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SWMA.ST - Full Year 2011 Swedish Match AB Earnings Conference Call

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## CORPORATE PARTICIPANTS

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

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

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

**Richard Flaherty** *Swedish Match - President - US Division*

## CONFERENCE CALL PARTICIPANTS

**Jonathan Fell** *Deutsche Bank - Analyst*

**Stellan Hellstrom** *Nordea - Analyst*

**Peter Wallin** *Handelsbanken - Analyst*

**Anders Hansson** *Danske Bank - Analyst*

**David Hayes** *Nomura - Analyst*

**Andreas Lundberg** *ABG Sundal Collier - Analyst*

**Daniel Ovin** *Credit Agricole Cheuvreux - Analyst*

## PRESENTATION

### Operator

Good afternoon, ladies and gentlemen, and welcome to the full year 2011 results conference call. At this time all participants are in listen-only mode until we conduct a question-and-answer session and instructions will be given at that time. (Operator Instructions). Just to remind you, this conference call is being recorded. I would now like to hand over to the chairperson, Mr. Emmett Harrison. Please begin your meeting and I'll be standing by.

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

Good afternoon. This is Emmett Harrison, Senior Vice President of Corporate Communications and Sustainability. Welcome to the fourth quarter 2011 results telephone conference for Swedish Match. Lars Dahlgren, President and Chief Executive Officer, is joined today by Joakim Tilly, Chief Financial Officer, Rich Flaherty, President of the US Division, and myself.

The conference call should last about one 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](http://swedishmatch.com).

During today's conference call, we will discuss certain items which may constitute forward-looking statements. Because such statements deal with future events, they are subject to various risks and uncertainties. Although management believes that its expectations are based on reasonable assumptions, it can give no assurance that its expectations will be achieved. Risk factors are outlined in the latest annual report, which is available on our website, [swedishmatch.com](http://swedishmatch.com)

Swedish Match assumes no obligation to update information concerning its expectations. This conference call is being recorded and the recording will be published on the Swedish Match website. I would now like to turn the conference call over to Lars Dahlgren.

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

Thank you, Emmett. For the fourth quarter 2011, Swedish Match delivered solid comparable sales and profit growth driven by strong performance for added tobacco products and Scandinavian Snus.

A comparable operating profit for the fourth quarter increased to SEK898 million up from SEK836 million previous year, an increase of 7%. In local currencies, the increase was also 7%. Comparable sales for the fourth quarter increased by 9% to SEK3.064 billion up from SEK2.801 billion previous year, in local currencies, the increase was 10%.

For the full year, comparable sales increased by 4% to SEK11.666 billion and comparable operating profit grew by 7% to SEK3.365 billion. In local currencies, the sales and operating profits growth were 8% and 11% respectively.

Now I'll talk a bit about the Scandinavian Snus business. Scandinavian Snus sales were up by 11% in the fourth quarter versus last year. Shipment volumes were up by nearly 5% in the fourth quarter in underlying volumes, backing up boarding and destocking effects were up about 3%.

We estimate that the hoarding in Sweden was about 2 million cans, which was lower than the level we had anticipated. As a result, we needed to write down about SEK6 million in excess inventories. Despite this write down, fourth quarter operating profit and operating margins in Scandinavia increased versus the same quarter of previous year.

In Sweden, according to Neilson, our market share for Snus in value terms was 83.2% in the four-week period ending January 29, compared with 83.9% for the preceding four-week period, and 86.9% in the corresponding four-week period last year. The market share in volume terms of 78.8% compared with 80.1% in the previous four-week period and 84.7% in the corresponding period last year.

For the four-week period ending January 29, Swedish Match had a volume share of approximately 95% of the premium price segment and 44% of the value segment. The value segment accounts for approximately 33% of the Swedish market, and number of cans up from 26% in the corresponding period last year.

Neilson reports the Swedish market grown by 7.7% in volume terms on a year-on-year basis for the longer 24-week period ending January 29.

Kaliber, our new brand of value price Snus on the Swedish market has been a limited distribution since April and Neilson indicates that the brand has now achieved a 4.2% share of the Swedish market for the four-week period ending January 29.

In Norway, our market share in value terms in the latest four-week period ending January 29 was 71.6% compared with 71.4% in the previous period, and 73.7% in the corresponding period last year. Our share of that market in Norway in both value and volume terms has been very stable over the past six months.

In September, for the Norwegian market, Swedish Match launched two new products in the Lab Series assortment, Lab Series 05 and 06 that have been extremely well received by customers. For the four-week period ending January 29, these two new products have now achieved a combined market share of 3.6% and the total Lab Series brand has reached 6.5% of the market up from 4.3% in August according to Nielsen.

For the full year 2011, Scandinavian Snus revenues were up 10% on 4% higher volumes. During the first quarter of 2012, we were engaged in an active schedule of new product launches as well as packaging modifications for our Snus products in Scandinavia.

In Sweden, in addition to continued support behind the Kaliber brand, we also launched a new product General Strong White Mini, a mini version of our flagship General Pouches. While the individual pouches are smaller than the regular size General pouches, they deliver the same tobacco satisfaction as the larger pouches for people who want full flavor satisfaction in a smaller more discreet pouch.

Among other initiatives, we also have updated the look of our packaging for the Catch brand and for the Norwegian market, our Nick and Johnny brand. For all Swedish Match brands in Scandinavia, we modified our packaging to include a new element which showcases our iconic three stars accompanied by the word Swedish Snus.



This new design element will reinforce the position of original Swedish Snus, its history and heritage as well as strengthen our promise that we offer the highest possible quality of Swedish Snus in the market. Communication on this new element will be supported by marketing activities targeted towards consumers, customers, the media during the next few months.

In the US market, snuff and Snus revenues in the fourth quarter declined by 4% below in local currency on flat shipment volumes versus a year ago. In fact, the sales decline is primarily due to a mix shift toward our lower price Longhorn brand and higher promotions. Operating profit in the US during the fourth quarter was adversely affected by three factors.

For US moist snuff, the mix shift combined with higher promotional activity reduced our margins. We also took a write down of SEK5 million tied to the FDA forced abandonment of the Timberwood promotional campaign. In addition, we stepped up our investments with Swedish Snus in the US significantly.

For the full year, US sales in local currency were marginally higher on flat volumes. Full year operating profits for our moist snuff business increased despite the year-end write downs while significantly a higher investment behind our US Snus activities resulted in a lower total level of operating profit for our US moist snuff and Snus business.

Nielsen reported the overall US snuff markets have been up by 6% for the year-to-date period ending December 24th with Swedish Match volume down by 3.4%. Our analysis suggests that real consumption of Swedish Match brands have done somewhat better than that hosted by [Q] in Nielsen sample. Nielsen reports that the growth of our low-price brand Longhorn was higher than the overall category, but we saw declines in the rest of our portfolio due to intense price competition.

In the most recent isolated four-week period ending January 21st, Swedish Match market share was 10.0% according to Nielsen. Market growth is continuing but at somewhat slower rate as the four-week market growth according to Nielsen was 4.7% in the most recent period.

Swedish Match would continue to invest behind its Snus program in the US with General Snus and we are very pleased with the brand's performance thus far. General, which typically sells at a premium price compared to other Snus offering in the US, has experienced good and improving rotation in sales during store. The store expansion is continuing for General Snus in both the traditional round can and for our two newest varieties in the rectangular can format.

These new varieties were launched in broader distribution in Dallas, Chicago, and Philadelphia late in the third quarter and during the fourth quarter. General Snus in either the traditional round can or the new rectangular can is now available in more than 3,500 stores in major cities across the country, more than doubling the total store count since June.

As we continue to build store distribution during 2012, we would expect investments in our Snus program to remain substantially higher than the year-earlier levels.

With regard to SMPM International, the joint venture company for smoke-free product, it continues testing original General Snus in Taiwan. A scaled up test in Canada, which includes the Toronto area as well as Alberta, is showing positive trends.

In late November and December, we added St. Petersburg in Russia as a test market. This test is being supported by brand building and sampling activities where we are testing three varieties under the premium Parliament brand. While this test is in very early stages, we are gaining valuable insights into the Russian consumer, 90% of the stores that first got Parliament Snus have reordered the product at this point.

For US Snus expansion, as well as our joint venture project with SMPM International, incremental investments during 2011 were SEK65 million with most of this occurring during the second half of 2011. International Snus expansion investments in 2012 are expected to be significantly above 2011 levels.

In our other tobacco products businesses, sales for mass-market cigars in local currency were up by more than 10% versus the fourth quarter 2010 while volumes increased by 14%. During the quarter, we again gained market share and have had continued good success with our FoilFresh



cigars. Our sweet cigar in FoilFresh continue to do very well and the new variant of sweet with the candela wrapper, White Owl Green Sweet launched earlier in 2011 continues to gain traction in the market.

Overall volume share for Swedish Match in the US mass-market excluding little cigars was 14.5% year-to-date through December 24th up from 11.6% in the prior year. In the latest four-week period ending January 21st, volume share had reached 15.6%.

An extraordinary volume growth in cigars in 2011 of nearly 40% is expected to subside going forward as we experience more difficult comparisons versus prior year periods, but there are still significant remaining opportunities to expand distribution and our innovation pipeline is strong. We're therefore confident that we will continue to outpace the market in 2012.

In January, we launched a new unflavored variety of White Owl, White Owl Silver, which we believe has great potential to help ensure continued volume growth for this brand.

For chewing tobacco, our market share for the year-to-date period ending December 24th was 45.7% according to Nielsen estimates, unchanged from the year-to-date period in 2010. In the value term, our market share is about 50%. Nielsen estimates the market declined by 6.8% in volume terms.

With Swedish Match own brands, shipment volumes in the quarter were down by 11%, the contract manufacturing volumes were down more significantly, partly due to inventory adjustments.

Volume declines for our own brands versus prior year in the fourth quarter were adversely impacted by some forward buying by some retailers in the fourth quarter 2010.

In local currency US sales and operating profits were below prior levels on lower volumes. For the full year, US sales in chewing tobacco in dollar terms was down slightly versus prior year while operating profit grew somewhat.

For our lights businesses in the fourth quarter, in local cash terms, sales decreased by 1% while operating profits declined by 5%. In the quarter, sales and operating profits for lighters were higher than prior year as a result of good volume performance.

Match sales and operating profit declined versus prior year as a result of country mix effects and negative currency and transaction impacts. For the full-year period sales for lights [park] in local currency terms were down by 1% while operating profit declined by 9%.

As regards to Scandinavian Tobacco Group, we continue to see a clear benefits from real life synergies. The Swedish Match 49% share of STG's net profit after interest and tax amounted to SEK124 million for the fourth quarter. The share net profit from STG includes the reversal of provisions made earlier in the year in the amount of SEK11 million. EBITDA increased for all product groups, Scandinavian Tobacco Group, compared to the fourth quarter of the previous year.

For premium cigars sales were up in local currencies versus prior year in the fourth quarter on high shipment volumes despite the negative mix shift towards relatively smaller less expensive cigars. For mass-market cigars sales were down due to both lower volumes and shifts in the geographic mix. EBITDA for mass-market cigars grows strongly both in local currencies and Danish kroner due to realized synergies and lower cost however.

For pipe and fine cut tobacco, excluding Lane effects, sales and EBITDA were above the fourth quarter of the prior year on the back of strong volume performance for fine cut tobacco. The EBITDA on the Lane business was somewhat lower than expectations, mainly as the result to relative low volumes in the fourth quarter.

Total Scandinavian Tobacco Group net sales for the fourth quarter amounted to DKK1.374 million. EBITDA for total Scandinavian Tobacco Group in the fourth quarter amounted to DKK325 million, this includes the reversal of a previously recognized provision of DKK19 million. Excluding Lane, restructuring cost, and one-time costs, EBITDA increased by 17% compared to fourth-quarter 2010.



For the full year, Swedish Match share of Scandinavian Tobacco Group's net profit after interest and tax amounted to SEK337 million. Is this amount includes restructuring charges amounting to SEK66 million before tax. STG net sales for the year amounted to DKK5.444 billion. Excluding restructuring and one-time charges EBITDA amounted to DKK1.249 billion for the year of which DKK164 million related to Lane.

We expect that the first dividend from STG relating to the full year 2011 will be paid in the second quarter of 2012. Now I will hand over to you Joakim for some more comments on the financials.

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**Joakim Tilly - Swedish Match - CFO**

Thank you, Lars. For the full year the development of exchange rates had a negative effect on our sales and operating profit comparisons due to a strengthening of the Swedish kroner versus primarily the US dollar and the Brazilian real compared to 2010.

The average rate of the dollar versus the Swedish kroner has declined by 9.8% year-to-date from 7.2% in the -- for the year-to-date ending December 31st, 2010, to 6.5% for the year-to-date ending December 31st, 2011. For the fourth quarter however, overall translation impacts in year-on-year were minimal.

The translation effect on operating profit was a positive SEK2 million in the fourth quarter. For the fourth quarter, the total translational impact on sales was a negative SEK4 million, which consists of a positive 4% for other tobacco products, a positive 4% for Snus and snuff, and a negative 12% for lights and zero for other operations.

Net finance costs for the fourth quarter amounted to SEK134 million compared to SEK199 million in the previous year. The net finance cost in the fourth quarter of 2010 included SEK77 million of costs related to the redeeming of EUR171 million of bond loans maturing in 2013.

The net finance cost for the full year decreased to SEK523 million from SEK562 million in 2010. The net finance cost of 2010 includes bondholder consent fees of SEK21 million related to the STG transaction as well as the SEK77 million from the bond repurchase in the fourth quarter.

Excluding these one-time factors during 2010, the net finance cost has increased by SEK59 million. The underlying increase in the finance cost was mainly a result of a higher net debt and higher interest rates due to a longer average maturity duration.

For the full year, Swedish Match paid dividends totaling SEK1.152 billion and repurchased shares net in the amount of SEK2.304 billion. During 2011, new bond loans of SEK1 billion were issued. Repayments of loans for the same period amounted to SEK853 million including repurchase of SEK310 million of bond loans with short term maturities.

As of December 31st, 2011, Swedish Match had SEK10.038 billion of interest-bearing debt excluding retirement benefit obligations compared to SEK9.885 billion at December 31st, 2010. During 2012, SEK1.288 billion of this debt was due for repayment.

As of December 31st, 2011, Swedish Match had SEK1.426 billion in unutilized committed credit lines. As of December 31st, the average maturity duration of the bond portfolio is 3.6 years and the average duration of the interest binding is also 3.6 years.

In February, 2012, Swedish Match issued EUR30 million of new 10-year bonds maturing in 2022 as an all-in rate in Swedish crowns of 5%.

On December 31, the weighted average interest rate on bonds issued including derivative effect was 4.86% with about 5% of portfolio exposed to variations in interest rates. As of December 31st, 2011, Swedish Match had SEK2.5 billion of cash and cash equivalents.

For the full year, the reported tax expense amounted to SEK642 million corresponding to a tax rate of 20%. The reported tax rate excluding one-time items as well as profit and loss impact from associated companies and joint ventures was approximately 22%.



In the fourth quarter, the reported tax rate was higher than for the full year due to one-time tax expense related to an old foreign tax filing as well as some timing effects. Excluding these effects, as well as the impacts from joint ventures in associated companies, the tax rate was 22% also in the fourth-quarter.

Some comments to the cash flow. Cash flow from operating activities for the full year amounted to SEK2.608 billion compared with SEK2.616 billion for the same period previous year. The cash flow for 2010 included businesses which were transferred to STG on October 1st, 2010, excluding the transfer businesses, the cash flow from operating activities improved, mainly as a result of an improved EBITDA but also from an improved working capital.

And as Lars mentioned earlier, we expect the first dividend from STG relating to full year 2011, to be paid in the second quarter of 2012.

Investments in property, plants, and equipment during the full year amounted to SEK245 million compared to SEK311 million in 2010, where SEK36 million pertained to businesses now transferred to STG. Investments in intangible assets for the full year amounted to SEK22 million and mainly consisted of investments for the implementation of a new ERP system for the Group.

During the full year, Swedish Match repurchased 11.1 million shares for SEK2.371 billion at an average price of SEK212.66 following authorization from the annual general meeting held in 2010 and 2011. During the year, the Company sold 0.5 million treasury shares at an average price of SEK127.10 totaling SEK67 million as the result of option holders exercising options.

During the fourth quarter in isolation, Swedish Match repurchased 2.2 million shares for SEK499 million, no options were exercised during the fourth quarter. The total number of registered shares in the Company is 213 million. In January 2012, a further 210,500 shares have been repurchased for SEK50 million at an average price of SEK236.9.

The board will propose to the annual general meeting in May 2012, a renewed mandate to repurchase shares up to a total holding in treasury not exceeding 10% of the number of registered shares in the Company until next annual general meeting in 2013.

The net debt was SEK8.9 billion as per December 31. The net debt in relation to EBIDTA excluding businesses transferred to STG, share of profit in STG, a larger one-time items was 2.6 for the 12-month period ending December 31st, 2011. I will now turn the conference call over to Lars.

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

Just to highlight also that the board will propose to the annual general meeting an increase in the dividends -- in the dividend per share from SEK5.50 in previous year to SEK6.50. With that, I think we can open up the floor to questions and answers.

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## QUESTIONS AND ANSWERS

### Operator

Thank you, sir. (Operator Instructions). And the first question comes from the line of Jon Fell. Please go ahead.

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**Jonathan Fell** - *Deutsche Bank - Analyst*

Can I ask you a question about your US business? I think you mentioned about this time last year that you'd taken the decision that you are much better investing in terms in trying grow your US Snus business rather than trying to protect share in US snuff. Is that still the case?



And I noticed in looking at the Neilson figures that everyone can see that it does look as though in the last quarter your share loss accelerated somewhat. Is there going to come a point where you feel you are going to need to defend that US snuff share or are you confident that mass-market cigars can take up the growth slack there?

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

Yes. Hi, Jon, this is Lars, here. Just to clarify, I think what we elaborated on last year was that in this competitive environment we don't defend our share at any price, but definitely the moist snuff business remains very important to us and we did focus on the operating profit that that business can (inaudible). We also managed to grow that profit for the moist snuff business on the full-year basis.

In terms of our -- the dynamics of the category now and how we see it evolving moving forward, at least you have the benefit of having Rich here, I'll have him spread the light on that.

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**Richard Flaherty** - *Swedish Match - President - US Division*

2011 was obviously a tough year and 2010 was a tough year because of the competition, but as a matter of fact, the volume was effectively flat for the year. Profit was actually good for the year.

When you say, will there be a point where we need to spend more money with regard share, that could come but where we're focused on now is we're putting out some new products over the coming months that we think will have an impact on the business and we're also working very hard with our trade partners, because, in addition to the very aggressive pricing activities, there's been a lot of contract activities where we've had difficulty in getting our products on shelf.

But we think we're making some headway there. But going forward, my view of the business right now is that this is about the bottom and we see the future being more promising.

As far as the comparison between Snus and moist snuff, we do see Snus as a greater opportunity. We think we're better positioned in that category to have very good products versus our competitors and based on what we've seen on a relatively small base of stores, as Lars said, less than 4,000, we're performing extremely well and the products that we have out there are premium products which over time will carry much higher margins.

So we feel like we'll do fairly well in the moist snuff business. We're continuing to compete very hard there, but we do think that Snus is the great opportunity for us going forward.

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**Jonathan Fell** - *Deutsche Bank - Analyst*

Thanks, Rich. And if I could just pick up on one of the points you mentioned there that this might be the bottom in snuff and the future a bit brighter, is it your own actions with regards to new products and your trade partners that drives that optimism or are you seeing signs from your competitors that some of the competitive pressures are easing a bit?

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**Richard Flaherty** - *Swedish Match - President - US Division*

It's definitely the former. We haven't seen any let down in the competitive activities. If anything, we've seen a ramp up.

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**Jonathan Fell** - *Deutsche Bank - Analyst*

Okay. Thank you very much.





**Operator**

The next question comes from the line of (inaudible). Please go ahead.

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**Stellan Hellstrom - Nordea - Analyst**

Yes, hi, I wanted to ask you a question about the Swedish Snus market and the Neilson numbers that have been shown. Towards the end of the year it seems that the growth rate really accelerated even to double-digit and I just wanted to see if you share this view that the market has really picked up a lot and also if you have any idea on why that has happened.

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

Stellan, Lars, here. When it comes to the Nielsen, we do see some volatility in those numbers and we make our own assessments and we think that close to 10% growth that we have seen in January measurement for example is not representative of the overall market.

Our own estimate is that the total Scandinavian Snus market is actually up between 5% and 6% for the full year and Norway is up by more than that. So if you look at Sweden and the tax free channels combined, our estimate is somewhere between 4.5% and 5.5% for the full year.

But it's true that it has been a very strong second half of the year and make clear that some of this increased activity in the value segments has been on top of a relatively stable category for the premium segment so it's provided some incremental growth to the category.

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**Stellan Hellstrom - Nordea - Analyst**

Good. Also, another question on Snus. At this time of the year, you sometimes say that last year's snuff margin is a good indication for the coming year, I just wondered if you have any -- or why you're not saying this year or maybe you are.

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

What we are saying is I think our Snuf and snuff business is getting more complex in the sense that we are continuing to ramp up our investments internationally, both in the US and through SMPMI and depending on exactly how much more we'll spend in 2012 compared to 2011 will have great impact on the margins.

So it's never been an exact science and it's more and more inexact I'll say, and what we have indicated is that in terms of incremental spend 2012 we look to spend somewhere in the range of SEK60 million to SEK100 million more in 2012 for the US and SMPMI combined.

And then also with the very dynamic Swedish market at the moment, we do see a strong growth of the value segment and we are very committed to increase our share of that segment and especially at the lower end of the value segment where we have very good traction with Kaliber, but we are not yet the biggest brand.

That means that we should expect negative mix effect this year that we are going to have an offsetting effect on the overall volume growth that we think will come in the Scandinavian market and also the price increase is taken. But we're prepared to fight hard also in that segment and in fact the market dynamics will be determining the next of those components.

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

So you're saying that it's a complex picture, but you're not really saying that in direction here or are you worried about the margin, is that what you're saying?

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

We focus on developing all our businesses and we don't hesitate to invest for growth for the future so I'm not worried about the Snus margins when it comes to the decisions on how much we can spend with quality to say and for example the US market for Swedish Snus.

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

Just a final one also on the range you indicated for the spending on the new initiative, SEK60 million to SEK100 million. What will really be determining that wide range? Is it more test markets or --?

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

Yes, clearly, it's determining where we are and what to do. We indicated we -- the plan is to add at least one additional test market in SMPM but then quite frankly there's almost a weekly exercise in terms of translating the learnings and the insights and the opportunities we see into actions.

There's a practical component as well in terms of when we expand distribution for example and then we install purchase in the US market. Those type of activities, they can sometimes happen faster than we thought in our plan or sometimes they can be delayed for practical reasons. So we do as much as we can quite frankly with them, but making sure we really do it with quality and in good partnership with the trade.

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

Okay. Thank you very much.

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**Operator**

The next question comes from the line of Peter Wallin. Please go ahead.

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

Thank you. Good afternoon, guys. Peter Wallin with Handelsbanken. I would also start too with a question regarding the Scandinavian Snus and snuff market. You'll also hear prior to launch interviews you've been stating that you see good growth also this year at least 3% or more. How would you split that growth in between the value and the premium segments since we've really seen the most momentum in the value segment as of recently?

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

Like I said it's -- the Scandinavian market, we don't think -- we have to realize that 2011 was historically an exceptionally strong year with a category growth of around 6% or close to 6%. So we don't think that the market can repeat that, but we do think that the overall market will continue to grow and as you said we think that this early, it's hard to give an exact estimate but our own estimate is 3% or 3% plus.

We think that Norway will continue to grow faster than that 3% number so consequently, Sweden and tax free slightly lower but we do think that in the Swedish market that the incremental growth is primarily going to come from the value end of the segment.

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

Okay because then if we refer to look at [Asian] data which changed their methodology in how they collect the data end of September, now it comes to about one-third of the market which is quite substantially higher share than previously although it's on a different set of data as the underlying base. How large share of the market do you think is realistic before the value segment starts to grow in line with the market?

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

We don't have that precise estimate for this year. I think you also have to realize that within the value segment we have several different price points now where we have a set of brands like our Kaliber brand and the Knox brand and the [Connect] brand at very low prices but also lower contents in the can.

Then you have [human and garnete] which are slightly higher and then you have the full price brands. So there can also be cannibalization in between the value segments between those mid price brands. We'll have to see, but it's not uncommon that historically that we have seen especially after tax increases that there is at the beginning of the year, there is a little bit of that duration and then there has been slower growth throughout the year, but that's the historic pattern and as I said, it's a very dynamic market there, and I assume we have to wait and see how that evolves.

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

Okay. Thank you. I would just like to ask you a question about the STG joint venture. Coming in with an EBIT contribution of SEK124 million in this quarter and then if you would've adjust for this reversal of provision, SEK113 million. If you would put that into context in terms of the synergy potential you've been talking about previously, are we pretty much -- how much of the synergies have we achieved in this number and with this number -- because it seems like underlying STG had some kind of mixed bag quarter -- you saw good volumes in premiums, also in mass market, and Lane coming in slightly below your expectations.

This adjusted figure of SEK113 million if we would say that EBIT for -- would that be like a run rate which is representative for the quarters in 2012 or do you still see more synergies coming in boosting that figure in 2012?

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

First of all, on the market performance, as you said, the past few years, the premium cigar business hasn't been a very attractive category quite frankly so we are very pleased to see that volumes reverted to some growth this year. Although you have that offsetting negative mix there as well, so also there synergies has helped in growing the EBITDA number.

But especially -- and then in the fine cut pipe tobacco business has done actually on the full year basis very, very well, I would say. And STG has definitely taken market share especially in the pipe business.

When it comes to the machine made, the mass-market cigar business which has done to a large extent European, but also some export business, the market conditions there have actually been quite poor in 2011 where we typically across western Europe we -- and including (inaudible) in Canada, which is in fairly decent size market for STG, and including UK as well, we have seen typically market declines approaching 5% in many markets across the board.

So there is no way we could have generated this kind of profit development and EBITDA growth without realizing the synergies so our estimate is somewhere in the range between EUR15 million and EUR20 million, and the latest number I have is EUR17 million of total realized synergies for 2011.



Then in counts going forward as we explained before, much was done early in the year and some of the integration took some time during the year. The run rate now, which we will see in 2012, is [20] plus, so you can add about EUR5 million to that as an indication of the synergies for 2012.

That's what we will see now for some time because the remaining -- we talked about EUR13 million and it is in that range, or say another EUR10 million coming from primarily supply chain initiatives, those synergies we will have to wait some time before they can be realized though into the complexity in realizing those.

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

Okay. Thank you very much. Final question on my behalf would go about chewing tobacco it seems also this quarter had pretty weak contract manufacturing volumes. Is that something we should also be looking for at the first of 2012 or will those be coming back?

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**Richard Flaherty** - *Swedish Match - President - US Division*

The declines that we've seen in the co-packing volume are mostly attributable to the fact that when we started up the co-packing operation, there was some inventory build there because we transferred production from their factor to ours. So we did see some declines over the course of 2011.

The business that we co-pack for -- the company that we co-pack for is actually doing fairly well in the marketplace, so I don't see 2012 as having the sort of declines that we saw in 2011.

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

Great. Thank you very much. That's all for me for now.

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**Operator**

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

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**Anders Hansson** - *Danske Bank - Analyst*

Hi, thanks, Anders Hansson at Danske Bank. First of all, on the other tobacco product margins, if you could help me understand a bit, first of all, this inventory adjustment in chewing, was that a big drag on margins in Q4 comparing to your Q4 last year?

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**Unidentified Company Representative**

No, the co-packing agreement that we have is helpful but it's not dramatic when we look at the size of our chewing tobacco business and certainly not the size of the other tobacco products business.

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**Anders Hansson** - *Danske Bank - Analyst*

Okay, and can you then explain the 700 basis points increase for other tobacco as a whole which means mass market must have done pretty fantastically in Q4.

**Unidentified Company Representative**

In Q4, we kind of took a little bit of a break from the heavy promotions that we've had on cigars in the first three quarters of the year. So we realized a much higher price on the cigars in that quarter and that was really the main driver. The volume numbers weren't quite as impressive. We had 10% plus in volume growth, but the pricing was much stronger than what we've seen in previous quarters.

Going forward, you really can't use that as the model going forward because in the first quarter for example, we have this new product launch that we're putting out which will be heavily promoted and so you can expect probably better volume growth in the first quarter, but not the same sort of margins that you saw in the fourth quarter.

And then over the course of the year, the comps are going to be either more difficult or less difficult from quarter to quarter, second quarter in particular is a difficult comp for us.

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**Anders Hansson - Danske Bank - Analyst**

Okay. Thanks. On some -- on the charges you took or the small charges, in Sweden for example in Snus, those five or six minute, was that obviously the inventory that you had to throw away or what was it and also if you could explain a bit on what happened in the US?

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**Joakim Tilly - Swedish Match - CFO**

This is Joakim. On the Swedish market, of course we had anticipated a larger hoarding as you know of some 5 million cans instead of the 2 million that we expect was actually the net result of the hoarding and obviously we had to produce those in advance and since there was an assortment change in the Swedish market the 1st of January, and the way it changed we couldn't really sell those out anymore since they couldn't be sold out before year end.

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**Anders Hansson - Danske Bank - Analyst**

Okay. That's why.

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**Joakim Tilly - Swedish Match - CFO**

(inaudible - multiple speakers)

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**Anders Hansson - Danske Bank - Analyst**

And on the US with the Timber Wolf?

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**Richard Flaherty - Swedish Match - President - US Division**

We received a letter from the FDA in December that effectively disallowed our promotion that we were running on the cans throughout the entire year. We disagreed, but what it meant was a number of cans that we had produced that included the promotion on the labels, we weren't going to be able to sell those cans before we settled the dispute with the FDA, so we had to throw those cans away.

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**Anders Hansson - Danske Bank - Analyst**

Okay. One more thing on the spending for US Snus and the joint venture, can you give us a bit a base for 2011, how much you did spend for joint venture and US Snus. Will we get that when we get the annual report or at least get the joint venture stuff?

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

For competitive reasons, we don't give the absolute figures, but as you know, we do provide you with incremental (inaudible).

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**Anders Hansson** - *Danske Bank - Analyst*

Okay. Just one final then. The pension containment gain in other that you mentioned, was that very insignificant or --?

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

This is Joakim, again. There were some -- there're always some one-offs on and off in other operations and I said the net effect that we had from the [pension] containment gain was a positive of about SEK10 million.

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**Anders Hansson** - *Danske Bank - Analyst*

Okay. Thank you.

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

In Q4.

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**Anders Hansson** - *Danske Bank - Analyst*

Yes.

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**Operator**

Your next question comes from the line of David Hayes. Please go ahead.

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**David Hayes** - *Nomura - Analyst*

Good afternoon gentlemen. Just in terms of the hoarding levels that you just mentioned, in fact, I just wondered if you had any logic as to why that was less than you thought. Is that a positive indicator in terms of the market reaction to the expected price increases potentially?

And then secondly, just on the EU assessment of the Snus brand, obviously there's a reassessment going on. The timing seems to be moving around a little bit. I just wondered if you could talk about what your anticipation is for news flow on that and what you guys may be doing in terms of lobbying and how that is going from your perspective. Thanks very much.

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

On the hoarding first of all, it is a very tricky exercise that luckily we don't have to do every year. And we have had as much as 13 million cans historically. I would say if you look at the whole Swedish trade, and the Christmas trade, and the statistics that are coming out of that, the sentiment was pretty poor in December so that might have influenced a little bit the buying pattern but we don't have any specific things we can pinpoint as to why that was the case.



There was an assortment change as you know as well, so maybe people are a little bit more careful. However we did have an assortment change in Norway at the beginning of 2011 and there we did see some clear hoarding at the end of 2010. So it's a very tricky exercise, too.

In terms of the EU, you have seen what we have seen in terms of the official communication that the proposal for the revised backlog directive is delayed and our understanding in [first] coming -- rather is going to come out in Q4 and it was due latest -- before that was but it was due during the summer. Our assessment of that is that the impact assessment generated a lot, unusually many comments.

And they had to redo parts of that and look at that process more carefully. That in itself was positive since it shows that it's a topic that demands a lot of stakeholders. And what we do is that we continue to inform and we continue to have a good dialogue with a lot of stakeholders and to come out with our key messages there when it comes to Snus and the European Union.

But you know our standpoint in the long run we are definitely hopeful and we think that this [sub-serve ban] will go away, but on the other hand we think that it's an uphill battle and it should [rapidly] low probability that it will come in this around of the relation.

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**David Hayes** - Nomura - Analyst

Okay. Thank you. Just getting back to the Swedish market and the changes there, can you just remind me where loose versus pouch sales currently sit and how you see that changing in 2012 with the price rise? I know generally you've seen loose dropped off quite substantially is that what you expect to see again? Have you started to see that already?

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

About -- this is Emmett, about 70% of the shipments that we do today are pouch products in all sizes from mini to large, white and the more traditional type of pouch, about 30% is loose. It has been declining. The decline has been more dramatic on the Norwegian market over the past couple years and on the Swedish market we had -- and last year I think it was around 65%/35% or so, but it's around 70%/30% now overall for the Scandinavian market.

With the price changes and some of the weight changes, we'll have to see what happens. The weight was reduced from [45 to 42] to mitigate the price increases on those loose products but we'll see.

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**David Hayes** - Nomura - Analyst

Okay. Thank you very much guys. Thank you.

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**Operator**

Our next question comes from the line of Andreas Lundberg. Please go ahead.

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**Andreas Lundberg** - ABG Sundal Collier - Analyst

Yes, thank you, Andreas Lundberg, ABG Sundal Collier. A question on mass-market cigars. How far have you come there in your expense and on your distribution capacity and also how do you see the potential to go to completely new retailers here in 2012 given the strong momentum among consumers? Thank you.



**Unidentified Company Representative**

We feel confident that we'll be able to grow the business in 2012. A good part of that growth is going to be from new distribution opportunities. On a -- every one of our varieties has a different distribution position right now, but if we look at these cigars that are launched within the last year or two, we have a significant opportunity. We are not in 100% of the stores that carry these cigars. We are certainly over 50%, so it's a good strong opportunity on the distribution end.

Of course the stores that we are not in tend to sell fewer cigars than the stores that we are in so a lot of the low hanging fruit has already been taken care of but it's a significant opportunity for us over the next year and probably into the next year.

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**Andreas Lundberg - ABG Sundal Collier - Analyst**

Have you already started to ship the new products that you talked about?

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**Unidentified Company Representative**

Yes, we've started to ship White Owl Silver in January.

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**Andreas Lundberg - ABG Sundal Collier - Analyst**

Okay. And the last one on the lights given that you have had some negative effects there during the year, all as equal, would you say that the margins in that business should improve in 2012 versus 2011? Thank you.

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

It's hard to say at the beginning of the year because there are also a lot of different businesses. We have the Swedish export business of Matches. We have the varying international lighter business and we have the Brazilian business. But I'd say in terms of the currency development it certainly looks like right now that it's a little bit more stable compared to the slide that we had during the course of 2011. We do our utmost to maintain the profitability of that business as well.

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**Andreas Lundberg - ABG Sundal Collier - Analyst**

Okay. Thank you, guys.

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**Operator**

And the next question comes from the line of Daniel Ovin. Please go ahead.

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**Daniel Ovin - Credit Agricole Cheuvreux - Analyst**

Yes, hello. I was wondering a bit on your fight in the low end in Sweden to take market share. I understand that Kaliber now has a similar market share to your main competitor here Knox. I just wondered do you have any target here. What do you want to achieve? What kind of market share? And also final question, what percentage does Kaliber makeup of your total sales and could it be the case that you would even cut the prices to reach your targets here? That's the first question. Thank you.





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

When it comes to Kaliber versus Knox we have lower distribution on the Kaliber. We have been more selective on the distribution and according to the latest Nielsen measurement we are a little bit smaller actually than Knox on the total but then we don't have on the market a loose variety of Kaliber. So if you look strictly within pouches we have in the latest measures surpassed Knox, that is correct.

We definitely have some KPIs and some plans there in terms of share development but for competitive reasons we don't give them out publicly but apart from saying that, we intend to take a larger share of that lowest-priced segment as well of the Swedish market.

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**Daniel Ovin** - *Credit Agricole Cheuvreux - Analyst*

Okay. Can you say how much Kaliber makes up of your total sales today?

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

According to Nielsen it's --

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**Unidentified Company Representative**

In the latest four-week period, Kaliber has about 4.2 share of market according to Nielsen, and then Nielsen says that we have just shy of 80% market share, so you can calculate it out, but it's growing.

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**Daniel Ovin** - *Credit Agricole Cheuvreux - Analyst*

Okay. Thanks. And then also just on STG, I wonder would you mind to give what the depreciation and amortization and also net financial expenses were in the quarter on your part.

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**Unidentified Company Representative**

The depreciation and amortization was pretty much in line with what it has been during the first three quarters, but if you look at the fourth quarter financial net and the taxes. But the financial net was actually slightly better than for the first three quarters, then they have some hedging and they have loans in foreign currency so they had some offsetting amounts versus the interest expenses there. So financial net was a bit lower than in the first three quarters.

And the taxes on that one actually also had some year end adjustments so tax rate was slightly lower than for the first three quarters as well.

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**Daniel Ovin** - *Credit Agricole Cheuvreux - Analyst*

Okay. Thank you. And then just one final question also I was looking at your other operations here and I understand that that sales growth there also had a positive affect from hoarding, I just wondered, do you mind to give us some indication here of how much driven from hoarding?

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**Unidentified Company Representative**

I'm not sure I have that information handy here. It's clearly, as we say it's definitely impacted by hoarding, but I'd prefer not to give you an inaccurate answer.

**Daniel Ovin** - *Credit Agricole Cheuvreux - Analyst*

Okay.Thank you.

**Operator**

We appear to have no further questions.I hand the conference back to you.

**Unidentified Company Representative**

Okay.Thank you. Just to inform you then that the release of our first quarter results of 2012 will be on May 4.Thank you.

**Operator**

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

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