeting and I will be standing by.

Emmett Harrison - *Swedish Match - SVP, IR and Corporate Sustainability*

Good afternoon, this is Emmett Harrison. I'm Senior Vice President of Investor Relations. Welcome to the second-quarter 2010 results telephone conference for Swedish Match. Lars Dahlgren, President and Chief Executive Officer, is joined today by Joakim Tilly, Chief Financial Officer, Henrik Brehmer, Senior Vice President of Corporate Communications, and myself.

The conference call should last about an hour, and will include an overview by Lars Dahlgren and a review of the financials from Joakim Tilly. The question and answer period will follow. A shortened version of our investor kit accompanies this presentation via webcast. And a complete investor kit is available in the Investor Relations section of our website, swedishmatch.com.

During today's conference call we will discuss certain items which may constitute forward-looking statements. Because such statements deal with future events they are subject to various risks and uncertainties. Although management believe that its expectations are based on reasonable assumptions, it can give no assurance that its expectations will be achieved. Risk factors are outlined in the latest Annual Report, which is available on our website, swedishmatch.com. Swedish Match assumes no obligation to update information concerning its expectations.

Jul. 21. 2010 / 12:30PM, SWMAF.PK - Q2 2010 Swedish Match Earnings Conference Call

This conference call is being recorded and the recording will be published on the Swedish Match website. I would now like to turn the conference call over to Lars Dahlgren.

Lars Dahlgren - *Swedish Match - President and CEO*

Thank you, Emmett. Today Swedish Match reported its best ever quarterly underlying operating profit, reaching SEK911m. In particular, we saw strong performances in our Scandinavian Snus business. And for US Machine-Made Cigars, sales and volumes reached record levels.

Before we go into details in the different product areas, I would like to point out that there were a few factors which impacted the comparison of the reported results compared to prior year. First, there were broad currency movements since last year, effectively reducing Swedish crown contribution from, especially, our US sales and operating profits. Also there were significant hoarding and de-stocking effects in the first quarter last year in the US tied to tax changes. In the second quarter last year many of those effects were reversed.

This means that in most cases when discussing the US businesses it is better to look at the full six months' period when making the comparison to prior years. For the US Moist Snuff and Chewing Tobacco businesses buying patterns around the excise tax increased prior year, meaning that volume shifts in the first quarter 2009 were lower than normal and were higher than normal in the second quarter 2009.

For US Cigars we saw the opposite effect, and volumes shifts were higher than normal in the first quarter 2009 and were somewhat lower than normal in the second quarter. In Sweden the timing of Easter this year inflated the Snus volumes in Q1 and resulted in lower than normal volumes in Q2. So also here it makes sense to look at the six-month period.

With that, here is a quick summary. Swedish Match Group sales for the second quarter reached SEK3.701b, up 1%, and up 4% in local currencies. Sales growth for the second quarter came primarily from organic growth for Snus and Snuff, as well as Cigars and Lights. Sales declined for Chewing Tobacco in local currencies. In Swedish kroner operating profit grew by 5%. Including depreciation and amortization on assets held for sale operating profit increased by 4% in local currencies.

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 second quarter versus last year on flat volumes. Operating profit was up somewhat more in percent, resulting in higher operating margin.

We had volume growth in Norway and Travel Retail. And when taking the Easter effect into account, overall underlying volume growth was approximately 3%, with underlying volume also up in Sweden. 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 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 88.1% in the April/May period compared to 88.0% for the preceding two-month period. Our market share in volume terms was 85.8%, up from 85.6% in the February/March period.

Snus volumes for the Swedish market have been growing at a 2.5% rate over the 12 month -- past 12 months according to Nielsen and we expect the market growth to be around 1% for the full year of 2010. We would expect the Scandinavian market to grow in 2010 at slightly more than the Swedish rate.

In the US market Snuff revenues in the second quarter were down by 9% in local currency, on 22% lower volume. The volume decline is due, in large part, to prior-year tax-related restocking effects. However, also for the six-month period Swedish Match shipment volumes declined in the range of 5% to 6%, with the main explanation being that we had different promotional phasing versus prior year, reflecting new packaging and marketing changes that went into effect in June due to new FDA rules.

Jul. 21. 2010 / 12:30PM, SWMAF.PK - Q2 2010 Swedish Match Earnings Conference Call

Nielsen reported the overall Snuff market to have been up by 7.8%, with Swedish Match consumption volume up by 2.1%. Nielsen reports that the growth for our low-priced brand, Longhorn, was significantly higher than the overall category, while we saw some declines in the rest of our portfolio.

In the most recent isolated four-week period ending June 12 Swedish Match market share was 11.8%. Our market share for the year-to-date period ending June 12 in volume terms, according to Nielsen, was 12.2%, compared to 12.9% for the same period in 2009, with Timber Wolf having 5.3%, Longhorn 5.4% of the total Snuff market.

In Q2 profitability for our US business contracted versus prior year, with higher 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. We also have market investments related to brand- and awareness-building activities for our General brand of authentic Swedish Snus in key US markets. Profitability was improved over Q1, however.

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 more than 900 stores in major cities across the US. And the process of store expansion will continue during the year, as we continue to see good turns in stores than we add on. General typically sells at a premium price compared to other Snus offerings in the US.

On May 25 we increased prices on our Moist Snuff products in the US by \$0.10 per can for Timber Wolf and Red Man, and \$0.07 per can for Longhorn, equivalent to a 6.7% price increase. This followed similar price increases by our main competitors. On June 22 the new FDA regulations went into effect and we have made all necessary adjustments to adhere to these new regulations, including ending our NASCAR sponsorships. Our packaging now reflects the new warning label requirements.

In late June we also introduced a new and improved packaging for our Red Man Moist Snuff products, with the new flavor-fresh lid which helps the product to stay fresh longer. Freshness is a key issue for consumers and this new packaging concept directly addresses this consumer need. In July we'll be supporting this concept in our consumer marketing programs.

With regard to SMP and International, the joint venture company for smoke-free products, we are in the final stages of preparation for initiating a small-scale launch of Original Swedish Snus in Taiwan. The launch is targeting selected outlets and will be marketed under the General brand, locally adapted and researched. We expect to have the product in the stores during the third quarter.

In our Cigar business sales in local currencies were up by 9% versus the second quarter of 2009. Sales in local currencies were down less than 1% for the six months -- first six months of the year. For US mass-market Cigars second-quarter sales in US dollars were up by 36% from the second quarter of 2009, on 55% higher volume, reaching record levels. Even when taking prior-year de-stocking into account, this is a very solid result, and, year to date, the volume increase was 19%.

During the quarter we gained market share and 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 second quarter sales increases in our Internet, mail order and catalogue businesses through Cigars International offset declines in General Cigar. But when backing out last year's second quarter de-stocking effects we estimate that Swedish Match total US Premium Cigar sales declined, in part due to lower shipments with some larger accounts, but also the continued careful management of inventories at retail level. We did, however, see a more positive development in the second quarter compared to the first, and the quarter finished in a stronger note.

In local currencies sales and operating profit in the second quarter were marginally up for European Cigars versus Q2 2009, on stable volumes. Year to date, the operating profit in euro increased.



Jul. 21. 2010 / 12:30PM, SWMAF.PK - Q2 2010 Swedish Match Earnings Conference Call

On April 26 we announced the agreement to form a new and strong Cigar, Pipe Tobacco and Fine-Cut Tobacco combination with Scandinavian Tobacco Group. The new Company, in which Swedish Match will own 49%, will include all the Tobacco business of 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.

We are currently in the middle of, as much as we are allowed prior to closing, planning for an efficient integration process. I'm very pleased with the progress of the integration process so far. The regulatory filings are progressing as planned and expected, and we are confident that the transaction will be closed prior to year end. More information about the agreement and the proposed new company can be found in our press release from April 26 on our website.

For Chewing Tobacco our market share for the year-to-date period ending June 12 was 45.6%, according to Nielsen estimate. This means that Swedish Match has taken some market share in a category that, this year, shows higher than normal decline, much tighter tax changes in 2009. In local currency US sales declined by 7% in the second quarter, while operating profit declined by 13%. For the six-month period, which also for this category it's more relevant to look at, US sales for Chewing Tobacco were flat versus prior year, aided by improved pricing on our own brands and sub-contracting volumes to National Tobacco. Operating profit declined 5%.

In SEK, second-quarter sales declined by 12%, while operating profit declined by 27%. If we exclude the SEK10m charge relating to the closure of the production of the small Piccanell Chewing Tobacco brand in Sweden, operating profit declined by 20% and the operating margin reached 37%. Our Lights business continued to perform well in the second quarter. Sales increased by 2%, while operating profit increased by 11%. Lighters improved both in the quarter and year to date, while the Match business did not fully meet last year's levels.

Now I will hand over to Joakim for some more comment 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 weakening of the US dollar versus the Swedish kroner compared to last year's first six months. The average rate of the dollar versus the Swedish crown has declined by 10% year to date, from 8.17 in the first six months of 2009 to 7.39 in the first six months of 2010, which has resulted in a translation effect on operating profit for the first six months of negative SEK69m.

For the second quarter the total translation impact on sales was a negative SEK99m, of which SEK76m for Cigars, SEK13m for Snuff, SEK13m for Chewing Tobacco and a positive SEK4m for Lights. For operating profit, including depreciation and amortization of assets held for sale, the total translation impact was a negative SEK25m for the second quarter.

If current exchange rates would prevail, however, we would expect marginally positive effects on sales and operating profit comparisons for the third quarter of 2010 compared to the third quarter of 2009. The average rate for the dollar versus the SEK in Q3 2009 was 7.25.

Net finance costs for the second quarter amounted to SEK129m, compared to SEK108m previous year. The net finance cost in the quarter includes bondholder consent fees related to the STG transaction, of SEK21m. Excluding those fees, the net finance cost in the quarter was unchanged compared to previous year, with lower interest income from cash positions being offset by lower interest expenses from a decreased debt position.

As at June 30, 2010 Swedish Match had SEK8.2b of interest-bearing debt, excluding retirements benefit obligations. The average maturity duration of the bond portfolio is 2.7 years and the average duration of the interest [binding] is 2.4 years. In the second quarter maturing loans of SEK100m were repaid. And during the remainder of 2010 a total of SEK600m worth of loans comes



Jul. 21. 2010 / 12:30PM, SWMAF.PK - Q2 2010 Swedish Match Earnings Conference Call

due for repayment, all in the fourth quarter. The weighted average interest rates on bonds issued, including derivative effects, is currently 4.3%. And about 20% of the portfolio is exposed to variations in interest rates.

As of June 30, 2010 Swedish Match has SEK1.3b of cash and cash equivalents, including SEK87m reported as assets held for sale. After the close of the period we issued SEK700m in bonds, maturing in 2015 at the rate of 4.34%, while, at the same time, repaying SEK400m in bonds maturing in 2012. This improves our financial risk profiles with more even 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 22%, depending on, among other factors, currency fluctuations. For the first six months of the year the reported tax rate was 21%, positively impacted by some smaller one-time items from the first quarter. For the second quarter in isolation the reported tax rate was 22%.

Some comments to the cash flow. Cash flow from operating activities for the first six months was SEK1.116b, compared with SEK1.300b in the first six months of 2009. The reduction of the cash flow was due to timing of income tax payments as well as certain positive adjustments made in the prior year.

Cash flow from working capital was a negative SEK55m in the first six months versus a negative SEK100m in the first six months of 2009. Investments in property, plant and equipment amounted to SEK197m, compared with last year's level of SEK231m. Net investments amounted to SEK322m, including the acquisition of the 20% share in Caribbean Cigar Holdings Group, of SEK110m.

During the first six months of 2010 3.5m shares were repurchased for SEK556m, or at an average price of [SEK158.13], while 0.5m treasury shares were sold as a result of options holders exercising their options. During the second quarter 1m shares were repurchased for SEK158m.

The net debt was SEK8.3b as per June 30, including net financial assets reported as assets and liabilities held for sale of SEK18m. The net debt in relation to EBITA was SEK2.4m for the 12-month period ending June 30, 2010. The net debt includes the net pension liability of SEK1.338b based on the actuarial evaluation according to IAS 19, including a pension liability of SEK68m reported as assets and liabilities held for sale. The net liability increased by SEK197m compared to 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.

Total dividends paid during the first six months of the year amounted to SEK1.089b. This is equivalent to 49% of the earnings per share for 2009. The Board decided yesterday to continue share repurchases in line with the authorization from the AGM.

Given the somewhat improved conditions in the financial markets, the recent activities in managing the maturity profile, which also resulted in some additional funding, solid cash generation and good flexibility versus our financial policy of net debt to EBITDA below three, we plan to resume share repurchases during the third quarter. Exactly how much and by when will be communicated at the completion of purchases on a daily basis, in line with stock exchange rules.

I will now hand over the Henrik to discuss the recent developments regarding litigation, before going into Q&A.

Henrik Brehmer - Swedish Match - SVP, Corporate Communications

Thank you, Joachim. As noted in the interim report on July 14, 2010, the US Court of Appeals for the Second Circuit issued its latest ruling on the Cohiba case. The US Court of Appeals reversed the recent US District Court's ruling, concluding that the US District Court [heard] in re-opening this case, and thereby upheld its previous ruling that General Cigar is the rightful owner of the Cohiba trademark in the US.

Jul. 21. 2010 / 12:30PM, SWMAF.PK - Q2 2010 Swedish Match Earnings Conference Call

We are confident that General Cigar's exclusive right to the Cohiba Cigar brand in the US will be upheld even if Cubatabaco attempts further legal efforts to challenge these rights. Absent further efforts by Cubatabaco to appeal the US Court Appeals' decision, the next step will be for General Cigar to ask to dismiss Cubatabaco's petition to cancel General Cigars Cohiba trademark. Based on the latest ruling from the US Court of Appeals for the Second Circuit, we expect that the US Patent and Trademark Office will dismiss Cubatabaco's cancellation petition.

I will, thereby, hand over the conference call back to Lars.

QUESTIONS AND ANSWERS

Lars Dahlgren - *Swedish Match - President and CEO*

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

Operator

Thanks you very much, sir. Ladies and (technical difficulty).

Emmett Harrison - *Swedish Match - SVP, IR and Corporate Sustainability*

Operator, we're not hearing anything on the line.

Operator

Hello.

Emmett Harrison - *Swedish Match - SVP, IR and Corporate Sustainability*

Now we hear something.

Operator; Okay. Is that all right? (Operator Instructions). The first question comes from the line of Stellan Hellstrom. Please go ahead with your question; your line is now open.

Stellan Hellstrom - *Nordea - Analyst*

Hi, first a question on US Snuff. You had significantly lower shipment growth relevant to Nielsen consumption numbers in the first half. Has there been some trade inventory de-stocking ahead of recent new regulations that you expect to recover in the second half?

Lars Dahlgren - *Swedish Match - President and CEO*

Hello, Stellan, this is Lars here. The most important factor behind this deviation between Nielsen and shipment volumes, which is unusually large this time, is really the phasing of promotions ahead of the FDA regulations, whereby, last year in the second quarter we did run promotions and this year we hardly ran any promotions. So this year we have two a little bit bigger waves than last year we had three more evenly spread out waves.

Jul. 21. 2010 / 12:30PM, SWMAF.PK - Q2 2010 Swedish Match Earnings Conference Call

So, yes, we do expect to have a better match as the year goes along between shipment volumes and reported volumes by Nielsen. But given where we are now, with minus 6%, it may be the case that we may not reach all the way to the Nielsen numbers for the full year.

Stellan Hellstrom - *Nordea - Analyst*

All right. Then also a question on Sweden here. Maybe it is early days yet, but are you realizing price increases in line with your recent list price hike?

Lars Dahlgren - *Swedish Match - President and CEO*

Yes. As we communicated, there was a small price adjustment on the Swedish market in June, which also was the case in 2009. And if you ask for any observations after this, it's, of course, a very limited time period to have any accurate measurements. But it was a similar one and in line with the pricing strategy that we effected in 2009.

Stellan Hellstrom - *Nordea - Analyst*

Okay. But you don't see any, let's say, increased aggressiveness among competitors or anything like that?

Lars Dahlgren - *Swedish Match - President and CEO*

We were not the only one that moved prices this year; some other competitors have increased their prices on the Swedish market as well. I guess they face the same type of cost of goods increases that we saw in the first half.

Stellan Hellstrom - *Nordea - Analyst*

Okay. Then just a final question on the PMI joint venture here. Do you have any further information on what kind of -- what brand it will be that you will be launching?

Lars Dahlgren - *Swedish Match - President and CEO*

It's going to be the General brand and it's going to come in two flavors, what we call, Mint and Original. And we have locally adapted these flavors and done quite extensive consumer research. Having said that, it will, of course, be a relatively small-scale launch initially.

Stellan Hellstrom - *Nordea - Analyst*

Thanks.

Operator

The next question comes from the line of Anders Hansson. Please go ahead with your question; your line is now open.

Jul. 21. 2010 / 12:30PM, SWMAF.PK - Q2 2010 Swedish Match Earnings Conference Call

Anders Hansson - Danske Bank - Analyst

Thank you, Anders Hansson at Danske Bank. First, on US Mass-Market Cigars, Lars, I saw your -- I saw some comments where you said you expect clear double-digit volume growth in the second half of this year. And, just wondering, does that imply you continue to gain market share, or is it sufficient just to hold your current market share to reach that?

Lars Dahlgren - Swedish Match - President and CEO

The way we see the category going we are outpacing the category at the moment quite significantly and, as we pointed out in the call there, that we have 19% year-to-date volume growth. We should be aware that net sales growth there is still very strong, but it's not all the way up to 19%.

Because at the same time there is a mix shift where what's very popular now is -- are the cigarillo-sized Cigars, not the little Cigars, but the cigarillo-sized Cigars. We have a slight negative mix effect but still very healthy revenue growth. And, yes, I mentioned that to some media this morning; that our ambition is to clearly outgrow the 19% we had in the first half, in the second half, versus prior year.

Anders Hansson - Danske Bank - Analyst

Yes, and a follow up to that one. If you expect continued strong sales in Mass-Market Cigars, where you have significantly higher margin compared to the other Cigar parts, what do you think about Cigar EBIT volumes in the second half if we use Q2 as a benchmark?

Lars Dahlgren - Swedish Match - President and CEO

As I said also, we saw some encouraging signs on the Premium Cigar side, although it is still highly uncertain, but we're hopeful that -- and we do think that we'll see an improvement in the second. So that business should also become a larger (inaudible). And Cigar margins are very volatile because of the relative size between the various segments and including currency movements. So we try to refrain from speculating in the Cigar margin because, quite frankly, it's hard for ourselves as well.

Anders Hansson - Danske Bank - Analyst

Okay, one last one. On Taiwan, can you give some flavor on what market characteristics made you choose that country?

Lars Dahlgren - Swedish Match - President and CEO

Yes, let's not go into too much detail; we're just in the final stages of preparing for the launch. But we have researched the market. We think that it's a good geography for a first launch. There is an openness to trying new products in that sector and the trade is receptive (sic) to product introductions as well. So we think this is a good first market.

Anders Hansson - Danske Bank - Analyst

Okay, thanks.

Operator

The next question comes from the line of [Mats Larsson]. Please go ahead with your question; your line is now open.

Jul. 21. 2010 / 12:30PM, SWMAF.PK - Q2 2010 Swedish Match Earnings Conference Call

Mats Larsson - - Analyst

Hi, Mats Larsson. Joakim, well done. A question here on the Swedish -- or Scandinavian Snus business. You had for the first half sales growth of 12% with 3% volume growth. Is there anything else than price that we should look for there, for the 9% missing, or is the price achievement 9% here?

Lars Dahlgren - Swedish Match - President and CEO

There might be some small mix effects between formats and so forth, but that's basically the factor. In the second quarter, if you listen careful, people should be aware that there were few weeks of the quarter where we had a double price impact, since we took the price increase in Sweden June 7 this year and later in June in 2009 as well. So you need to be aware of that when you do your future modeling.

Mats Larsson - - Analyst

Of course, but it was for the first half, so I guess that's quite a small impact. Then on the 4% retail price increase that you announced and talked about here today, that's retail, and I guess, for you, that would mean more the double that?

Lars Dahlgren - Swedish Match - President and CEO

It's around 6% or so, maybe a little bit more than that on some brands.

Mats Larsson; Okay, good. And then on the market share development in US Mass-Market Cigars, where you've been gaining ground -- and I know previously we've seen some market share data on that. Is there anything that you'd care to comment on here? US Mass-Market Cigars, yes.

Emmett Harrison - Swedish Match - SVP, IR and Corporate Sustainability

Yes, in the US Mass-Market Cigars in May isolated four-week period our market share was 5.6%. In June it was 5.7%. For the year-to-date period through June 12 the market share was 5.3%. So it's moving up.

Lars Dahlgren - Swedish Match - President and CEO

Having said that, we point out to people that, when it comes to Mass-Market Cigars, we feel is that Nielsen is not always the most representative sample. So you see the trend there but you don't see the full effect.

Mats Larsson - - Analyst

Perfect. And then, lastly, on the buy backs, do you still aim for achieving the full 10% up until the next AGM?

Joakim Tilly - Swedish Match - CFO

We expect -- with the recent activities we have done on managing the maturity profile, and also receiving some new financing here, and then with some strong cash flows going forward, we believe that we will use a rather large part of the mandate.

Jul. 21. 2010 / 12:30PM, SWMAF.PK - Q2 2010 Swedish Match Earnings Conference Call

Mats Larsson - - Analyst

And is there anything preventing you starting as of tomorrow?

Lars Dahlgren - Swedish Match - President and CEO

We'll see when they start.

Mats Larsson - - Analyst

Okay, but nothing preventing you? Good. That was all from me, thanks.

Operator

The next question comes from the line of Rolf Karp. Go ahead with your question; your line is now open.

Rolf Karp - Ohman Securities - Analyst

Hi. I had question regarding Snus and Snuff. You have been repeating the 2010 margin to be in line with 2009. Should we expect, then, further charges or costs for the second half of this year?

Lars Dahlgren - Swedish Match - President and CEO

Further charges or costs?

Rolf Karp - Ohman Securities - Analyst

Yes, marketing costs etc.

Lars Dahlgren - Swedish Match - President and CEO

Yes, of course we will have marketing costs, if you mean on a relative basis. What I've said is that, and we have said all year long, that we think that the full-year margin of 2009 is a good indication for this year as well. If we would deviate from that it would most likely have to do with conscious decision to invest further behind Swedish Snus in the US, where we see very good momentum. And we are having a discussion if we can do even more that we had in our plans.

If you take the first six months of this year and you compare it to the first six months last year, the increase in spending to our Swedish Snus in the US has reduced the Snus/Snuff margin by approximately 1.5 percentage points, just to give you an idea of the magnitude. So it is sensitive to those kind of activities.

Rolf Karp - Ohman Securities - Analyst

Good. Could you give us some flavor regarding the FDA taking over surveillance or whatever we could call regulations? What does that mean for the Snus?



Jul. 21. 2010 / 12:30PM, SWMAF.PK - Q2 2010 Swedish Match Earnings Conference Call

Emmett Harrison - *Swedish Match - SVP, IR and Corporate Sustainability*

Well, for Snus and Snuff they're basically regulated the same way according to FDA regulations. For the consumer basically it means that the can has a somewhat different look in terms of the warning label. You can see a picture of that on the investor kit. It also means that there are different restrictions when it comes to sampling activities, and also that sponsorships are not allowed. So it's the same kind of rules that you would have for the Snuff business. This is market that is in its infancy in the US, so if we talk about impact post-FDA versus pre-FDA, I think you're talking about too short a period of time here.

Rolf Karp - *Ohman Securities - Analyst*

Okay. What are your stance regarding a possible tax increase on Tobacco products in Sweden? Have any news regarding this issue?

Lars Dahlgren - *Swedish Match - President and CEO*

Yes, we have the same news as -- that's been now in the Swedish Media. And it's an election year, so we don't know who's in government after September. But the opposition parties have said that if they would come into power that they would be looking at a tax increase of around SEK2, SEK2.40 per --

Emmett Harrison - *Swedish Match - SVP, IR and Corporate Sustainability*

Yes, 12.5% (inaudible) today.

Lars Dahlgren - *Swedish Match - President and CEO*

That's been communicated by them. But, as I said, this is part of various packages that they have presented prior to the elections, so I guess they will work through their proposals more in detail if they would come into power.

The other piece of news is that, then, the current government has issued a proposal which is out for a commentary, which, if that proposal would be enacted exactly as it is, the way we interpret it is that there is no tax increase in 2011. But starting in 2010 the Tobacco taxes for all products would be increased with general inflation, the consumer price index.

Rolf Karp - *Ohman Securities - Analyst*

Okay, a final question regarding the JV with STG. I get the picture that it's a question of a delay maybe until the Q4 compared to what you have said previously Q3. What charges is there? I assume that there are some charges for the joint venture. And what amount are we talking about?

Lars Dahlgren - *Swedish Match - President and CEO*

If I comment first on the delay and let me see if Joakim has any comments on charges. There is really no delay. I think we were maybe a little bit optimistic on the regulatory process when we said third quarter. We still hope for the third quarter; I should make that clear. And that is possible, but there is risk that it extends to the fourth quarter. And it's just that these things do take time. But, having said that, it's gone very well and according to expectations. All the filings are complete and we have actually obtained approvals in most countries where this transaction is reportable.

There is one geography where we need to make remedies, and this was part of our plan; this was expected. It's Australia and New Zealand where we need to divest -- or the new combination, so to say, needs to divest some brands, either some STG

Jul. 21. 2010 / 12:30PM, SWMAF.PK - Q2 2010 Swedish Match Earnings Conference Call

brands or Swedish Match brands, or a combination thereof. And we're currently in the dialogue, a good dialogue I should say, with the Australian authorities on exactly their requirement there so we know what package of brand or brands that will be put on the market. And as soon as that dialogue is complete, which we expect to be within short, we will put those brands up for sales and contact potential purchasers.

We don't see any problems. The brands we're putting together are -- the type of combinations are attractive, so it should be attractive for other Cigar players to buy. At the same time, as said, it's in line with our original expectations and not material to the overall transaction.

Rolf Karp - *Ohman Securities - Analyst*

Okay. What about the charges? What amount are we talking about? I assume --

Joakim Tilly - *Swedish Match - CFO*

The main item was one that was cleared out pretty much in the report now, which is bondholder consent fee of SEK21m that hits Q2 in the finance there. And apart from that, when it comes to the costs for the actual process, those were included as they occurred in the P&L, and have been throughout this process. And the amounts are not that big, actually, so it's not any major items.

Rolf Karp - *Ohman Securities - Analyst*

Okay, that concludes all my questions. Thank you.

Operator

The next question comes from the line Rogerio Fujimori. Please go ahead with your question; your line is now open.

Rogerio Fujimori - *Credit Suisse - Analyst*

Hello, everyone. Two questions. One, on the slide 17 of your pack, on the US Mass-Market growth by segment, I've noticed there are obviously some changes in your forecast for the full year on price and value. Obviously, there have been many line extensions in Premium launched at lower price points, but I was just wondering if you could give any color on your assumptions for the second half. That's my first question.

And my second one is on Chewing Tobacco, if you give any kind of an idea of how much Texas and Florida represent as a percentage of your total US Chewing Tobacco business. Thank you.

Emmett Harrison - *Swedish Match - SVP, IR and Corporate Sustainability*

Okay. First -- this is Emmett. First, on the price, Value and Premium, the old expectation that we had was for a 5% market growth rate. Now we're assuming about a 6% market growth rate with the market for Premium products, which include all the competitors' Premium brands no matter what price point you're selling it at, to grow in the range of 8%. While for the price Value brands the price increase -- the volume increase for that market would be in the range of 3% maybe 4%. It's not an exact science.

For the year-to-date period so far Nielsen is showing segments divided this way; the Premium segment up by more than 10% and the low price segment by about 2.5%. So that implies similar rates of growth for the price Value segment, maybe a little bit



Jul. 21. 2010 / 12:30PM, SWMAF.PK - Q2 2010 Swedish Match Earnings Conference Call

faster, and for the Premium segment maybe slight slow down. The reason for that it has to do with anniversarying (sic) of certain events in the different periods in the year.

For Chewing Tobacco, Texas and Florida together are 30% or so, or a bit more, of the total Chewing Tobacco market, so they're very significant.

Rogério Fujimori - *Credit Suisse - Analyst*

Thank you.

Lars Dahlgren - *Swedish Match - President and CEO*

Wait, it's 12%.

Emmett Harrison - *Swedish Match - SVP, IR and Corporate Sustainability*

Is it? It's 12%. Sorry, 12%. The reduction was around 30%, sorry, in terms of volume.

Operator

(Operator Instructions). Sir, we appear to have no further questions at this time. I hand the conference back to you.

Lars Dahlgren - *Swedish Match - President and CEO*

Okay, thank you. Just to point out that the release of our Q3 results will be on October 27. And please note that the time for the telephone conference following the release on October 27 has been rescheduled to 2.00 pm Central European Time. 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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