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CORPORATE PARTICIPANTS

Emmett Harrison *Swedish Match - SVP, Corporate Communications & Sustainability*

Lars Dahlgren *Swedish Match - President and CEO*

Joakim Tilly *Swedish Match - CFO*

CONFERENCE CALL PARTICIPANTS

Stellan Hellstrom *Nordea Markets - Analyst*

Andreas Lundberg *ABG Sundal Collier - Analyst*

Anders Hansson *Danske Bank - Analyst*

Owen Bennett *Nomura - Analyst*

Erik Bloomquist *Berenberg - Analyst*

Adam Spielman *Citi - Analyst*

Fulvio Cazzol *Goldman Sachs - Analyst*

James Bushnell *Exane BNP Paribas - Analyst*

Henry Davies *BofA Merrill Lynch - Analyst*

Stefan Nelson *SEB Enskilda - Analyst*

Chas Manso *Societe Generale - Analyst*

PRESENTATION

Operator

Thank you for standing by, ladies and gentlemen, and welcome to the Swedish Match half-year report 2013 conference call. At this time, all participants are in a listen-only mode. There will be a presentation, followed by a question-and-answer session, (Operator Instructions). I must advise you that this conference is being recorded today, on Friday, July 19 2013.

I would now like to hand the conference over to your speaker today, Mr. Emmett Harrison. Please go ahead, sir.

Emmett Harrison - *Swedish Match - SVP, Corporate Communications & Sustainability*

Thank you. Good afternoon. This is Emmett Harrison, Senior Vice President of Corporate Communications & Sustainability. Welcome to the second quarter 2013 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 relations' section of our website, swedishmatch.com.

During today's conference call, we will discuss certain items which may constitute forward-looking statements. Because such statements deal with future events, they are subject to various risks and uncertainties.



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

This conference call is being recorded, and the recording will be published on the Swedish Match website.

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

Lars Dahlgren - *Swedish Match - President and CEO*

Thank you, Emmett. For the second quarter of 2013, Swedish Match delivered sales growth of 3% in local currencies.

Operating profit from our fully owned product areas declined by 5% in local currencies, with the decline as a result of a number of factors, including currency effects; price and mix effects; further investments behind snus internationally; as well as increased promotional activity for US cigars affecting our mix.

Our share of net profit in STG was SEK95 million, compared to SEK114 million in the prior year.

For the January to June period, basic earnings per share reached SEK7.5; an increase from SEK6.99 in the prior year.

Scandinavian snus sales declined by 4% in the second quarter versus the last year. Shipment volumes in Scandinavia were down by 2% in the quarter, and the weaker Norwegian krone also contributed to the sales decline.

Volume increases in Norway partially offset decreased volumes for the Swedish and travel retail markets combined.

For the half year, we estimate that underlying consumption volumes in Scandinavia [for our] products were down also about 2% year on year.

Second quarter operating profit in Scandinavia declined versus the same quarter of the previous year, but the operating margin was slightly higher than a year ago.

In Sweden, for the 12-week period ending June 16, 2013, Nielsen, excluding tobacconists, reported a total market share for Swedish Match in volume terms of 73.0%, compared to 78.2% in the corresponding period of the previous year; and in value terms, a total market share of 79.2%, compared to 82.9% for the same period.

While the year-on-year volume market share decline is relatively big, the 73.0% for the second quarter period is only slightly down from the 73.3% for the 12-week period we referenced after the first quarter.

Swedish Match divides the Swedish snus market into three price segments. For the four-week period ending June 16, we estimate that we had a volume share of 95.5% of the full price segment; 54.3% of the mid price segment; and 29.9% of the low price segment.

The full price segment accounts for approximately 60% of the Swedish market in number of cans; down from approximately 66% in the corresponding period last year.

According to Nielsen, excluding tobacconists, for the 12-week period ending June 16, the total Swedish market showed growth of more than 7% in volume terms; and full price volumes were down by less than 1%.

Although we believe that the actual market growth is rated somewhat lower than these figures would indicate, we do note that the market growth is very strong, and that the development of the full price segment has to come more stable over the past six months.



For our Kaliber brand, after having taken a price increase at the beginning of the year, in February, we adjusted prices downward in light of the competitive situation. We also introduced two line extensions to the brand, which has helped to strengthen the brands market position over the past few months.

Some of our premium pouch products are being rolled out with upgraded packaging, including larger disposal lids. We also increased the weight of some of our more traditional pouch products.

We have a heavy new product launch scheduled since May, including the launch of General Tailored in Sweden, with a softer, smoother mouth feel and outstanding flavor delivery. General Tailored is made with a unique process, and we are confident that new products with this technology will further raise the quality bar versus competition.

These portfolio changes, product and price adjustments, and new product launch activity have entailed costs. However, this has been compensated for by our efforts to reduce costs in other areas; and in September, we also foresee some upward price adjustments in our assortments.

We have begun to notice these retail price increases for certain competitive brands in the low price segment, but their increases have not been consistent across all accounts.

In Norway, our market share, according to Nielsen, in volume terms in the latest four-week period ending June 16, was 63.6%, compared with 63.8% in the previous period, and 68.8% in the corresponding period last year. Much of the share decline is due to the rapid shift away from loose snus towards pouch products. Swedish Match has the highest share in the loose segment.

Then, our regional market continues its solid growth. For the six months ending June 16, Nielsen indicates that the market was up by more than 9%, and Swedish Match volumes were up by close to 2%.

In the US, in the highly competitive moist snuff markets, Swedish Match moist snuff sales were down, while operating profit was slightly higher in local currency than Q2 last year.

Although volumes were down in the second quarter versus last year in can equivalents, they were well above the level in the first quarter. Our focus on tubs and pouch products is delivering solid benefits, as we're achieving increased placement and higher shipment volumes with these varieties.

Nielsen reported the overall US snuff market as being up by 5.9% for the year-to-date period ending June 8, with Swedish Match volume down by 3.6%. Nielsen reports growth of our low priced brand, Longhorn, with declines in the rest of the portfolio.

In the most recent isolated four-week period ending June 8, Swedish Match market share was 6.9% according to Nielsen. Market growth is continuing with four-week market growth, according to Nielsen, at 6% in the most recent period.

During the second quarter, we further rolled out our new Longhorn tubs 7.2 ounce varieties as a complement to our very successful larger 14.4 ounce tubs. The growth of both our product in tubs, as well as our pouch products, along with the decline of some of our more expensive varieties, has meant that our average selling price per can equivalent is on par with last year, despite the price increases in December and May.

Our snus investment in the US continued to show positive momentum, and we are increasing our activities. During the second quarter, we expanded our store account significantly, and today we're in more than 17,000 stores. We expect to be in around 20,000 stores with General snus by the end of the year.

Spending behind this snus expansion during the second quarter was higher than one year ago.

On a full-year basis, we expect investment spending for Swedish snus internationally, in the US, and Swedish Match share through SMPM International, to exceed the level of 2012, in the range of SEK20 million to SEK50 million.



For 2014, we anticipate further increases in store count for US snus. And distribution and marketing support will likely mean further increases in investment spending in 2014.

During the second quarter, sales for the product area other tobacco products increased by more than 4% in local currency, compared to the same period of the previous year, while operating profit was slightly lower.

Operating profit in local currency increased slightly versus the prior year when you exclude the change in pension accounting, noted in our interim report.

For US cigars, shipment volumes grew by 6% in the second quarter. This was below our expectations, and was affected by a number of new discount competitive brands, which have begun to gain share in the category.

One positive from this increased activity is that Nielsen is reporting strong category growth, up nearly 8% over the 12-week period ending June 8, versus the same period last year. And over the same period, Nielsen estimates that our products grew by 15% versus prior year.

We will introduce a range of new products and make some adjustments to pricing our existing products in the third quarter to address this competitive issue. While we are confident that our actions will result in stronger volume growth in the latter part of the year, profit growth will be less than volume increases due to the increased investments.

Based on the promotional and new product launch scheduled for 2013, shipments of cigars will be more evenly phased throughout the year than what was the case in 2012. With that, we expect most of the year-on-year growth to take place in the fourth quarter; a quarter which only contributed 20% of the annual volume in 2012.

For chewing tobacco, our market share for the year-to-date period ending June 8, was 47.9%, according to Nielsen estimates, versus 46.5% for the year-to-date figure in 2012. Nielsen estimates the market has declined by only 4.4% in volume terms for the year-to-date period.

Swedish Match shipment volumes in the quarter are down by 2%, including contract manufacturing volumes. Our own portfolio performed slightly better than this.

During the quarter, chewing tobacco sales were up by close to 5%, and operating profit was also higher year on year in local currency.

Our lights business had mixed results, with increased sales in local currency and higher operating profit for lighters, both as reported and in local currency, while we saw some continued weakness, both cost and currency related, for matches.

We expect that matches will continue to be challenging, given the current rates of the US dollar versus the SEK, and the Brazilian real versus the SEK.

Sales in other operations for the second quarter amounted to SEK976 million, versus SEK880 million last year. Operating loss for other operations was SEK22 million.

With regard to our 49% holding of Scandinavian Tobacco Group, total Scandinavian Tobacco Group net sales for the second quarter amounted to DKK1,536 million; down from DKK1,566 million in the corresponding period one year ago.

Reported EBITDA also declined slightly to DKK341 million, but was up significantly versus the level we saw in the first quarter of this year.

Sales and operating profit increased for handmade cigars, fine-cut cigars, and pipe tobacco. For machine-made cigars, however, both sales and profits declined.



Sales for machine-made cigars declined as a result of lower volumes, which was only partially compensated for by higher prices. The decline in volumes compared to the same period of the previous year was partly due to last year's volumes being somewhat inflated by stock building in France ahead of last year's ERP implementation in the European cigar operations.

Shipment volumes in the quarter were down by 13%, which is a far steeper decline than our estimate for the market development in the core markets. The lower sales caused EBITDA to decline.

Swedish Match's share of net profit after taxes from STG in the second quarter amounted to SEK95 million; down from SEK114 million in last year's second quarter.

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

Joakim Tilly - Swedish Match - CFO

Thanks, Lars. For the second quarter, 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 krona versus 2012, as well as by a weakening of the Brazilian real.

The average rate of the dollar versus the Swedish krona has depreciated by about 5% year to date, from SEK6.85 for year-to-date ending June 30, 2012, to SEK6.50 for the year-to-date ending June 30, 2013. And the Brazilian real has depreciated 13% versus the krona in the same time period.

The total translational impact on sales is a negative SEK83 million for the second quarter, which consists of a negative SEK40 million for other tobacco products; a negative SEK24 million for sniffs and snuff; a negative SEK19 million for lights; and SEK0 million for other operations.

The total translation effect on operating profit was a negative SEK20 million in the second quarter.

The current exchange rate of the US dollar versus the SEK implies that we will continue to see negative translation impacts in the third quarter, but probably not as dramatic. The average rate of the US dollar versus the SEK for the third quarter of 2012 was SEK6.81; and in the fourth quarter SEK6.78.

In the second quarter of 2012, an adjustment to the capital gains from transfer of business to STG of SEK30 million was booked as a positive larger one-time item. This was related to a provision for transaction guarantee for potential tax exposure from the time period before the STG transaction.

In the second quarter of this year, no larger one-time items were booked, except for a minor positive adjustment of SEK2 million to the additional capital gain for the sale of land we reported in the first quarter.

Net finance cost for the second quarter amounted to SEK138 million, compared to SEK140 million previous year, as the increase of the average debt in the quarter versus prior year was offset by a lower average interest rate for the bond portfolio.

For the first half of the year, the reported tax rate was 18.4%. Excluding one-time items, associated companies, and joint ventures, the tax rate was 22%, which is what we expect also for the full year of 2013.

One-time items relating to additional capital gains from the sale of land while associated companies is mainly related to STG.

Some comments regarding cash flow and balance sheet. Cash flow from operating activities for the six months amounted to SEK1.199 billion, compared with SEK1.323 billion for the same period of the previous year.

The cash flow from operations declined, compared to the same period previous year, impacted by both a lower operating profit and higher tax payments due to timing effects.



Net cash used in investing activities for the first six months amounted to SEK30 million, and includes investments in property, plant, and equipment of SEK160 million, compared to SEK104 million previous year.

We expect that capital expenditures for the second half of the year will be similar to the first, and that they thereby could somewhat exceed SEK300 million for the full year as we invest in cigar capacity and in our snus operations.

In the first half of 2013, net cash used in investing activities was positively impacted by the receipt of the additional purchase price of SEK161 million for the parcel of land adjacent to the former head office site that we sold in 2007.

During the first half of the year, SEK1.6 billion have been transferred to the shareholders by means of share buybacks and dividends. All shares were purchased during the first quarter.

During the second quarter of the year, 4 million shares held in treasury were cancelled, bringing the total number of shares outstanding net of treasury shares down to 202 million shares at the end of the period -- sorry, that should be 200 million shares (sic - see press release page 11 "202 million") at the end of the period.

The net debt amounted to SEK9.229 billion, compared to SEK9.289 billion at the end of 2012.

Three new bond loans of in total SEK1.225 billion were issued in the first half of the year, while SEK1.191 billion of bonds were repaid. The new bond loans were issued with maturities of six, 10, and 15 years; and the average maturity duration of the bond portfolio is now 4.4 years. And the weighted average interest rate on the bonds is 4.71%, with about 93% of the portfolio at fixed interest rates.

The net debt in relation to EBITA, excluding share of profit in STG, was SEK2.6 billion for the 12-month period ending June 30, 2013.

The net interest-bearing debt at June 30, 2013, excluding the net pension liabilities, amounted to SEK10.806 billion.

I will now turn the conference call back to Lars.

Lars Dahlgren - *Swedish Match - President and CEO*

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

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Stellan Hellstrom, Nordea.

Stellan Hellstrom - *Nordea Markets - Analyst*

Firstly, I have a question on the Swedish snus market, where you're aiming for price increase. I guess those price increases that you feel more comfortable about those comes from the back of more stable volumes for premium lately. I'm just wondering if you can give us your assessment of where premium volumes have -- how they have developed lately.



Lars Dahlgren - *Swedish Match - President and CEO*

Hello, Stellan. If you look at the Nielsen data, you see a very clear trend, that if you go back to 2012 we had some rather significant declines of almost 10% in some quarters, year on year. And then it definitely looked better already in the first quarter of this year, and in the very recent quarter then, and according to Nielson, it is -- I'll give you a more exact number here. For the 12-week period it's below 1%; it's 0.5% as Nielson reports.

We do think that Nielson is a little bit optimistic on the Swedish side. So on the shipment side we have a slightly bigger decline, but definitely an improving trend compared to especially what we saw in 2012.

Stellan Hellstrom - *Nordea Markets - Analyst*

All right. Just one clarification, also. I think you were quoted on some news agency here saying that you're aiming for about 2.5% price increase for premium. I guess that would be the manufacturer's take that's been quoted there, or am I wrong there?

Lars Dahlgren - *Swedish Match - President and CEO*

That is -- between 2% and 3%, so 2.5%, is a good indication of what we see on the consumer price level.

Stellan Hellstrom - *Nordea Markets - Analyst*

On the consumer price level? Okay, thanks. And finally, also a question on the cost savings in your snus operations. If you can maybe give some quantification, and also if there're more savings to materialize in coming quarters.

Lars Dahlgren - *Swedish Match - President and CEO*

I think it's fair to say that we always focus on costs. But particularly in the last year, or so, we basically do everything we can to question our activities, and so forth. So it's a lot of small things that at large, basically, have compensated for the increased activities.

So we have only a small reduction in net costs overall, but at the same time we have accomplished much more. And we continue to look for opportunities to conduct the operations as efficiently as possible.

Stellan Hellstrom - *Nordea Markets - Analyst*

All right. Okay, thank you very much.

Operator

Andreas Lundberg.

Andreas Lundberg - *ABG Sundal Collier - Analyst*

Can I start to ask about your lowered operational expenses? Excluding product launches, I guess, in Scandinavian snus, what have you done, and what can you do from here?



Lars Dahlgren - *Swedish Match - President and CEO*

It's basically the same question as I just got. So it's of course an interesting question but, as I said, it's more a matter of looking at a lot of small things. We don't go out exactly with the type of spending that we have put behind these new launches, which then, at large, is similar to some of the savings we have incurred.

And when we look into the future we will continue to look for opportunities, but we haven't communicated any bigger moves at this point.

Andreas Lundberg - *ABG Sundal Collier - Analyst*

Okay, thank you. Can you also update us on your nicotine-free product in Sweden, Onico; how that is doing, and how important is that for your total portfolio?

Lars Dahlgren - *Swedish Match - President and CEO*

I'd say it does well. Market share wise, relatively stable. It is about 2% of the Swedish market and the nicotine-free segment, and it's remained fairly constant at that level for some time. So it's a valuable part to our portfolio, but there are no dramatic changes there in the last year or so.

But our Onico Lakrits product has done relatively well, but we have had some cannibalization in other areas.

Andreas Lundberg - *ABG Sundal Collier - Analyst*

Okay. And lastly, on your recently launched General Tailored, how is your initial feedback from that one? Thank you.

Lars Dahlgren - *Swedish Match - President and CEO*

The initial feedback on the consumer side is definitely very positive. And then, the distribution on that one is gradually building up, just not until I say the end of the quarter where it's more widely available and it's still not in full distribution.

So it remains to be seen what the bigger impact will be, but all the indications are that consumers are very positive about the product, its features in terms of delivery properties and smooth feel, and so forth, but also the can design.

Andreas Lundberg - *ABG Sundal Collier - Analyst*

Okay, thanks a lot.

Operator

Anders Hansson.

Anders Hansson - *Danske Bank - Analyst*

Danske Bank. First, you're probably going to hate me, but I'm going to come back to the Scandinavian question on margins. Because if we compare to a year ago, you've had negative mix; you've added higher weight in General; you've absorbed the tax increase; volumes are down; you've launched a number of new products; and you've had the Norwegian kroner moving in the wrong direction. So it sounds like it must be pretty substantial cost reductions, or --.

Lars Dahlgren - *Swedish Match - President and CEO*

If you look at, it's a relatively high margin business, right?

Anders Hansson - *Danske Bank - Analyst*

Yes.

Lars Dahlgren - *Swedish Match - President and CEO*

So when you look at those types of margins, you don't need that much absolute demand in terms of some fluctuations in the operating margins. And it's only a slight improvement of the operating margin in the Scandinavian snus business.

Anders Hansson - *Danske Bank - Analyst*

Sure, but when you do the math, on just taking these six separate factors and add them all together, it should be a few 100% margin decline if you haven't done anything on the cost base.

Lars Dahlgren - *Swedish Match - President and CEO*

But there is an improvement in the cost, but it's not material and in terms of absolute amount when you when you net the increased activities versus some of these savings.

Anders Hansson - *Danske Bank - Analyst*

Okay. Secondly, on STG, just on -- because it sounds like EBITDA is up for everything, except for machine-made cigars, and then [all of] EBITDA is down. Is that just volume-related? Did you say that volumes were down 13% for machine-made cigars?

Lars Dahlgren - *Swedish Match - President and CEO*

Yes, they were, so it's a very difficult quarter in that sense.

And the markets, much of this business is in Europe, but not all of it. Like, for example, Canada is another important market; you have markets like Australia; and then, of course, you have global travel retail businesses and export business. But some of the core markets in Europe, like France, and the UK, and so forth, they do see some declines this year. But they are nowhere near their 13%. And, of course the --

Anders Hansson - *Danske Bank - Analyst*

But it didn't sound like you saw 13% as the run rate from here, either?

Lars Dahlgren - *Swedish Match - President and CEO*

No, I would be very surprised if that's the type of number we will see going forward, given that we have no indications that STG has lost market share. If anything, there's even a small, small gain. But this is from several markets, and it's small, so I think it's better to think about it as maintained



market share in a market that has been difficult with declining volumes. But the decline in the market volumes have not been up to the shipment volumes.

And, of course, that has a big impact in terms of having direct costs that are difficult to compensate for when you have those type of volume decline.

But you're right, all the other businesses had an improved EBITDA compared to the prior year. Also, the machine-made cigar business had a much improved EBITDA in the second quarter versus the first quarter.

Anders Hansson - *Danske Bank - Analyst*

Just one short one on the US expansion. It seems that you're still adding 3,000 new stores in the second half, and costs are expected to be flat. Do you see any higher profitability in the existing store base, which is helping the profitability and [not increase] the costs too much?

Lars Dahlgren - *Swedish Match - President and CEO*

No, clearly, it is the case that we sold over two million cans year to date, and which is basically what we sold in the full year of the prior year. So we do have a not insignificant gross profit. But at this point, it's still, when you compare it to the type of investments we do on the marketing side and to support the distribution build, a small number.

So I say the fluctuations in the net result from the international snus investment, it has still more to do with timing in the type of activities you put in, and the phasing of the distribution build, and so forth. And that's why we point to the fact that 2013 has been a year where it's been relatively front-loaded in terms of building distribution in the US.

Given that our indications are that we're only going to add half, or less -- half of the amount of stores that we added in the first half, we should see some moderation there.

So for the second half of the year, as we write in our report, we estimate that our spending behind Swedish snus internationally, and SMPM, and US combined will largely be in line with the second half of prior year. But it means it can be slightly up, but it also means that it can be slightly down, and that will have to do with the timing and late decisions on specific activities, and so forth.

Anders Hansson - *Danske Bank - Analyst*

Okay, thanks. That was all.

Operator

Owen Bennett.

Owen Bennett - *Nomura - Analyst*

A couple of questions, if I may. Firstly, just on pricing in Sweden, you say it's been not consistent across all accounts. Is there any evidence that Imperial or BAT have pulled back any pricing that they took? Also, has JTI followed yet?

And secondly, coming back to margins in Scandi, you said in the first quarter costs for the full year are likely to be very similar to what they were in fiscal year '12. I was wondering if that is the case still.



And also, I guess volumes were a little bit weaker than what we thought in Scandi in the second quarter. Is this because maybe some of the brand launches and the spend behind that have been pushed back somewhat, so we'll see more of that spend come in the third quarter?

So I guess what I'm aiming at is will margins in Scandi this year -- do you think they're going up or down versus prior year? Thanks.

Lars Dahlgren - *Swedish Match - President and CEO*

Okay, thanks. I'll try to address some of those questions. When it comes to the competitive pricing, those competitors that have announced its prices for certain brands are Imperial, and it is BAT as well, and we have seen some of that pricing coming through. But we have also seen that there have been specific chain exceptions to that rule, which means that there are apparently some special deals when it comes to discounting, and so forth, going up.

We are not aware of any list price changes from JTI side, but that's a question that, of course, you can ask them.

And we are aware of the fact that it seems like BAT's trying to reposition a very small low price brand, called G20, from what you can say their upper level of the low price segment to the lower level of the low price segment. And that's clearly a situation that we will have to monitor.

When it comes to the costs for the full year, you're right they were clearly lower in the first quarter. They were a bit lower also in the second quarter. I think it's fair to say that our assumption at this point is a little bit more optimistic in that sense, that it's our ambition to have slightly lower costs in the Scandinavian snus operation overall for the full year.

Then on the volumes, obviously, I don't know what you had exactly expected. But when you look at our shipment volumes in second quarter, and a quarter is a relatively short period where you can have timing effects, so forth, so to some extent I prefer to look at the six-month data, but when you look at the second quarter in isolation and try to do the underlying math and that we have done, our shipment volumes were down by 3% in the quarter, while our estimates for the underlying is then, [where do I have that], it's [net for our legacy] around 2%. And the difference there this time is actually the one-week timing of Easter.

Owen Bennett - *Nomura - Analyst*

Okay. And then so margins for the full year in Scandi, are you hoping for those to be up? Or do you think they'll be down slightly?

Lars Dahlgren - *Swedish Match - President and CEO*

On margins, we don't give specific outlook.

Owen Bennett - *Nomura - Analyst*

Okay. Thank you.

Operator

Erik Bloomquist.



Erik Bloomquist - *Berenberg - Analyst*

I was wondering if you could expand on what's going on in the United States in the mass cigar business. In the release, you talked about smaller competitors being aggressive with price, but I was wondering then is it simply that you're having to respond in a way that wasn't clear in the first quarter? And is that really confined to the smaller competitors, or is Imperial and perhaps Swisher, are they also stepping up in terms of their competitive pressure? Thank you.

Emmett Harrison - *Swedish Match - SVP, Corporate Communications & Sustainability*

Hi, Eric. In the US market, it's a bit competition-related, but it's also a bit trade-related. You have a lot of large accounts that are moving their mix a little bit more towards more promotional items.

There are several, I would call them second tier off brands, small brands out there that have offers of, say, three for \$0.99 for a cigar in a low tax area. And some of those products are made by some of the big competitor names that you talked about, and then a lot of them are also made by smaller competitors, not big publicly traded companies.

In our portfolio, we have different offerings that are out there. We have some that are, let's say, two for \$0.99 in a low tax area, but we also will have more full-priced products and three-for-two types of promotions. What we've seen is, is that in shipments to some of these larger accounts the order book has been more toward our more promotional offerings.

On top of that, we've seen that in this environment, where the retailers want to show more promotional products that are out there, that they want to reset their stocks a little bit. So they've shipped back to us some of our less-promoted items, and ordering more of the lower more-promoted items. So our mix is different than it was before.

We're reflecting that reality, and we're working toward adjusting our promotions and our portfolio a little bit to be able to handle that pretty well, I think. You're going to see a lot of that activity already starting a bit in the third quarter, but really a bit more in the fourth quarter.

As we said earlier, or as Lars mentioned earlier, a big part of the shipments that we had were in the first three quarters last year. Only about 20% of the volumes that we shipped out were in the fourth quarter last year. So you could see a more significant increase in the volumes in the fourth quarter.

So to make it simple and say that it is one competitor with one product, I think, is a little bit more simple than the overall situations.

Erik Bloomquist - *Berenberg - Analyst*

Okay, thank you. And then with respect to the comment about the profit growth in US mass cigar, expectation for the year, is that fair to think that that's somewhere now in the low to mid single-digits? Or how precise are you getting on your expectation for that profit growth?

Lars Dahlgren - *Swedish Match - President and CEO*

Yes, if you interpret what we're saying, I think you're not too far off in the sense that we've previously spoke about our ambition of growing profits in local currency of about 15%, and that seems like very challenging -- be active in this kind of market dynamics that Emmett just laid out. But we do believe in operating profit growth.

We also believe in rather strong volume growth in the second half, but as we see it now it will be very much concentrated to the fourth quarter.



Erik Bloomquist - *Berenberg - Analyst*

Okay, thank you.

Operator

Adam Spielman.

Adam Spielman - *Citi - Analyst*

Yes, I've got a couple of questions, and thank you for taking them. First of all, can you say what's happened to the duty free market in Scandinavia snus?

Lars Dahlgren - *Swedish Match - President and CEO*

Yes, what we have in the duty free market is that, first of all, it's not abnormal that -- you have some very large accounts. And you have some relatively large fluctuations that actually can depend on things like ferries being out of service, and things like that, because those are the type of volumes we're talking about.

But for the six-months period, it's very clear that travel and retail volumes are down. I think it's logical to think that this is related to the fact that we have been changing our tax-free assortment gradually to make the can specific, and for practical reasons we haven't been able to do that all at the same time. But now, all of our assortment is in special packaging in the tax-free channels.

And we are aware that tax-free channels have been used by people who have bought products and then brought them back into Sweden and then sold them, so to say. This is something that we don't like, because we like to -- a good cooperation with serious retailers and, therefore, we've been very cooperative with the ferry lines to impose some restrictions, and so forth, and, of course, our tax-free labeling.

So there is a correlation. And that's also one of the reasons why we point to the fact that we think that like the 7% growth that Nielson recently pointing to is inflated, and this is probably one of the factors. Having said that, we still see very good growth, both in the quarter and for the year-to-date period, in what we then to refer to as the Swedish and travel retail markets combined.

Adam Spielman - *Citi - Analyst*

So just taking that point and just making it sort of -- are you able to say -- if I look at that combined market, what would be the volume decline in full price snus? Because you said -- because you quoted Nielson as saying it's about 0.5% in Sweden, but my guess is if you look at that combined, Sweden plus duty free market, it's a bit worse than that. It must be worse than that. But what would it be, roughly, I guess is the question?

Lars Dahlgren - *Swedish Match - President and CEO*

The travel retail market is still relatively small compared to the Swedish market, but that is why we point to the fact that those type of Nielson figures with 0.5%, that is too optimistic. And we don't give the exact number quarter by quarter in our deliveries of full price volumes, but we point to the fact that we definitely see an improving trend in the year-on-year decline there.

Adam Spielman - *Citi - Analyst*

But if I said instead of it being 0.5%, if I mentally estimate it as about minus 2.5%, let's say 2% to 3%, is that ballpark right, or is that --?



Lars Dahlgren - *Swedish Match - President and CEO*

I think I'm not going to give you the number. I'm not going to comment on your estimate.

Adam Spielman - *Citi - Analyst*

Okay, that's fair enough. Can I say -- can I ask another question? And this is more circumstantial, how is it we should think about full price snus in Sweden, I guess and duty free as well?

Do you think the way of thinking about it is saying, look, the market is growing pretty well at the moment for whatever reason, and because of that, even though full price is losing market share, full price is relatively stable? And hence, if the market grew less the market share trend would be the same and full price would -- the decline would accelerate?

Or do you think that's the wrong way of thinking about it and there are really two separate markets here? There's full price, and let's say low price, ignoring the mid-price bit, and what you're seeing now is just a very good growth of low price, and if that was to slow down it would have no impact on the full price?

I hope that question is clear. It is to me, but it may not be to you.

Lars Dahlgren - *Swedish Match - President and CEO*

It's an interesting question. But I definitely think that there is a correlation between the, by historic standards, very strong volume growth that we've seen on the Swedish market and the growth of the low price segment.

So, to that extent, if we were to see a completely stable full price segment as a percent of the total, I think that would be in a situation where we would see a more modest growth of the overall market, in that sense. There is a correlation there.

And then you have periods -- if you go back to 2011, we actually had a situation with fairly stable full price volumes and a lot of incremental growth coming from the a low-price segment and then in 2012, and particularly in the second half, we had some pretty big year-on-year drops in the full price segment, but good overall market growth, and, therefore, very strong year-on-year market growth in the low price segment.

And then this -- if you look at the last six months, and in particular the last quarter, it resembles more 2011. But it's a short period, and you have those underlying dynamics and they do correlate.

And one factor to keep in mind as well is that although a relatively small part of the overall market, 13%, what we refer to as the mid price segment, continues its relatively steep year-on-year volume declines. You need to factor that in to the equation as well.

Adam Spielman - *Citi - Analyst*

Could I -- but one final question --

Lars Dahlgren - *Swedish Match - President and CEO*

It's very clear that the full price segment, where we stand now, year on year, is significantly more resilient to this type of market situation compared to the full price brands. Sorry, the mid price brands.



Adam Spielman - *Citi - Analyst*

Clearly, changing tract to Norway, clearly, you were losing market share very rapidly due to competitive offerings. It looks much more stable now. Can you just give a sort of outlook for where you see Norway going for the next, ideally, year or two, just in general qualitative terms?

Lars Dahlgren - *Swedish Match - President and CEO*

Yes, in terms of Norway, first of all, we are very pleased to see that the very strong market growth is continuing. And this is coming, I'd say, can vary from [period to period]. But if you look in longer trends, it's coming exclusively from very, very strong growth in the pouch segment. So we have that against us, so to say, but the good news there is that the market growth is very strong.

And you're right that we had a period, if you go back five/six months, where we were not at all pleased with the market share decline. We're not pleased with the decline we've had since -- if you go back to February/ for example, we had the 64.4% and now we have 63.6%, so we're not pleased with that decline, but it's more moderate, as you pointed out. And the answer there is that some of our new product introductions have done very well.

And we have some -- we do have some very interesting product introductions coming up here in the early fall, including based on this new technology that we have applied for, for the General Tailored product in Sweden. So I'm fairly -- there are a lot of different aspects here, relative size of loose products versus pouches, and so forth. But based on everything I've seen in terms of these new products, and including trying them myself of course, I must say I'm rather optimistic.

Adam Spielman - *Citi - Analyst*

Thank you.

Operator

Fulvio Cazzol.

Fulvio Cazzol - *Goldman Sachs - Analyst*

My first question is on the product launches, particularly in Sweden. I know that you mentioned that you're looking at rolling out the technology from the General Tailored product to other variants, but how significant should we expect this to be into the second half? Or are most of the line extensions that you were planning for this year done now?

Lars Dahlgren - *Swedish Match - President and CEO*

I'd say we had a very active schedule during the late spring here. We continue to have some interesting product introduction also in Sweden in the second half, but not as intense as in the May window.

But we are introducing more products in the Swedish market. Exact specifics about that we'll have to get back to, but they're also based on this technology because, as I said, the consumer response has been very good on the existing product out there in the market. But I wouldn't -- I would caution you to think that, that would have any type of material impact on the volume numbers during this year.

This is more of a making sure that we have a very attractive and high quality portfolio for the future, but I definitely think it's something that is going to have an important role in our portfolio as time progresses.



Fulvio Cazzol - *Goldman Sachs - Analyst*

Okay, thank you. And the second question I had was on the US. Just interested in what your latest ambitions are in the US, i.e., do you think that 50,000 stores by the end of 2015 is still achievable?

And then my follow-up question to that is also what should we be thinking of in terms of incremental investments into next year, 2014, if everything goes to plan?

Emmett Harrison - *Swedish Match - SVP, Corporate Communications & Sustainability*

Sure. Hi, Fulvio. This year, for snus, let's say roughly 20,000 stores. A lot of the growth in the store count year by year really depends on making sure that we're tracking at or above the KPIs that we're looking at in terms of cans per store per week, but the trends are all continuing to be quite good there.

So I don't want to give an objective for 2015, but let's just say -- let's take it very hypothetical. Let's say in 2012 we open 20,000 stores -- or 2013 and 20,000 stores; in 2014, maybe 30,000, I don't know, maybe a little bit more. It depends a bit on how the selling rates in terms of cans per store per week are on there.

Your number for 2015, is it achievable? It could be. But it could be bit lower than that, it could be a little bit higher than that, depending of course on what the selling rates are in terms of cans per store per week and how we're doing in terms of the overall performance for the stores that we've had. But so far the trends are looking good, so I don't want to be locked in to a specific number for 2015.

Fulvio Cazzol - *Goldman Sachs - Analyst*

Okay, great. Thank you.

Operator

James Bushnell.

James Bushnell - *Exane BNP Paribas - Analyst*

Thanks for taking my questions. Firstly, can I ask about the price increases in Sweden? Presumably, you now feel you have confidence that competitors may, or should, follow at the low end. Is that driven by the better share trends you're seeing down there, or anything else?

Lars Dahlgren - *Swedish Match - President and CEO*

We have -- this is something we need to monitor all the time. And it's very important for us to make sure that we have the relevant share in the low price segment because it's all about volumes down there in terms of making some kind of profitability.

We have made the assessment that with the strengthening of the Kaliber family, plus of course some of the relative pricing that is the consequence of some competitive movements, implies that the brand tolerates somewhere between SEK0.5 and a SEK1 in terms of the net list price increase in the early fall.



And then we have to monitor the development. We have to monitor the market development; we have to monitor the competitive development. As we showed in February, we are prepared to revise those kind of decisions if we deem that necessary to protect our volumes in that segment and our small profitability down there.

James Bushnell - *Exane BNP Paribas - Analyst*

Okay, thank you. And secondly, could I ask about US snus? I think you've mentioned somewhere in the release, or presentation, that the category grew at 7% in one of the more recent reads. Do you think this has got better? If it has, what do you put it down to? And would you expect that to be a reasonable run rate going forward?

Emmett Harrison - *Swedish Match - SVP, Corporate Communications & Sustainability*

Yes, the market growth rate probably is a bit lower than that. It's probably, maybe more like 5%, and not the 7% plus.

Part of the reason for the faster growth rate that we're seeing coming out of Nielsen is because we're looking at the store count excluding tobacconists, so there's some movement between the different parts of the trade. Part of it too could be a little bit of what Lars was talking about, in terms of some of the travel retail volume going over to it.

But clearly, we've seen both in 2012, but also in 2013, a very strong volume growth development on the Swedish market. Now it is -- sorry, US snus. Here I was thinking about Sweden, and let's go back over to US snus.

US snus market -- all right, I'll do a little dancing here. US snus market, US snus market growth of around 7%, yes, it definitely could be something like that. It's definitely better than the 4% growth that we were seeing early on the year.

The largest competitor is growing at a rate that's slightly higher than that. We, obviously, are growing at a very rapid rate as well. Our share of market, if you look at the share of market in the stores that we're selling right now, is actually closer to 30%. We have about a 7% share of market.

Part of the reason for the uptick is because of the increased distribution overall, and because more people know about the products and it starts to live a little bit of a life of its own.

But part of it too is because one of the -- the second largest competitor has had some fairly large volume declines for some of its products. And as it becomes a smaller part of the overall portfolio, it tends to weight down a bit less the market growth rate, so that tends to let the market grow a little bit faster.

James Bushnell - *Exane BNP Paribas - Analyst*

Okay.

Emmett Harrison - *Swedish Match - SVP, Corporate Communications & Sustainability*

You got two-for-one there.

James Bushnell - *Exane BNP Paribas - Analyst*

Sure, yes, thank you. One last one, if I may. Just a follow up, I think it was on Erik's question earlier, on the mass market cigar market. Could you just talk a little bit about the structure of the categories? So is it -- can you divide it into price tiers? Or is it just simply promotional and not promotional?

And do the recent developments affect how you're thinking about what you might call the normalized growth rate of the business you have there?

Emmett Harrison - *Swedish Match - SVP, Corporate Communications & Sustainability*

The overall market growth rate for cigars, excluding little cigars, has tended to fluctuate over the past several years from, worse case, minus 3% to a good year when the market is up by about 3%, or so. And this is a good year, so the market is up around the 3 percentage point rate.

Our growth, according to Nielsen, I think is around 15% anyway when it comes to overall consumption. Now, as the market changes in terms of the promotional dynamics, and so forth, in General I'd say that mainstream, most products are sold at similar kinds of promotional levels so there is more activity at the bottom right now.

But the market growth rate probably will not accelerate all that much. It might stay about the same. Our growth rate will depend a bit on some of the things we're going to be doing later on this quarter. So even though we expect very strong volume growth in the second half of the year, I think that we need to be a little bit careful about being too aggressive on volume growth in the out years.

James Bushnell - *Exane BNP Paribas - Analyst*

Okay. Right, thanks very much for your help.

Operator

Henry Davies.

Henry Davies - *BofA Merrill Lynch - Analyst*

I've got two questions. Firstly, just on your innovations in Sweden, you've spoken a bit about General Tailored, if you could just update us on the success of the other innovations. And then also, what percentage distribution are you in for Tailored versus some of others?

Then still on General Tailored, you've mentioned there's been a good consumer response to the product. How much of that is the actual pouch technology? What I'm trying to get at is do you think this is a kind of revolutionary new design? Or is it just a -- is it perhaps the lower price point, the lower size of the can, and the pouch helps too?

And then final one on General Tailored, I'm just interested in the profit per can. So if we were to index General at SEK100, probably about SEK50 on absolute profit per can, where would Tailored fit in on that scale? And that was a lot of questions bundled into one.

My next question, if you could just update us on snus. What is happening with the EU negotiations? I think there's been a few mixed signals coming out of that. And then in the US, whether there's been any progress in getting snus perhaps classified as a modified risk tobacco product.

And also, where do you think e-cigs have any part to play here? I was just thinking governments regulators across the US/Europe are being forced to make a decision on e-cigs. If that is going to be a supportive stance, does that almost force them to look at snus, which is very similar reduced harm as well? Any thoughts on that would be great.

Lars Dahlgren - *Swedish Match - President and CEO*

Yes, hi I think I take them from the end.

Henry Davies - *BofA Merrill Lynch - Analyst*

Okay.

Lars Dahlgren - *Swedish Match - President and CEO*

I think first of all, your question on e-cigarette is actually very interesting and very valid. And I do sincerely think that there is some element of that; that given that e-cigarettes have quite a bit of traction out there in the marketplace, you're forced to review the harm reduction statement, so to say, or the features of those type of products. And it's very hard to dismiss snus in that equation.

So it creates -- because part of the reason what we have seen in Europe is that snus is so different, so small, so Swedish, so much not invented here, so it's been very hard to have those type of rationale and [factum] science-based augmentations. And this is definitely -- at least we are -- will use this environment to make sure that we come across with the strong science in support of snus.

I think it's a good point, and actually have also an interesting distinction between e-cigarettes and snus in that sense, that snus is, as I say, the only tobacco product where you can point to a long, long history and, therefore, a solid database of (inaudible) methodological science, where you can see what the long-term health impacts of snus consumption [and] population is. And that is something that is very important because, as you know, when something is new and you have cautionary principles, and so forth. So in that sense, I definitely welcome that trend.

And that ties in a little bit to your third question there on progress with FDA in terms of registration for the modified risk product application. And we are in that process, and I say it's progressing well. It's -- their requirements are very, very high, but we have a lot of correspondence in terms of the type of information and data that we need to compile. We have compiled a lot of that data. It keeps many people busy, but we are in what I would characterize as a very fruitful dialog with the FDA.

In terms of timeline, our ambition is to file in the beginning of next year our modified risk product application for snus in the US. Our ambition is the first quarter, but then this -- the way this process is that we really come with data, we take advice, and in some cases we need to take in more data, or do deeper analytics, and so forth.

So the exact timing is difficult to predict, but we are approaching the days where we see we can put in very substantial and solid file. And then, of course there are no guarantees how -- what the final outcome of that will be.

Then moving up your list, in terms of EU, yes, you're right, that it's a little bit back and forth and in a sense what comes out in meetings. I think the reason for that primarily is that we need to remember that there is no final proposed backward directive or really [sharp] proposal out there, in the sense that the council and the parliament need to align their various opinions. So they are not ready to take the final stand, so to say.

Then out of these various meetings, for example, between the health ministers and so forth, you have information that came out. But of course, have -- it's important for the process, but it's not the final word, so to say.

So the picture we are -- I say the picture that we have is basically that, unfortunately, it's a very low chance, as I see it, now almost nil, that in this round of the tobacco directive the export ban would be lifted. However, there is increasing levels of, or pieces of information, in, I'd say, support that what I call the Swedish position will prevail, which is then that if there is -- if export is not allowed then it's also a product that shouldn't be regulated from Brussels and the European Union but in Sweden.

I think this is particularly clear when it comes to the discussions on flavors. When it comes to the discussions on ingredients, it's a little bit more complicated, and this is something which we need to continue to work on. But I say there, it looks like there are good chances that the Swedish position will prevail at the end but the final word is not there yet.



Then you had a lot of questions on General Tailored, and other products. We had a very active launch schedule here in May with a gradual distribution build. We had two varieties of Kaliber; we had new [Grovs Dark]; we had a [Redman] in the mid-price segment; we have a limited edition of Goteborgs Rape; and then we have General Tailored; we had General Liquorice. So we have a lot of activity with the gradual distribution build and so forth.

When it comes to General Tailored, I'm trying to look at the latest number in terms of distribution. As I say, we're roughly at 50% distribution at this point, so there is still a bit of a build there, for sure.

When it comes to the others, a quarter is so much new products; you need longer trends, quite frankly, to draw any firm conclusions. But what I can say, that the very early indications are that their growth product is relatively okay from a consumer point of view, but it is very challenging to launch premium products in the Swedish market.

The [extra krona] on SKU has relatively low volumes, but it also has, by quite notably, clearly, the lowest distribution on. As expected, in the low price segment it is a little bit easier, so both Kaliber varieties are doing fairly well, and in particular the white one, the Kaliber Extra.

When it comes to the Tailored, your question what is it that attracts people, the beauty of it is that it's basically all of the things you mentioned. I think you can find some information yourself if you Google around with some (inaudible) quotes, and so forth on the Internet.

But a lot about it is about the perfect mouth feel, and slicker can, and so forth. So it's really total product and branding proposition that so far seems to appeal to people, but of course it's still relatively low volumes.

It is sold in -- as you know, Swedish Match has one snus store in Central Stockholm, where we get direct consumer feedback. I have on my table, I will not take the whole telephone conference and read all the quotes, but I have quotes from consumers coming in and having switched to the product, and so forth, and I'd say they're very encouraging overall.

Henry Davies - *BofA Merrill Lynch - Analyst*

Okay, thanks for that. Did you have the rough absolute profit per can for Tailored? Say if General is 100, is it --

Lars Dahlgren - *Swedish Match - President and CEO*

We don't give the exact numbers in that sense, but I think you can do some of the math yourself there.

You should remember that right now it is positioned, price wise, in line with basically our other mid price brand in [Redman]. That is not to say that that, that will be the case forever. But at the same time, and given this technology, we have the added advantage of lower density. So The net weight, or the weight for the can is 16 gram, as compared to 21.6 gram or 24 gram for other standard pouch products, and the tobacco packs is generally SEK6 per kilo.

Then it's also 20 pouches, instead of 24 pouches; something we had to put in there to be able to have this slicker but much appreciated can. I think it's fair to say that it's likely that if, for example, you switch from your [non-white] to this one, you tend to consume a little -- some more cans of this one, given that it's actually 20% less contents per can, based on number of pouches.

Henry Davies - *BofA Merrill Lynch - Analyst*

Okay, perfect. And one final question, just back on the EU snus ban, I think a few years ago you challenged this in court under Free Trade rules. Given the -- we have a lot more information on the reduced harm properties of snus since then, would you ever rule out -- would you have a strong legal case? Is that ever a route you would consider?



Lars Dahlgren - *Swedish Match - President and CEO*

I think we take things -- one thing at a time here. Let's conclude on this process of the revision of the Tobacco Directive and then, of course, we will scrutinize everything in that Directive. Up until then, and even after, so to say, but (multiple speakers) questions after that.

Henry Davies - *BofA Merrill Lynch - Analyst*

Okay, thank you very much.

Lars Dahlgren - *Swedish Match - President and CEO*

Thank you.

Operator

Stefan Nelson.

Stefan Nelson - *SEB Enskilda - Analyst*

Thank you. Two questions. I'll take them one at a time. First, just come back to the costs savings you were discussing before, just can you tell us a bit what we have -- what is in front of us? Will we see additional savings next year that haven't been realized yet?

Lars Dahlgren - *Swedish Match - President and CEO*

As I said, we always continue to look for doing -- we don't want to do less, but we want to do things more efficient and smaller; and as we are successful in achieving that we will discuss it more when we have realized numbers to talk about.

Stefan Nelson - *SEB Enskilda - Analyst*

Okay. But you couldn't say anything about is there things that you (multiple speakers)?

Lars Dahlgren - *Swedish Match - President and CEO*

I refrain from commenting on those cost levels, going forward, apart from the comment I had, that it's now our ambition that the cost levels should be somewhat lower for the full year in the Scandinavian snus operations than prior year, despite the increased activity levels.

Stefan Nelson - *SEB Enskilda - Analyst*

Okay, fair enough. The second question, much more long term, now, evidently, there looks to be room to raise prices a bit in the full price segment. Do you see that we will ever get back to the days where you can make more pronounced price increases? Or do you see that we are reaching some kind of point for the full price segment where there's not that room really? Or maybe you could elaborate a bit on that.



Lars Dahlgren - *Swedish Match - President and CEO*

Yes, what we focus on, first and foremost, is not to raise prices per se, it's to deliver outstanding products with the best quality and come out with good innovations over time, but at the same time making sure that existing consumers have found their perfect snus, get what they expect from Swedish Match.

I think to answer that question, it's almost that you need to answer yourself whether you believe that Swedish Match will be successful in achieving and maintaining that type of differentiation and advantage that we have there on the development, and branding, and product development side.

It's, for sure, our ambition to continue to really deliver the best products out there in the Swedish market.

Stefan Nelson - *SEB Enskilda - Analyst*

Could you give us some idea of what, in the low end segment, would be a long-term reasonable price level you think for the market once the markets stabilize more?

Lars Dahlgren - *Swedish Match - President and CEO*

I think that -- it's, when you talk about reasonable price levels, I definitely continue to be of the view that their current price level of the low price market needs to come up, because profitability is so extremely low at the current levels.

When you talk about percentage price increases, and so forth, that's -- the percentage price increase, of course, is -- whenever there are price changes in the low price segments, when they go up, they tend to be quite a bit higher in percent given the low base.

Stefan Nelson - *SEB Enskilda - Analyst*

Yes, sure, that makes sense. Okay, thanks very much.

Lars Dahlgren - *Swedish Match - President and CEO*

Thank you.

Operator

Chas Manso.

Chas Manso - *Societe Generale - Analyst*

I may have missed it, but I'm just looking for what the Scandinavian snus profit did for the H1. In the text it says H2 operating profit declined a bit; I believe in Q1 it was up a bit. Could you just tell us for the full six months what happened to Scandinavian snus profits?

Joakim Tilly - *Swedish Match - CFO*

Yes, I can do that. Make sure I give you the right number. I say it's virtually unchanged.



Chas Manso - *Societe Generale - Analyst*

Yes, okay. And in your revised guidance, it's still -- the guidance, you expecting it to be down, [isn't it]?

Lars Dahlgren - *Swedish Match - President and CEO*

When you look at the snus and snuff product line, you need to remember that we are, even though I talk about the second half, which means, in essence, being largely in line with the levels we saw in 2012. We do forecast an incremental spending on international snus in the range of SEK20 million to SEK50 million.

And then, some of the initiatives that we take on the American market from moist snuff are investments for the future in, for example, the very attractive pricing of pouched products implies a decline in operating profit 2013 versus 2012. But we're confident that we will end the year on this with a stronger position that lays the foundation for the future.

Chas Manso - *Societe Generale - Analyst*

Okay, but -- sorry. So focusing on the Scandinavian snus outlook really for the rest of the year, you're taking price increases. You said you expect -- you're budgeting lower costs in the second half. I guess the new product activity that you've been talking about should bring some benefits. So (multiple speakers) --

Lars Dahlgren - *Swedish Match - President and CEO*

It's not about the cost levels, it was for the full year. And we don't give forecasts specifically for the operating profit from the Scandinavian snus operations. But just to make matters clear, when I talk -- we have somewhat lower costs year to date, and we -- it's our ambition to have somewhat lower costs for the full year.

And then, as you know, we have year to date a slight volume decline also on an underlying basis, which we estimate to be around 2%. And I will not give you a forecast for the margin in the Scandinavian snus operation in the second half.

Chas Manso - *Societe Generale - Analyst*

Sure, no, I was just thinking about momentum, whether it's past the worse and things should improve from now on basically.

Okay. And also on the competitive pricing, you did point out that there's been some specific exceptions, some discounting, so could you give us an indication of what percentage of the retail base has actually passed through the competitive pricing?

Lars Dahlgren - *Swedish Match - President and CEO*

I'd say it varies a little bit, but I'd say if you say 70%/80%. So I'd say that the type of price increase that we're discussing for Kaliber in September, which is between SEK0.5 and SEK1, that is sort of where we see -- our read on the effective manufacturer's price increase in some kind of weighted average, taking into account some of these variations by channels, and so forth.

Then, as I say, we need to monitor the competitive development, and some of these initiatives from BAT, and the repositioning of one brand, and so forth, and see what that leads to.



Chas Manso - *Societe Generale - Analyst*

Okay, lovely. Thank you.

Operator

There are no further questions at this time, gentlemen. Please continue.

Lars Dahlgren - *Swedish Match - President and CEO*

Okay. Thank you very much for today. And just to remind everybody that the release of our third quarter results will be on October 29, 2013. Thank you.

Operator

Thank you, ladies and gentlemen. That does conclude our conference for today. Thank you for participating. You may now disconnect.

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