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SWMA.ST - Full Year 2012 Swedish Match AB Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Swedish Match full year report 2012. At this time, all participants are in a listen-only mode. There will be a presentation following by a question and answer session. (Operator Instructions). I must advise that this conference is being recorded today Wednesday, 20 February, 2013.

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

Emmett Harrison - *Swedish Match - VP IR*

Good afternoon. This is Emmett Harrison, Senior Vice President of Corporate Communications and Sustainability. Welcome to the fourth quarter 2012 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, they can give no assurance that its expectations will be achieved.



Risk factors are outlined in the latest annual report which is available on our website, swedishmatch.com. Swedish Match assumes no obligation to update information concerning its expectations.

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 & CEO*

Thank you, Emmett, and good afternoon, everybody.

For the fourth quarter of 2012, Swedish Match reported continuing sales growth in local currency terms. Operating profit from product areas was virtually unchanged versus prior year in local currencies, and higher operating profit in the Snus and snuff product area offsetting lower operating profits in Lights.

Operating profits, including share of net profit from STG and larger one-time items, for the fourth quarter was SEK986 million, compared to SEK1,022 million in the previous year.

During the fourth quarter 2012, international snus spending was about SEK30 million higher than in Q4, 2011, and SEK20 million higher than in Q3 of 2012.

Our share of net profit in STG was SEK103 million, compared to SEK124 million in the prior year. The reported share of net profit from STG in the fourth quarter of 2011 was positively impacted by the reversal of a previously recognized provision, as well as the difference between the estimate and the actual result for the third quarter 2011. Excluding these items, the share of net profit from STG improved in the fourth quarter 2012, compared to the same period of the previous year.

Basic earnings per share for the fourth quarter amounted to SEK3.93, an increase from SEK3.42 in fourth quarter last year.

Scandinavian snus sales were up by 2% in the fourth quarter versus last year. Shipment volumes in Scandinavia were down by 3% in the quarter. Volume increases in Norway and Travel Retail partially off-set the decreased volume in the Swedish market.

The fourth quarter shipments for the prior year were impacted by hoarding effects in both Sweden and Norway. On an underlying basis, excluding hoarding effects, it's estimated that Swedish Match snus volumes in Scandinavia were down by 2%.

Operating profit and operating margin in Scandinavia improved in the fourth quarter, versus the prior year.

Competition from low priced products remained intense in Sweden in the fourth quarter. This has led to further market share erosion of Swedish Match and contributed to the volume decline for full priced products.

The increased activity in the low priced segments has, however, contributed to the overall growth in the Swedish market. For Scandinavia as a whole, Swedish Match estimates the market to have grown in the range of 4% to 5% in volume terms.

When reviewing market share, we now exclude tobacconist from Nielsen estimate. This, we believe, provides consumption information that is more in line with actual consumer purchases.

In Sweden, using this Nielsen measure, excluding tobacconists, our market share for snus in the value terms was 79.8% in the four week period ending January 27, compared to 80.6% for the preceding four week period, and 84.7% in the corresponding four week period last year.

Our market share in volume terms was 73.7%, compared with 75% in the previous four week period, and 80.4% in the corresponding period last year.

For the four week period ending January 27, Swedish Match had a volume share of 95.8% of the full price segment, and 37.0% of the value segment. The value segment accounts for approximately 38% of the Swedish market, in number of cans, up from approximately 31% in the corresponding period last year.

In January 2013 [tobacco] tax increased in both Sweden and Norway. That's a tax increase of (inaudible), only minor adjustments remain. And in Sweden, we decided to absorb the tax increase for nearly all our products. We did, however, increase the list price for our low priced Kaliber brand.

To date, competitive low priced brands have not followed this price change, and at least one competitor has further increased the level of discounts for its products. In order to compete on a level playing field, we have decided to adjust downward the effective price for our Kaliber brand.

In Norway, our market share, in value terms, in the latest four week period ending January 27 was 67.2%, unchanged versus the previous period and compared with 71.5% from the corresponding period last year.

The Norwegian market continues to exhibit solid volume growth, up more than 12% in the latest six month period, versus the same period last year, according to Nielsen. Nielsen reports that over the same six month period, Swiss Match consumption volumes were up by 7%.

In the US, Swedish Match moist snuff sales were down year on year, in the fourth quarter, with volumes down by less than 3%. Operating profit in the US, for moist snuff, was up in the quarter, versus prior year, even when taking into account the SEK5 million writedown in the fourth quarter 2011. For the full year, operating profit was flat in dollar terms, for moist snuff.

[Concerning] factory shipments, we estimate that for 2012, the moist snuff category in the US was up a bit more than 4%, while Swiss Match volumes were down by 3%.

Swiss Match estimates that its volume share of the market in the US is close to 10%. During 2012, we have upgraded our packaging for moist snuff in pouches. The pouch segment in the US now makes up more than 10% of the market; it has been growing by more than 10% year on year, over the past several years.

Now, in addition to having a disposal lid, Timber Wolf and Longhorn pouches are offered at a new, everyday low price. We believe that this investment behind pouch moist snuff will help support growth in this segment, and to increase our presence at retail.

We continue to see very good development for our Longhorn tubs. Each Longhorn tub contains the equivalent of 12 cans, and delivers outstanding value. In September, two new varieties of Longhorn tubs were launched long cut mint and fine cut wintergreen.

Our Snus activities in the US continue to show positive momentum. During the fourth quarter, we further expanded our store count. Today, we are in more than 11,000 stores, and we anticipate that we'll be between 15,000 and 20,000 stores for General snus by the end of this year. With the current plans for consumer engagement in distribution bidding activities, spending for 2013 is expected to be higher than in 2012.

With regard SMPM International, the joint venture company for smoke-free products, testing continues in Canada, and we're now in more than 1,500 stores with General snus. We're also testing the Parliament brand in St. Petersburg, Russia, and Marlborough in Tel Aviv, Israel.

Total investment spending for Swedish snus, internationally, in the US, and Swiss Match [and] SMPM International, was SEK244 million in 2012, and the current estimate for 2013 is an increase somewhere in the interval of SEK10 million to [SEK50 million].

In our other tobacco product businesses, sales for mass market cigars, in local currency, were up by 8% versus the fourth quarter 2011, while volumes increased by 16%.

During the third quarter, we began offering two new products on the US market, White Owl Black and Game Black, by Garcia y Vega. These new products have done very well. And in addition, the White Owl Silver and Game Silver products, launched earlier this year, contributed significantly to the growth in the quarter.



In the fourth quarter, all the volumes and sales were above our year earlier level. Operating profit for cigars was slightly lower. This was anticipated, as the fourth quarter 2011 had an unusually favorable product.

Nielsen reports continued strong value growth for Swedish Match cigars in the US market. Overall, volume share for Swedish Match in the US mass market, excluding cigars, was 17.8% for the full-year period ending January 19, up from 16.9% in the prior year period.

Based on reported factory shipments from some competitors and our own data on distributor category shipments to retailers, we estimate that our actual share exceeds 20%. For the full year 2012, we saw strong volume growth in cigars, up 18%.

In January of this year, we successfully introduced our newest variety, Gold cigars on both the White Owl and Garcia y Vega brands, which have gotten off to a fast start, consistent with our other recent launches.

For the remainder of 2013, we have a solid lineup for introductions, marketing initiatives, and further distribution opportunities. We are, therefore, confident that we will continue to outpace the market in 2013, and that sales and profits for cigars will have strong growth.

There are changes in the timing and [managing] of product launches and promotions from quarter to quarter. We would expect the first quarter to be rather soft, year on year, then improve as we move past the first quarter.

For chewing tobacco, we estimate the market declined by more than 5% in volume terms in 2012. Nielsen indicates that Swiss Match has a value share about 50%, and a stable to increasing volume share of the market.

For Swiss Match own brand, shipment volumes in the quarter were down slightly, while contract manufacturing volumes were modestly higher. During the quarter, chewing tobacco sales were up by 3%, while operating profit and operating margin were also higher, year on year, in local currency. For the year, chewing tobacco sales, volumes and profits were only slightly lower than 2011 levels.

During the fourth quarter, the Lights product area delivered the best quarterly result in 2012, but did not reach the operating profit of the strong fourth quarter of 2011.

Lighters outperformed matches. For lighters, sales in local currencies, were slightly higher than last year, while operating profit was down somewhat.

For matches, sales and operating profit declined, due to different factors, including country mix, currency transaction effects and higher raw material costs.

With regard to our 49% holding of Scandinavian Tobacco Group, total Scandinavian Tobacco Group net sales for the fourth quarter amounted to DKK1.623 billion, up from DKK1.401 billion in the corresponding period one year ago.

Reported EBITDA increased by 6%, to DKK381 million. In local currencies, and excluding one-time items in the prior year, EBITDA increased by 18%.

Sales and EBITDA in the fourth quarter have been positively affected by a recovery from the previously recognized backlog situation and delivery problems related to an ERP installation in the European cigar operations.

For Premium cigars, both sales and EBITDA were up on higher shipment volumes, driven by strong performance in the mail order and Internet channels.

For mass market cigars, excluding Lane, volumes increased significantly, with a large part of the volume increase being related to the recovery from the backlog situation. There was also a positive mix impact in the quarter, helping to drive sales higher. EBITDA was up for mass market cigars, on the higher sales.



Excluding Lane, pipe tobacco/fine cut sales and EBITDA were up, largely as the result of an improved product mix, and lower operating expenses. For Lane, sales in local currencies were slightly down in the quarter, while EBITDA was improved somewhat.

Total Scandinavian Tobacco Group sales for the full year amounted to DKK5.978 billion versus DKK5.471 billion, in 2011. In local currencies, adjusting for the acquisition of Lane, in March 2011, and the divestment of certain brands in Australia in early 2011, sales increased by 4%.

EBITDA for the full year grew to DKK1.307 billion, up from DKK1.178 billion, in 2011. Net profit for the year amounted to DKK622 million, compared to DKK578 million in the prior year.

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

Joakim Tilly - Swedish Match - CFO

Thank you, Lars. For the fourth quarter, the development of exchange rates had a negative effect on our sales and operating profit comparisons, and most notably for our Lights businesses, where the depreciation of the Brazilian real versus the Swedish krona, had a large impact on both sales and profits for Lights.

The average rate for the Brazilian real versus the SEK was SEK3.24 in the fourth quarter, versus SEK3.75 for the fourth quarter of 2011, a depreciation of 14%.

Average rate of the US dollar versus the SEK for the quarter has now, in the fourth quarter, depreciated by about 1% versus a year ago, from SEK6.75, for the fourth quarter of 2011, to SEK6.66 in this quarter.

Overall, there was a negative translation impact on sales of SEK39 million, for the fourth quarter. This consists of a negative SEK12 million from tobacco products, and negative SEK5 million for snus and snuff, and negative SEK22 million for lights, and zero for other operations.

The total translation effect on operating profit was a negative SEK12 million in the fourth quarter. The current rates of the SEK versus the US dollar and Brazilian real implies that we will likely see negative translation impact in the first quarter. The average rate for the first quarter of 2012 was SEK6.75 for the US dollar versus SEK, and SEK3.82 for the Brazilian real versus SEK.

Net finance costs for the fourth quarter amounted to SEK137 million, compared to SEK134 million previous year. The increase is attributable to a higher average debt, as a consequence of our share buyback program, and the increased dividend.

As of December 31, 2012, the interest bearing debt was SEK10.8 billion, versus SEK10.0 billion, at December 31, 2011.

For the year, the reported tax rate was 17.2%. Excluding associated companies and joint ventures, the underlying tax rate was 22%. The reported tax rate includes certain one-time tax items relating to the net deferred tax impact of the reduced corporate tax rate in Sweden, from 26.3% to 22%, and positive settlements of tax disputes in foreign jurisdictions.

The corporate income tax rate for the Group will, in 2013, be affected by the new Swedish tax regulation, which will limit tax deductions of interest expenses on inter-Group loans, as from January 1, 2013, as well as by the decrease of the Swedish corporate tax rate.

The new tax regulation on limitations for tax deductions of interest expenses for inter-Group loans still leaves room for interpretation. But our best estimate, right now, is that the changes combined will lead to a slight increase of the corporate income tax rate for the Group, probably to a level of 22% to 23%.

Cash flow from operating activities for the year amounted to SEK2,805 million, compared with SEK2,608 million for the same period of the previous year.



The cash flow from operations increased, compared to the same period previous year, as a result of improved EBITDA, lower taxes paid, and dividends received from associated companies. This was partly offset by tobacco tax payments and VAT payments in the beginning of the year, relating to hoarding in Sweden at the end of 2011.

Net cash used in investing activities for the year amounted to SEK323 million, and includes the investments in property, plant and equipment of SEK251 million, compared to SEK245 million the previous year.

In addition, investments in intangible assets amounted to SEK48 million, compared to SEK22 million in the previous year. We expect that the investment in tangible and intangible assets for the full year of 2013 will be at the similar level, around SEK300 million.

In addition to normal replacement investments, capital expenditure for the year, including capacity investments for mass market cigars, as well as the continued implementation of a new ERP system for the Group.

During the year, SEK3.3 billion have been transferred to the shareholders, by means of share buybacks and dividends. As per December 31, 2012, Swedish Match held 6.6 million shares, corresponding to 3.2% of the total number of shares. The number of shares outstanding net, as per December 31, 2012, amounted to 199.4 million.

The Company has issued call options, of which an amount corresponding to 2.3 million shares, exercisable in gradual stages from 2013 to 2015, were outstanding as of December 31, 2012.

The net debt increased to SEK9.289 billion, up from SEK8.886 billion at the end of 2011, primarily as a result of share repurchase and dividends. The net debt in relation to EBITA, excluding share of profit in STG, was [SEK2.5 million] for the 12 months period ending December 31, 2012.

We have, during the year, issued new bond loans of SEK2.045 billion, and repaid loans of SEK1.315 billion. In 2013, SEK1.191 billion of loans fall due for repayment, all towards the end of the second quarter.

The average maturity duration of the bond portfolio is now 3.7 years. The weighted average interest rate on the bonds is 4.83%, with about 95% of the portfolio at fixed interest rates. Our most recent bond issue was made in October, and was a six-year financing, at an all-in fixed rate in SEK of 3.43%.

For Scandinavian Tobacco Group, net finance costs for the full year amounted to SEK98 million, versus SEK47 million for 2011. The low financial net in 2011 is explained by large currency gains.

The main ongoing component of the STG finance cost is the interest expenses on loans, which, with current financing, amount to approximately SEK85 million annually. And the main reason for the large swings in net finance costs from quarter to quarter are currency exchange gains and losses, due to variations in the Danish krone versus US dollar.

STG's parent company has financial receivables in US dollars, and the effect of the evaluation of those receivables, at the quarter-end currency rate is reported in the financial net of STG.

Just to note a few items, following the end of 2012. In January 2013, a further 303,500 shares have been repurchased for SEK69 million, at an average price of SEK228.35.

In 2007, we sold the former headquarter building in Stockholm. And at the same time, we sold two adjacent parcels of land, for which the final purchase price was subject to the approval of changed city plan.

The first approval has now been received and we will, therefore, receive an additional payment of SEK150 million in the first half of the year. This will be reported as a capital gain, and is tax free.



The approval of the change city plan for the second parcel of land is still pending, and we expect that this approval could take another two to four years. Additional payment for the second parcel will most probably be lower than for the first.

The Board will propose to the Annual General Meeting, in April 2013, 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 the next Annual General Meeting in 2014. The Board of Directors will propose to the Annual General Meeting in April an increased dividend to SEK7.30, compared to SEK6.50 last year.

I will now turn the conference call back to Lars.

Lars Dahlgren - *Swedish Match - President & CEO*

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

QUESTIONS AND ANSWERS

Operator

Certainly. (Operator Instructions). Fulvio Cazzol.

Fulvio Cazzol - *Goldman Sachs & Co. - Analyst*

A couple of questions for the Swedish snus business. I notice that some of your competitors have reduced the weight per can to achieve lower retail price points, which has obviously resulted in continued market share gains. I'm wondering why you didn't opt for this strategy yourselves. So if you can give us a bit of color on how you're thinking about pricing in Sweden.

And also, related to Sweden. Now that it seems that the value segment pricing is not coming up, do you see a higher risk of an excise tax hike in Sweden for January 2014? And could this actually be the key catalyst to end the price war, in your view?

Lars Dahlgren - *Swedish Match - President & CEO*

Hi, this is Lars here. First of all, what you're referring to, in terms of one of our competitors from January, reducing the weight, that did not include any changes to the list price. So effectively, that was manufacturers take the price increase, but nothing changed at the retail level, which at least in the short term, is the relevant [thing here].

And when it comes to our own strategies, weight is one thing, and different product offerings is one thing. We will definitely strengthen our caliber range of products during the spring here, and we will introduce the new varieties in a couple of months from now.

But at this point, what we have decided is to reduce back the list price increase that we took at January 1, in response to, first of all, nobody following at year-end at the retail level, or at the list price level. And secondly, then, new information that one of our competitors is actually acting in the opposite direction, and rather significantly increasing the discount to a very large part of the Swedish trade.

When it comes to the second question on excise taxes, it should be noted that the category growth has been very good in Sweden, both in 2011 and 2012. And yes, given that some of the low price products has a lower weight, that reduces the excise taxes. But that has been more than compensated for, with our estimates, by the stronger category growth.

So I think from a fiscal point of view, the Government should be rather happy with the development on excise taxes from snus.



Fulvio Cazzol - *Goldman Sachs & Co. - Analyst*

Okay. Thank you.

Operator

Stellan Hellstrom.

Stellan Hellstrom - *Nordea Markets - Analyst*

Yes, I see that you're planning on increasing the weight for some of your premium product SKUs. I'm wondering what kind of consumer response you would expect from this, and generally what your impression is of a typical customer's awareness on weight, and how it affects purchase decisions?

Lars Dahlgren - *Swedish Match - President & CEO*

This is a -- you can call it a long-term proposition of making sure that we deliver the best quality to the consumer. We did some changes to our product assortment, and that was partly based on consumer insight and feedback, that quite many consumers appreciate the slightly slimmer pouch under the lid.

As I say, in many cases, that was the right decision. If you take the white pouches, for example, they continue to get very good feedback in our research and focus groups and so forth when it comes to the fit.

But we have noticed for the original pouches, on the premium side, for brands like [General, Ettan and Grovsnus]; that's what we're talking about here. It's a limited part of the portfolio. We have gotten the opposite reactions that not all, but quite a few, of the consumers appreciated the former size of the pouch better. So this is strengthening those brands by delivering more value to these consumers because that's what they want.

Stellan Hellstrom - *Nordea Markets - Analyst*

Okay. And I also have a question on the low price competition in Sweden. I'm a bit curious here; maybe if you can help us a little bit understanding the market. And maybe you can tell us which of the competitors that you experience being more aggressive, at the moment.

Lars Dahlgren - *Swedish Match - President & CEO*

Yes, at the moment, it is, according to our information, it's Imperial who is reducing the price to a large part on the Swedish trade.

Stellan Hellstrom - *Nordea Markets - Analyst*

Yes, fine. Also, if you are planning on new varieties of Kaliber, could you maybe tell us something on what type of market share you would be aiming for, for Kaliber, going forward?

Lars Dahlgren - *Swedish Match - President & CEO*

Clearly, if you see the beginning of this year, we lost 2 points within the low price segment. And to some extent, this is, of course, the effect of us being the only player taking up the price. And that's one factor.



The other factor is that with the rather high activity in the low price segment last year, especially in the second half, there's been a large increase in the number of SKUs. And although we have two very big SKUs in the Kaliber range, with White and the Original, we felt that the Kaliber range needs to be strengthened as a total product proposition.

And I am convinced that this will be positive with the market share development for Kaliber. But I don't want to get into specifics on exactly what kind of share we think we can generate with these new SKUs.

And these products, by the way, they are being introduced now to the trade. So we will talk to externally more specifically about it. But it's a complement and it's a fairly standard type of offering.

Stellan Hellstrom - *Nordea Markets - Analyst*

Okay, yes, I guess it's difficult to say. But could it then be that you will double your share in Kaliber or anything like that?

Lars Dahlgren - *Swedish Match - President & CEO*

We will see.

Stellan Hellstrom - *Nordea Markets - Analyst*

Obviously, yes, I think those were my questions. Thank you.

Operator

Anders Hansson.

Anders Hansson - *Danske Bank - Analyst*

Coming back to the increased weight, also, Lars, that you said that you will do that on -- it will be about 25 million cans. I was just wondering, you're not going to do it white pouches, not on mini pouches, how much is the total segment of original pouches? And why didn't you increase the weight in all of them?

Lars Dahlgren - *Swedish Match - President & CEO*

That is the majority. General, Ettan, Grovsnus is the clear majority, and then you have some very nice but smaller brands like [Trianca and Probe] and so forth, but it's a very small part of the volume.

And the answer why only the original it's, as I said, that initially this adjustment was partly driven as an adjustment to consumer insight that we had that the consumers appreciated a slightly modified pouch format.

And I think, as I said, that was the right decision for the white product range because we continue to get very positive feedback there, while the negative reactions that we have gotten are, to a very large extent, within the original segment. So we made a mistake there in terms of we didn't detect the differences in consumer preferences, and now we're correcting that.



Anders Hansson - *Danske Bank - Analyst*

But if you want to differentiate, no thoughts of doing the same with the loose products, and you have to follow up on that as well? Are there any material costs for increasing the weight besides the tax component? Is there any -- the increased tobacco content is fine, I guess, but is there any other higher cost relating to increasing the weight?

Lars Dahlgren - *Swedish Match - President & CEO*

No, the increased tobacco here is marginal in relation to the excise tax. So you can basically calculate it very easy based on going from 21.6 grams to 24 grams and SEK386. So it's something like SEK0.90 per can.

And your question on loose, there you can say for the original pouch product, it has to do with how you perceive the pouch under your lip. So it's a consumer experience. For the loose, it's more of a pocket outlay exercise, because then you adjust to that perfect fit yourself. And clearly, with the steep tax increase we've had in the past, reducing the size of the can there has been a way to mitigate too steep pocket outlay increases.

Anders Hansson - *Danske Bank - Analyst*

Just one more on mass market cigars; it's quite unusual that you give this quite optimistic guidance in the beginning of the year. And I was just wondering, what is your visibility in 20% volume growth and 15% on EBIT? Normally, you've started off from a lower base and then upped your forecasts along the way.

Lars Dahlgren - *Swedish Match - President & CEO*

Yes, what I've been saying today in some interviews is that our ambition is to outgrow 2012. And in 2012, we generated 18% volume growth; it's our clear ambition.

And why do I feel confident about this? We have several years of traction now and we have a better and better transparency on reading, on the type of impact that our various initiatives have in terms of consumer demand. So I think, basically, that's accumulated experience and then good plans. It's what's behind our confidence in the development for our US mass market cigars.

Operator

Daniel Ovin.

Daniel Ovin - *CA Cheuvreux - Analyst*

I was wondering, for your US snuff business, [here I saw some flashes] that you indicate to raise the market expenses in the US by SEK10 million to SEK50 million in 2013, and then total spend last year was SEK244 million.

I just wonder if you can say anything of how you think the total US snuff business is likely to contribute to the Group EBIT in 2013? Because I guess that the stores that you have launched in 2012 would start to contribute positively to the Group. So I wonder if you can just give any indication of the total impact to Group? Thank you.

Lars Dahlgren - *Swedish Match - President & CEO*

Just a clarification, you said US snuff, but what you were talking about is, of course, international snus investments, of which the US is a very large part. So it's for snus. We will making estimates for snuff as well, but we can get back to that.



But when it comes to the snus part, you're correct that what we see now is that we're continuing the expansion and we're continuing investing. And we're doing as much as we think makes sense and can cope with. Right now, our best indication is that this is the range of SEK10 million to SEK50 million incremental to 2012, bearing in mind that this number can change as we continue to refine our formula, going forward.

In 2012, we sold around 2 million cans on the US market, and General snus is typically a premium proposition. And then there are certain introductory pricing, where we've been to new stores and so forth, but it's a premium brand with nice gross profit.

But, of course, 2 million cans in relation to the marketing investment will take some time until the gross profit is compensating for the marketing investment. So the way you can look at it, quite frankly, is for 2013 what decides the contribution, or rather the negative contribution to Group EBIT, is the magnitude of the marketing investment.

Then just on that note, since you mentioned US snuff, so what we are doing there is that we are investing in the pouch segment, as I said earlier on in the call. And if you look to 2012, despite the very intense competitive environment, we managed to keep our operating profits in US moist snuff flat versus 2011.

And what we're doing in 2013 is that we're stepping up our efforts then in terms of investing within the pouches, which we think is going to be negative financially with a one year horizon, but definitely the right thing to do in terms of strengthening our market share within this very fast growing segment of the US moist snuff.

And why do we do that now? It's because now we feel that we have a complete and good product range to offer the US consumer.

Daniel Ovin - CA Cheuvreux - Analyst

Okay, perfect. Then also just one question. You're mentioning here that Travel Retail in Norway did help and compensate for weak volume growth in Sweden. Can you give any indication of how that was developing in 2012 and what the outlook is for 2013?

Lars Dahlgren - Swedish Match - President & CEO

Yes, if you look at 2012, there was good growth in Sweden. There was good growth in 2011, but not near the 10-plus-% growth that we saw in Norway. When it comes to Travel Retail, the first half of the year we actually had declines in Travel Retail, but this had more to do with the volumes moving between Travel Retail and the Swedish market, as we introduced a special tax re-stamp on our products sold on the Baltic Sea to help prevent [these lows].

So it's very positive to note that in the second half, with these stamps introduced across most of the assortment, we started to see some nice growth again in that market.

And, for 2013, our estimate is that the Scandinavian snus market will continue to grow. Our estimate is similar dynamics in the sense that we think that the Swedish market will continue to generate good growth, and that could be in the range of 2% to 3%. That also depends on how much activity we have in the low price segment.

And we think that Norway will continue, because Norway has an even more favorable demographic profile than the Swedish markets, Norway will continue to develop or generate very solid growth. Every year, I tend to be a little bit cautious at the beginning of the year on the Norwegian outlook because sometimes it has to slow down. But if it's not within the range of 5% to 10%, if it would be below that, I would be clearly very surprised.

Daniel Ovin - CA Cheuvreux - Analyst

Okay. Perfect, thank you very much.



Operator

Adam Spielman.

Adam Spielman - Citi - Analyst

I have a couple of questions, please. First of all, on the changes to the weight of your premium pouches, just a very minor point, can you confirm it's about 25 million or 30 million cans affected? Much more seriously, are you able to say whether, or confirm whether, this is anything to do with the fact that the premium is losing share to discount?

If a market were to interpret this as the first sign that you really feel that you need to give more value to consumers in premium as a way of, I suppose, reducing down-trading, would the market be correct in that? Or is it purely to do with what you've said, which is a consumer insight and it's very specific.

In other words, I'm trying to get a feeling; is it the beginning? Given the down-trading we've got, given the fact that you're reducing the price of Kaliber, is this the first sign that there will have to be more, basically, discounting on premium? Or is that completely the wrong way of interpreting things?

And then a final question; I've got more, but a final question. Did you say how much premium snus in Sweden declined in the fourth quarter? If you did, I missed it, but if you didn't, it would be lovely to get that figure. Thank you.

Lars Dahlgren - Swedish Match - President & CEO

Hi, Adam. First of all, it's about 25 million cans. That's correct. The read on this is, from my perspective, definitely normal consumer insight work where we continuously try to optimize our product offerings for various brands and consumer segments and so forth. And as I said, we have noticed this difference in consumer preferences between the white consumers and the original consumers.

And so [if] that is definitely what we're trying to fix here, then has the fact that, in that sense, we haven't had the optimal offering there, had any negative consequence on the down-trading? Possibly, yes, for those consumers, or some of those consumers. In that sense, we think that this is the right move to make sure that we offer those premium consumers that want that type of pouch, they should get true value for their money.

But we don't see that issue among the white. On the contrary, as I said, that seemed to be a very good size of the pouch that we offer those consumers.

In terms of the premium volumes on the Swedish market, I did not give you a number. It is fairly messy around year-end with these hoarding effects and so forth, so it's hard to get the read on the exact December data.

But if you look at what Nielsen is saying, if you take the rolling three months, and now without tobaccoconists, Nielsen is definitely giving a better indication of the trend. The premium segment is down, I think, 6.4% year on year for the rolling three month period ending in January 27.

Adam Spielman - Citi - Analyst

Thank you. Can I come back and ask how bad would the down-trading have to be before you felt like introducing, not necessarily price cuts to premium, but launching new variants of some of your premium brands at perhaps slightly cheaper price points to try and prevent the down-trading?

Lars Dahlgren - *Swedish Match - President & CEO*

We have a very high activity level this year. We have a good plan in terms of activities that we do at retail and so forth, and including a very active product launch schedule. And we will be strengthening our proposition, as I said, at the low end. We will also have high activity at the premium end, and we will also have introductions at the mid-price end.

And right now, in the situation where we are now, where you look -- if you look -- during the fourth quarter, we actually saw some more stability in the premium volumes, and what we could see in year on year, obviously, there is a decline, given that what happened before. And then what we saw was more of the low price competition being within low price, you can say, so taking share from each other.

Then after New Year, it will take some time before we get the clear read. And the first Nielsen data was a disappointment in that sense, that the low price segment continued to grow again which, on the other hand, is quite typical that we've seen after a holiday period.

Adam Spielman - *Citi - Analyst*

Okay. And the new introductions haven't been announced yet, as far as I'm aware?

Lars Dahlgren - *Swedish Match - President & CEO*

No, we will get into more specifics when this is fully presented to the trade.

Adam Spielman - *Citi - Analyst*

Okay, thank you very much.

Operator

Owen Bennett.

Owen Bennett - *Nomura - Analyst*

I've got three questions, if I may? Firstly, regarding the pricing and weight adjustments; obviously, these are within the premium and value ends at present. I was just wondering, are there any changes in pricing or weights planned in the mid-price points?

Secondly, regarding cigars. Altria spoke yesterday about lots of innovation in cigar segment. Are you seeing competition intensely pick up?

And secondly, what should we expect for price mix next year with volumes around 20% again? Should we expect another year of maybe negative price mix?

And finally, you spoke of smokeless profit being down in 2013. Can you give any indication of how much the profit will be down? And also, are there any cost saves available or planned to offset the top line weakness? Thanks.

Lars Dahlgren - *Swedish Match - President & CEO*

This is Lars here. In terms of price changes, we communicate only those price changes that are effectively decided. That's why we talked about the Kaliber adjustment now and we have not announced any other changes in the premium segment or in the mid-price segment.



In terms of competition for mass market cigars, competition is very active, and on price points and on the [foreign] introductions and so forth. But as I said before, we have very strong confidence in what we are doing on the US market there, and our early indications from the Gold introduction there is also very positive there.

In terms of the price mix there, we have had, as you know, a change in the portfolio where it's gone away from large cigars to a more cigarillo-size pack of cigars. And we expect to see a little bit of that component, and it is very promotional intense in the US at the moment. So it could be that the volume growth is a little bit stronger than the sales growth, but given our scale and our very efficient production, we're still confident that this will translate into very healthy growth in the operating profit.

And then in terms of the guidance, it's early in the year, and we prefer to point to the factors that you need to factor in when you make your assessment. And for snus and snuff it's basically three things. It's the increased investments for snus; it is also then, to some extent, the investments for growth in moist snuff and pouches; and then it is the Scandinavian situation, where we believe in continued good category growth.

But on the other hand, as you're aware, we enter this year with a weaker mix in our portfolio than we entered a prior year. And these type of pricing actions that we just see now is, of course -- that can change over the year, depending on how we decide to act and how our competition decides to act. So one needs to paint one's own picture there.

Owen Bennett - *Nomura - Analyst*

Okay, fine. And just to regard now are there any cost saves available, or plans to offset some of this margin weakness?

Lars Dahlgren - *Swedish Match - President & CEO*

We look at cost continuously, and we try to do things in a smart way. But I wouldn't say that's the big thing here; it's more important for us to continue to deliver high-quality products to the consumers, and compete effectively in the various segments of the market.

Owen Bennett - *Nomura - Analyst*

Okay, thank you.

Operator

Jon Fell.

Jon Fell - *Deutsche Bank Research - Analyst*

Also got some questions on snuff/snus. Firstly, regarding Sweden; I know there was loads of moving parts here, so it's probably not possible to answer on a full-year basis. But based on what you know at the moment, and on what prices have done, discounting, and changes in weight, what sort of price mix for Sweden are you likely to be experiencing in the first quarter?

And then the second question, just regarding US and the investment in moist snuff, especially pouches; I think you've cut the list price of your pouch products by 30% to 40%. Is that replacing any discounting, or is that an actual real price effect?

And can you just remind us, roughly what portion, or proportion, I should say, of your US volumes is pouches? And have you seen any reaction from your competitors so far on that?

Lars Dahlgren - *Swedish Match - President & CEO*

In terms of the price mix, you are correct in saying that there are moving pieces here with hoarding and so forth. And the 2011 which was, to a large extent, some [mid-price] products, and then some hoarding with the predominantly low-price products this year.

So I think the best way to look at the price mix is to look at the Nielsen data, and that gives you a pretty good snapshot of the dynamics there.

In terms of --

Jon Fell - *Deutsche Bank Research - Analyst*

Sorry. Could you just remind us, then, what it is saying about your price mix at the moment, then?

Lars Dahlgren - *Swedish Match - President & CEO*

Yes. And Emmett is looking up some of the more details of the historic trends here.

But if I go on meanwhile to your second question there, on moist snuff. It is definitely a real lower price to the consumer that we're talking about, that's both Longhorn and Timber Wolf pouches, at a very attractive price point compared to competition. And to this date, we haven't seen any specific competitive reaction to that.

And in terms of the mix in our portfolio, we have been under-represented in pouches, and it's roughly 12% of the total market. And it's been lower within our portfolio. And we have had a bit of a critical mass issue there, but now, as I said, when we have the better product to offer the consumer and we put that at very attractive price points, I'm convinced that we will grow faster than the rest of the pouch market during this year.

Jon Fell - *Deutsche Bank Research - Analyst*

Thank you.

Operator

James Bushnell.

James Bushnell - *Exane BNP Paribas - Analyst*

I have two questions, and with apologies for coming back to Sweden. The original issue at Q3, as I understand it, was that the price gap was just too big. You've obviously attempted to close that at the bottom end and it hasn't worked, at least this time. Is there a chance you can try to close the gap at the bottom again? And what sort of time period could we be talking about?

And secondly, on a more mundane issue, the tax one-off in Q4, would you just be able to quantify that, in terms of million crowns? Thanks.

Lars Dahlgren - *Swedish Match - President & CEO*

On the price gap issue, I continue to firmly believe that these type of price levels in the low-price segment are not sustainable. We make money at these levels because of our scale. But it's our assessment, according to our analysis, that much of the competition does not make money at these type of price levels, and especially after further reducing them. So over time, I think that there are good possibilities to increase the price level at the bottom end.



Having said that, it's obviously a -- we are in a situation where people act more short term and try to fight for share. And when will that change, it's very hard to give an assessment on the timing there.

And then in terms of the taxes, I'll let Joakim answer that question.

Joakim Tilly - *Swedish Match - CFO*

I don't have the exact amount in million crowns in my head, but the tax rate for the Group was 17.2%, and the underlying tax rate was 22% excluding the [one tax items and they account for the] joint venture, so you should be able to calculate that pretty easily.

James Bushnell - *Exane BNP Paribas - Analyst*

Sure.

Lars Dahlgren - *Swedish Match - President & CEO*

If you take only the revaluation of the deferred tax liabilities that contributed positively 1.5 percentage points on the full-year tax rate.

Joakim Tilly - *Swedish Match - CFO*

Yes. That's correct.

James Bushnell - *Exane BNP Paribas - Analyst*

Okay, great. Thank you, guys.

Operator

Stefan Nelson.

Stefan Nelson - *SEB Enskilda - Analyst*

Sorry, I also have to come with some follow-ups on Sweden. Just to understand, these 25 million cans you're referring to, isn't it correct that this is quite a small part of your total premium cans in Sweden, which should be like 130 million or something? So what does that mean for the remaining part of your premium market share? Is that not under the same pressure from competition, or will that maybe come at a later stage, you will make changes there as well?

Lars Dahlgren - *Swedish Match - President & CEO*

As I explained earlier, the premium segment consists of a different product segments and formats and so forth. And when it comes to the white pouches, which is the bigger segment there, we have not received this type of consumer insight, or haven't seen these type of reactions that we have had for the original pouches. So this is about improving our offering to a specific segment where we think there is improvement potential, and we don't think we have that issue for the white pouches; on the contrary, we think that that's the right size.



Stefan Nelson - *SEB Enskilda - Analyst*

Okay. So with that said, should we take it that you're not really losing any volume on the white pouches side, the market share loss is mainly on the ordinary pouches and probably loose as well?

Lars Dahlgren - *Swedish Match - President & CEO*

No, there has been down-trading across the premium assortment and there is, you can call it, a natural migration away from loose product to pouches as well; you have these kind of trends. And when it comes to improving our offering for the original pouches, I think that's positive from a sense of customer loyalty within that segment. But that's not, of course, a warranty or a guarantee that nobody will leave that segment to opt for a lower-priced product.

Stefan Nelson - *SEB Enskilda - Analyst*

Fair enough. Two other questions; first, just a short. The increased weight and other measures you're taking, will this have any impact, do you think, on your Norwegian operations, or shall we see those completely stand alone?

Lars Dahlgren - *Swedish Match - President & CEO*

When it comes to the Norwegian we continue to have the same size for the white and the original pouches. And there, quite frankly, that seems to be the optimal proposition to the consumer in terms of consumer preferences.

Stefan Nelson - *SEB Enskilda - Analyst*

Okay, great. And finally, for more of a long-term question, where do you see kind of in a few years' time, what do you think is a fair market share for low-end versus premium snus in Sweden, maybe looking at how, for instance, moist snuff has developed in the US and so forth? How are you planning and looking at it more of like five years ahead?

Lars Dahlgren - *Swedish Match - President & CEO*

I think there are important differences when you compare the US market and the Swedish market and some of the factors is, of course, that in Sweden we have only a rate-based tax system whereas in the US you have a combination of ad valorem and the rate-based excise tax system. And the other thing is the consumer profile, and also there is a greater variety in terms of product offerings, more difference between the product in the Swedish market. So I don't think you can look at one example like that.

And then you can paint different scenarios here, depending on -- we had this question before on how long do you think this very intense price competition at the low end is continuing? How long that continues clearly affects those type of things as well.

What we have seen in 2012, you should bear in mind, is that apart from [as I say] a large inflow on new SKUs and price reductions during the year and more activity from players that before were not as active so, generally speaking, the increased activity, what we have seen then is that the distribution of low-priced products has grown quite a bit. And you being in Sweden would know, it's available just about anywhere now, which wasn't the case if you go back two and three years ago.

So I think there is one element of low-hanging fruit here where those most price-conscious consumers are the ones to down-trade first. And then on the margin, it gets more and more difficult because we have a lot of very satisfied consumers that appreciate the high quality and brands that we offer in the premium segment as well. Having said that, there is a significant price gap and we have identified that as an issue, so we do expect some continued pressure or some growth in the low price for this year. And where it will end, we will have to get back to that.



Stefan Nelson - *SEB Enskilda - Analyst*

Okay. Then just finally, just getting a feeling for the long term, do you have an idea what the market share for low-end is in your youngest demographic like 18 to 25-year-olds?

Lars Dahlgren - *Swedish Match - President & CEO*

Yes. We do, and it's better than for premium products. It's better than the average of the market.

Stefan Nelson - *SEB Enskilda - Analyst*

Yes, it's about 50% low end.

Lars Dahlgren - *Swedish Match - President & CEO*

Sorry?

Stefan Nelson - *SEB Enskilda - Analyst*

Or is it above 50% for low-end in that segment or...?

Lars Dahlgren - *Swedish Match - President & CEO*

No, premium is stronger if you take the age group 18 to 29 and for the average of the market.

Stefan Nelson - *SEB Enskilda - Analyst*

Okay. Thank you.

Operator

Henry Davies.

Henry Davies - *BofA Merrill Lynch - Analyst*

I've got two questions, both on Sweden. First on the increased promotions from Imperial; what effect did that have on the retail price? And can you confirm, was that on Knox or the other brand, the low-weight one? And maybe just what do you think their incentive is here? I think the previous expectations was that they would follow. So what do you think their incentive here is to do the opposite of what you've done?

And then secondly, just on the pricing strategy in Sweden. Looking at the new launches on Kaliber, the weight increase on some of your premium brands, it looks like you're going to try the same strategy again of trying to reduce the price gap from the bottom up. At what point do you have to take a step back and say the market is heading towards discount, and Swedish Match needs to take its fair share of this? I'm thinking something like Altria has done successfully in US snuff and cigarettes with discount-priced extensions to premium brands. Is that something you're considering?



Lars Dahlgren - *Swedish Match - President & CEO*

Yes, on Imperial's latest move, it is very recent. So in that sense, we don't have a clear view yet on how it's going to translate into retail. We have seen a few retailers change their price to reflect this but it's a very small sample. And according to our information, it includes both Knox and [Smalan] and in terms of their motives, I think with respect, you may have to ask them on how they reason here and why they have decided to act that way.

And in terms of the broader question on the marketing mix, as I said, clearly we have to look at all parameters of the Swedish market here and we have a very high activity level that we believe in, in terms of good product introductions and so forth at the premium end, at mid-price. And also, that's strengthening the offer at the lower end with the Kaliber range.

We have to monitor the situation and see how that's going to play out. And right now, in the situation where we are now, where we have noticed a tendency that it's more fighting for share within the low-priced segments, we believe that the right move is to very firmly, and in short notice, respond to this latest development in terms of a price reduction from the competition, so we think this is the right action now.

Henry Davies - *BofA Merrill Lynch - Analyst*

Okay. Thanks for that. Can I just ask two follow-ups? On this type of increased promotions that Imperial is doing, historically, does this tend to be a temporary promotion? Or similar to the promotion that JT ran last year, could this be an actual repositioning?

And then just on the guidance for snus/snuff, profit down in 2013. Can you perhaps be a little bit more specific? I think you gave similar guidance on 4Q EBIT and it was down 2%. Should we be expecting something in a similar magnitude? And I'm guessing that doesn't factor in any price increases this year; can you just confirm that's correct? Thank you.

Lars Dahlgren - *Swedish Match - President & CEO*

When it comes to the timing of these new discount levels that we're seeing, one should be aware that -- if you're compare it to the US market for example, in the US market you have pure price promotions which you can also offer to the consumer in terms of temporary price promotions; those type of initiatives are not legal in Sweden. This is an adjustment, you can say, to the effective price to the retail. And we have seen these in the industry, and we have seen different patterns where they can vary from three months up to a year, and things like that. And in terms of the timing there, again, I think you have to ask Imperial.

The other question in terms of the snuff guidance, again, I would say that you have to look at the different pieces and factor in that, in the US, we are investing more, and then for moist snuff, we are investing more. And in the Swedish market, there is a level of uncertainty of how the various price segments, and so forth, will play out.

And what we see, we see this as it's early in the year, but given these three factors and the fact that we enter into the year with a weaker product mix than we entered into the prior year, and at least for the first half, you shouldn't count on any adjustments to the premium prices here.

We've said that we haven't excluded any premium price adjustment upwards in the latter half, but clearly, we have to see how the market develops and how the competitive environment behaves in the latter part of the year.

Henry Davies - *BofA Merrill Lynch - Analyst*

Okay. Thank you. I assume though you wouldn't take pricing up on premium unless something happens on discount first. So that would have to be together with a price increase on discount, right?



Lars Dahlgren - *Swedish Match - President & CEO*

Yes. We don't go into the specifics on our price decisions like that.

Henry Davies - *BofA Merrill Lynch - Analyst*

Okay, perfect. Thank you for that.

Operator

Niklas Ekman.

Niklas Ekman - *Carnegie - Analyst*

A lot of questions on Sweden here, so I'll shift to Norway, I think. Did I hear correctly that your market share in Norway is down by over 4 percentage points? And can you just comment here what's happening in the Norwegian market; if it has any similar dynamics to what's happening in the Swedish market, or if there are one-offs that explains this drop? Thank you.

Lars Dahlgren - *Swedish Match - President & CEO*

No, it's very different dynamics than Swedish market, the fast-growing market, and where the very strong growth is coming from, call it more modern use; it's by means of pouches. So one element that we like, that we are very strong in the loose segment, but when you translate it into the overall market share, it's to our disadvantage that we have over 90% of the loose segment. And that is the segment that, in relative terms, is declining but, in absolute terms, continues to be relatively stable in the Norwegian market.

And in addition to that then it's been, and it continues to be, a very dynamic market that is characterized by new product introductions and the success of those. And quite frankly, I think that both Swedish Match and our main competitor, Imperial, have done a good job in introducing new products.

So we have been very successful with, for example, the Nick & Johnny family and the Lab Series family in the Norwegian market. And we are introducing some new products there, right now in February, under both those two families, and that we think can develop positively.

But the fact of the matter is that Imperial has been very successful with some of their so-called slim/fresh ranges in the fall here, and they have taken some market share from us within pouches with that one. And we continue to innovate and introduce products that we think are right for the future there.

And in terms of (inaudible) that is offering products at a lower price in Norway, that has so far very limited traction in Norwegian market.

Niklas Ekman - *Carnegie - Analyst*

Okay, thanks. And just if I could shift to mass market cigars and the FDA regulation there. Could you just tell us a bit more where we are here, and potential time plan when can we hear more about a decision from the FDA, and when it's likely that this would play out in terms of a potential ban on flavored cigars?

Lars Dahlgren - *Swedish Match - President & CEO*

Yes. What they have said is that they will come out in April and talk about the proposed regulations for other tobacco products. Then that's, of course, going through a normal procedure in terms of commentary periods and things like that. And given that they haven't come out yet, we don't know what it would contain in detail. In terms of timing, I think it's likely that at the earliest, very late in 2013, but we're more talking a 2014 issue here.

As a minimum, what we would expect is regulations on warning labels and self-service, for example, where today you're allowed to pick your own cigars in the stores. And as always, quite a lot of restrictions and reporting in terms of manufacturing standards, and also user fees for the industry to find that.

Then when it comes to flavors, it is uncertain what will come out there. What we have done, very consciously, and in very good time, is to reposition our portfolio away from flavors that we think are at high risk. That rather clearly would fall under the definition of characterizing flavors like, for example, the previously successful peach cigar, and instead adopt a very good product range with products like Silver and Gold and Black, and so forth.

So if you look at our product portfolio, if you go back to 2010, more than 50% of our product portfolio consisted of products that I would characterize as being exposed to relatively high risk from that perspective, whereas our plan for 2013 indicates that it will be 22% of those type of products.

And then we've a very good product range to move into, and I think compared to some of the competition, quite frankly, we're very well position in that respect.

Just one note on user fees then that is going to burden the industry. We don't know, of course, exactly how much that would be, but we have an idea. And on the timing that I painted there in -- if it's 2014, this happens to be more or less the same time as if you recall this tobacco buyout fees that the industry is currently paying, that they will go away, I think it's [some time] in 2015, or so.

So from that perspective, it's not the same thing, but we could have one year, let's say, with maybe double those kinds of fees, but then we would be back to normal.

So it's, of course, unfortunate that we will have probably fees to the FDA, but the good news is that we also have these type of tobacco buyout fees that go away.

Niklas Ekman - *Carnegie - Analyst*

Okay. Thanks a lot. That's all from me.

Operator

Adam Spielman.

Adam Spielman - *Citi - Analyst*

Can I ask two questions, please? First of all, I don't think you've quantified the increase on price -- sorry, the decrease on price on Kaliber that you've announced, and I was just wondering if you could give us some guidance obviously if there are discounts to factor in. But some guidance on the effect of discounts that you've introduced would be very helpful.

And secondly, coming back to the more premium products, you've clearly said that you've had this consumer insight that on original pouches people want a thicker pouch in their mouth, and that hopefully will stop them with down-trading. Are you able to talk a little bit about what the

insights are that you've been gaining in white and loose segments for premium that can actually reduce the amount of trading down out of those segments? Thank you.

Lars Dahlgren - *Swedish Match - President & CEO*

First of all, on the price adjustment that we do now, as I say, this is a bit of complicated picture, because what is common practice for low-price products in Sweden is that you have a list price and then you have very special volume discount. And the way to think about it is, at this stage I'd say that the year-end price increases is foregone and we could end up slightly below the price of prior year, but --

Adam Spielman - *Citi - Analyst*

And could you remind me what the price increase was?

Lars Dahlgren - *Swedish Match - President & CEO*

Effectively it was you can say, on average SEK2. And in terms of this rating, again, I don't think you should attribute this too much to a trading down phenomenon. This is a normal work for a consumer goods company in terms of tailoring consumer insight and product development to the consumer offering. And this is insight built over some time, of course, ranging from calls to the consumer hotline and then focus groups and things like that. So it's a generation of knowledge, over time, that has made us conclude that this is the right decision for the original pouches.

Adam Spielman - *Citi - Analyst*

All right. So about your whole portfolio, you're basically doing what you can. You've got a new pipeline of innovations to come in but at the moment, while the price gaps are what they are, we've just got to absorb the loss of market share and, hopefully, that will all -- the price gaps will reduce and everything will equalize over time. Is that a good summary of the situation?

Lars Dahlgren - *Swedish Match - President & CEO*

In a way, I would look at it is that now we improve our positioning within the low-price segment, and there's been a lot of activity there. As I said, there is a bit of stealing of share back and forth between the players, and we constantly work with our entire product portfolio. You discuss the white products, for example, there we also equally have consumer insight that, for example, the technology as such and the star formation patterns are positive factors. And we continue to have a high activity level in all price segments and brand building activities and so forth.

Adam Spielman - *Citi - Analyst*

Okay, thank you very much.

Operator

Jon Fell.

Jon Fell - *Deutsche Bank Research - Analyst*

I just wanted to ask about STG and can you remind us where we are up to now in terms of restructuring? What sort of annualized benefits was the business generating by the end of 2012, and is there a lot more benefit to come through this year from that or are we basically done now?

Lars Dahlgren - *Swedish Match - President & CEO*

The round number is EUR20 million for 2012, slightly more than that. [As Joakim] explained, those were basically in the sales organizations and so forth. The rest, which has been -- the EUR10 million plus, is more related to the supply chain, and the bulk of that is in conjunction with reducing the manufacturing footprint in the European cigar operations. And that's the more complicated exercise that is not going to have any material positive impact this year.

Jon Fell - *Deutsche Bank Research - Analyst*

Okay, so that's stuff that will come through incrementally on a two, three, four year view?

Lars Dahlgren - *Swedish Match - President & CEO*

Yes.

Jon Fell - *Deutsche Bank Research - Analyst*

Fair enough. Thank you.

Operator

(Operator Instructions). We have no further questions. Please continue.

Lars Dahlgren - *Swedish Match - President & CEO*

Okay, then thank you, everybody, for your patience and your questions. And the release of our first quarter results will be on April 29.

Operator

Thank you. That does conclude the conference for today. Thank you all for participating, you may disconnect.

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