

FINAL TRANSCRIPT

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SWMAF.PK - Q1 2010 Swedish Match Earnings Conference Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. And welcome to the Swedish Match first quarter one results 2010 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. Emmet Harrison. Please begin your meeting, and I'll be standing by.

Emmet Harrison - *Swedish Match - VP, IR*

Good afternoon. This is Emmet Harrison. Welcome to the first quarter 2010 results telephone conference for Swedish Match. Lars Dahlgren, President and Chief Executive Officer, is joined today by Joakim Tilly, Chief Financial Officer; Henrik Brehmer, Senior Vice President of Corporate Communications; and myself.

The conference call should last about an hour, and will include an overview by Lars Dahlgren, and a review of the financials from Joakim Tilly. 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.

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Although management believes that these 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.

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

Lars Dahlgren - *Swedish Match - President and CEO*

Thank you, Emmett. Today we report Swedish Match results for our January through March period, and I will be spending most of the time discussing these results. Later in my commentary, I will talk a bit about the news we announced earlier this week.

With regard to the first quarter results, I'd like to start off by saying that there were two factors which had significant impact on the reported results. First, there were broad currency movements since last year's first quarter, effectively reducing the Swedish crown contribution from our US sales and operating profits. Also, there were significant hoarding and destocking effects in the first quarter last year in the US tide to tax changes.

For the US moist snuff and chewing tobacco businesses, that means that volume shift in the first quarter of 2009 were lower than normal. And for US cigars, volume shift were much higher than normal. As a result, year-on-year performance for US moist snuff and chewing tobacco faced easier comparables, while year-on-year performance for cigars faced much more difficult comparables.

There was also an Easter effect in Sweden helping the year-on-year figures, which will be reversed in Q2.

With that, a quick summary. Swedish Match Group sales for the quarter reached SEK3.282 billion; down 3%, but with an increase of 3% in local currencies.

Sales growth for the first quarter came primarily from organic growth for snus and snuff, but sales also increased for chewing tobacco and lights. Sales declined for cigars in local currencies.

In Swedish kroner, operating profit declined by 5%. In local currencies, operating profit increased for snus and snuff and chewing tobacco.

Now let me go into some more detail by product area. Beginning with the snus and snuff product line, Scandinavian snus sales were up by 14% in the first quarter versus last year on 6% higher volumes, and operating profit was up in line with sales. Margins in Scandinavia were somewhat higher than prior [year].

We had volume growth in Sweden, Norway, and Travel Retail. Due to Easter timing of deliveries, our underlying volume growth was approximately 3%.

In Norway, after a successful limited launch of Lab Series 01 and 02 brand, the product has now, in Q1, been launched nationwide. In the latest Nielsen reading for the period ending March 28, Lab Series 01 and 02 has grown to a 2.5% national market share.

In Sweden, according to Nielsen, our market share for snus in value was 88% in the February/March period, compared to 88.6% for the preceding two month period.

Our market share in volume terms was 85.6% as we lost some share in the low price segment, which grows somewhat in relative size compared to the preceding two month period.

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Snus volumes for the Swedish market have been growing at a 4% rate over the past 12 months according to Nielsen, and we expect the market growth to return to its 1% to 2% per annum rate in 2010. We would expect the Scandinavian market to grow in 2010 at slightly more than the expected Swedish rates.

In the US, snuff revenues were up by 11% in local currency on 16% higher volumes. The strong volume growth is due in part to prior year tax rated destocking effects.

On an underlying basis, we estimate that volumes increased by 3%, in line with reported Nielsen consumption growth, over the first three periods. Volumes rose faster than sales primarily due to a mix shift as continued strong growth for the lower priced Longhorn brand caused the product to be a much more important part of the product mix.

In Q1, profitability for our US business contracted versus prior year, with significantly higher spending on brand-building activities for Red Man and Longhorn brands through our sponsorship in NASCAR. These activities take place between February and June so they will also be significant in Q2.

We also have market investments relating to brand and awareness-building activities for our General brand of authentic Swedish snus in key US markets.

If we return to Nielsen consumption data, in the first quarter, Longhorn continued to grow faster than the category despite intense promotional activity from competition, while we saw some declines in the rest of the portfolio.

Our market share for the first 12 weeks to March 20, in volume terms, according to Nielsen, was 12.4% compared to 12.8% for the same period in 2009, with the Timber Wolf brand having 5.4% and Longhorn having 5.5% of the total snuff market.

Nielsen reported the overall US snuff market to have been up by 6.3%, with Swedish Match volume up by 3.3%. In the most isolated four-week period ending March 20, Swedish Match market share was 12.4%.

Swedish Match is continuing to invest behind its snus program in the US with General Snus, and we are very pleased with the brand's performance. General is now available in more than 700 stores in major cities across the US, and the process of store expansion we continue during the year.

In March of this year, the Timber Wolf brand launched a new line extension, peach pack. This line extension, one of the more popular varieties of Timber Wolf loose snuff, is in pouch form. Pouch products remain one of the most rapidly growing segments of the US snuff market.

The US pouch segment is estimated to have grown to a level of more than 100 million cans annually, making it more than one-third of the size of the entire Scandinavian snus market. Timber Wolf peach packs joins our other pouch products sold under Timber Wolf, Longhorn, and Renegades brands.

In our cigar business, sales in local currencies were down by 10% versus the first quarter of 2009. In local currencies, sales in the first quarter grew by 1% for European cigars, while sales for our US cigars, mass market and premium combined, were down by 12%.

For US mass market cigars, first quarter sales in US dollars were down 7% from the first three months of 2009 on 6% lower volume. And taking prior year hoarding into account, this is a very solid result with underlying volumes up by more than 20%.

During the quarter, we gained market share, and we have had continued good success with our foillfresh cigars. We have also begun launching a new line of smaller sweet cigars, which we'll be continually rolling out during the second quarter.



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For premium cigars, sales increases in our Internet, mail order, and catalog businesses through Cigars International partially offset declines in the general cigar business as a result of prior year hoarding effects.

[Taking out] last year's hoarding effects, we estimate that Swedish Match total US premium cigar sales declined moderately, in part, to timing and shipments to some larger accounts, but also through continued careful management of inventories at the retail level.

On April 26, Swedish Match signed a final agreement with Scandinavian Tobacco Group, or STG, to form a new company, with a focus on cigars, after completing our due diligence and receiving the necessary bond holder approvals. The new Company will combine the cigar and pipe tobacco businesses of Swedish Match, excluding the US mass market cigar business and the minority stake in Arnold Andre, with the cigar, pipe tobacco, and fine cut tobacco businesses of STG.

This new company will bring enhanced opportunities for growth and improved efficiencies helping Swedish Match, through its 49% ownership, to be best-in-class in cigars.

We will now be going through the regulatory process and expect this transaction will be completed sometime during the third quarter. More information about the agreement and the proposed new company can be found in our press release from April 26, on our website.

For chewing tobacco, our market share in the first quarter was 45.6%, according to Nielsen estimate. In local currency, US sales increased by 7%, while operating profit increased by 6%. In the first quarter of 2009, shipments were somewhat lower than normal; a result of the trade destocking tied to the Federal Excise Tax that we mentioned earlier.

Taking out these effects, sales and operating profit declined in local currencies due, in part, to volume declines in Texas and Florida following significant tax increases, which in some cases doubled the retail price of a pouch of chewing tobacco.

In SEK, sales declined by 8% while operating profit declined by 9%. Operating margin was 34.1% in the quarter.

In late December 2009, chewing tobacco prices were raised by an average of 5% following a price increase in April of 2009 of 4% above the Federal Excise Tax.

Since the middle of 2009, operating profit has been enhanced by our manufacturing agreement with National Tobacco.

Our lights business continued to perform well in the first quarter; sales increased by 1%, while operating profit decreased by 1% to SEK62 million.

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

Joakim Tilly - Swedish Match - CFO

Thank you, Lars. I would like to start off by saying that the development of exchange rates had a negative effect on our sales and operating profit comparisons due to significant weakening of the US dollar versus the Swedish crown over the past six months or so. The average rate of the dollar versus the Swedish crown, used for translation purposes, has reduced by 14% quarter-on-quarter from [8.40] in the first quarter 2009 to 7.19 in the first quarter of 2010.

The total translation impact on sales in the first quarter was a negative SEK218 million, of which SEK126 million were cigars; SEK44 million for snuff; SEK44 million for chewing tobacco; and SEK3 million for lights.

For operating profit, the total translation impact was a negative SEK44 million for the first quarter.

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At current exchange rates, we would expect negative effects on sales and operating profit comparisons also for the second quarter of 2010, compared to the second quarter of 2009.

Net finance costs for the fourth quarter -- for the first quarter, sorry, amounted to SEK106 million, compared to SEK108 million previous year.

Lower interest expenses on loans due to decreased average debt were offset by lower interest received on cash balances.

As at March 31, 2010, Swedish Match had SEK8.3 billion of interest-bearing debt, excluding retirement benefit obligations.

The average maturity duration of the bond portfolio is 2.9 years, and the average duration of the interest binding is 2.4 years.

During 2010, a total of SEK700 million worth of loans come due for repayment, of which SEK100 million comes due in the second quarter and SEK600 million in the fourth quarter.

The weighted average interest rate on bonds issued including derivative effects is currently 4.2%, and about 21% of the portfolio is exposed to variations in interest rates.

As we reported in the outlook section of the interim report, we estimate that the full-year tax rate for 2010 will be [seen] relative to the underlying tax rate in 2009 of 22% depending on, among other factors, currency fluctuations.

For the first three months of the year, the reported tax rate was 20%, positively impacted by one-time items. The underlying tax rate was about 22%.

Some comments to the cash flow. Cash flow from operating activities for the first three months was SEK344 million, compared with SEK583 million in the first quarter of 2009. The reduction of the cash flow was due in part to lower EBITDA, but also due to timing of income tax payments.

Cash flow from working capital was negative in the quarter, partly related to Easter effects, which resulted in a higher than normal level of trade receivables at the end of the quarter.

Investments in property, plant and equipment amounted to SEK107 million, compared with last year's level of SEK108 million.

Net investments amounted to SEK221 million, including the acquisition of the 20% share in Caribbean Cigar Holdings Group of SEK110 million.

During the first three months of 2010, 2.5 million shares were repurchased for SEK398 million, while 0.5 million treasury shares were sold as a result of option holders exercising their options.

The net debt was SEK7.4 billion as per March 31, including net financial assets reported as assets and liabilities held for sale of SEK109 million.

The net debt in relation to EBITA was [2.1 times] for the 12-month period ending March 31, 2010. The net debt includes a net pension liability of SEK996 million based on the actuarial valuation according to IAS 19.

The net pension liability decreased by SEK145 million compared to December 31, 2009, mainly as a result of higher actuarial return on [financed] assets and actuarial gains from changed assumptions on discount rates on our US pension funds.

At the Annual General Meeting held April 27, shareholders approved a dividend for 2009 of SEK4.75 per share, up from SEK4.10 per share for 2008; an increase of 16%. This is equivalent to 49% of the earnings per share for the year.

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The shareholders also approved a mandate to repurchase shares of the Company up to a holding interest in treasury not exceeding 10% of the total number of registered shares until the AGM in 2011.

The shareholders also approved the cancellation of 20 million shares with a contemporaneous bonus issue, as well as the election of the Board and Chairman, and all other matters.

I will now hand over to Lars for any other remarks, before going into Q&A.

Lars Dahlgren - *Swedish Match - President and CEO*

Thank you. Just returning to the news announced earlier this week, I'd like to say that we are very excited about the potential of the cigar, pipe tobacco and fine cut tobacco company that we will create together with Scandinavian Tobacco Group. Our hope is that closing will be achieved during the third quarter 2010.

And we consider this action to be a major step in line with our strategy to develop our cigars to the best-in-class. Our businesses are highly complementary. And with a broader geographic reach and much larger scale, we will be able to run and grow this business much more efficiently.

And with regards to our smoke-free partnership with PMI, we see this as a very significant long-term opportunity and a major step in developing the smoke-free markets outside Scandinavia and the US. We look forward to the next phase of the joint venture as this will conduct its first test market in the not-too-distant future.

I'd like to share that it has already been very rewarding to see how the combination of skills and resources in our respective organizations and the JV have contributed to very interesting and tailored concepts from product development to a generation of consumer insights and go-to-market strategy.

With that, I think we can open up to the floor to questions and answers. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you, sir. (Operator Instructions). Our first question comes from the line of Helen Brand from Nomura in London. Please go ahead with your question.

Helen Brand - *Nomura - Analyst*

Hi. Good afternoon. Firstly, I was just wondering if you could talk about what's driving the sequential uplift in underlying trends in the mass market cigars; obviously, they're up 20%. And how should we think about those trends progressing through the remainder of this year?

And then also secondly, if possible, on US snuff, obviously some phasing of [A&P] in the quarter impacting on the margin and profitability, and how do you see this margin and profitability progressing in the business through the year?

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Lars Dahlgren - Swedish Match - President and CEO

Okay, thank you. This is Lars here. When it comes to the US mass market cigars, I'd say this is not the first time where we have seen that. We have a very efficient organization, where we, based on genuine consumer insight, have been -- have the resources and the flexibility to adapt to changing consumer trends.

And this is a business where you need to be very quick on your feet, so to say, to come up with the right concept. So, the real underlying success factor through 2009, and now also in the beginning of the first quarter, have been these foilfresh packaging innovations that we have gradually introduced across the assortment.

And if we break down the market share by segments, we see that we are currently doing very well in the small cigar segment; not the little, the small. And this is also where we come out now with the very interesting [Swedish] innovation under the White Owl brand. So, we are confident that we're going to see a rather strong performance of the US mass market in cigars throughout the year.

When it comes to the US snuff and the relatively high spending, I think it makes sense to really break it down into its different components. So, if we're going to start to talk phasing.

And if you take the traditional moist snuff market, I'd say that there is one phasing effect in the sense that we are currently sponsoring the NASCAR circuit, which is a sponsorship that will run through June. So, that one is clearly fairly front-loaded for the first six months of the year.

And the second element of spending there is that the promotional activity from all competitors, and, therefore, also including Swedish Match, has been, lately, very intense. So, that factor is a little bit harder to predict because it relates to the overall competitive environment of the US moist snuff market.

And the third factor of the increased spending is really the spending behind Swedish news and the brand building activities there. And I think we've got some very good attraction out of the sponsorships and the sampling events that we've done around ski resorts. And we've got some nice recognition so far; you can see in social media over the Internet, etc.

And those are the type of activities that we are very committed to long-term developing the US snus market. So, we will not hesitate to invest in the US snus market.

Having said that, of course, it's based on what we think is a solid long-term business case. So, that type of spending and those type of activities, they can vary quarter-by-quarter, and so forth, and we will definitely have some in the second quarter. But long-term, I'd expect, quite frankly, the spending to go up, but I'd also expect the earnings from snus to go up long-term.

Helen Brand - Nomura - Analyst

Great. Thank you very much.

Operator

Our next question comes from the line of Anders Hansson from Danske Bank in Stockholm. Please go ahead with your question.

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Anders Hansson - Danske Bank - Analyst

Thank you. I have two questions on cigars. First of all, on premium, where you talked about modest decline on sales excluding hoarding, and I was just wondering, you also had some negative effects from destocking and timing of shipments. And could you care to quantify those effects, or at least say if you think sales would have been up or down adjusting for these effects?

Lars Dahlgren - Swedish Match - President and CEO

I think the US premium market has started very weak, and so we see a continued weakness in that category. It was especially weak, I would say, in the first two months of the quarter. And that could potentially be related also to the fact that even in the US there was an intense winter period in those months.

But it's clear that while we see some glimpse of hopes in the general economy also in the US, that category has continued to be under pressure from the economic conditions.

And then, things become quite dramatic in the numbers in a first quarter because a first quarter is always relatively small, so you get large swings. So, a relatively poor quarter in traditional trade, coupled with the fact that some of the shipments to the larger accounts were very low, where we are confident that they would pick-up in the second quarter, means that it was very weak.

But if you add back the Cigars International sales, we think that it's more in the full-year effect maybe down 10% or so for -- which was the real trend in the premium cigar market in the first quarter.

Anders Hansson - Danske Bank - Analyst

Thank you. The second question; Lars, you've given some very broad indications on the synergies in the new cigar company, and I was just wondering if you can give any details on where costs will be taken out and the timing of such synergies?

Lars Dahlgren - Swedish Match - President and CEO

I'd say now the focus has been on -- since we spoke last time, just to say on this subject, and the focus has been on finalizing the agreement.

And first of all, I'd like to say that I'm very happy that we did that already. Quite frankly, we thought that it could take a little bit longer time. But I think that this shows the commitment of both parties to this combination that we saw the broad picture and the true value-creation opportunities here. So, it -- we have had very good discussions with STG in the contract negotiations.

What will happen now is that we will, of course, submit the necessary documents with the regulatory filing. And meanwhile, we will also plan for the integration as much as we are allowed to. There are clear restrictions on what -- how much joint planning we can do.

But during that phase, the aim is to secure that we can start operating the combined cigar business as efficiently as possible when we do, in terms so we know where to start integrating, and so forth. And we expect to learn more about synergies, to some extent, during that job. And since this, we're looking at -- it's a little bit beyond our control now in terms of approvals, but we think that this can be completed during Q3.

So, I'd say that 2011 is really the year where we should start seeing gradually some of the positive impacts from synergies, but also, of course, costs in the new company to be able to achieve these synergies. And I prefer not to go into more specific exactly which areas at this stage.

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Anders Hansson - Danske Bank - Analyst

Okay. But do you think that some time probably after the Q3 report you will be able to give us more details on [sales]?

Lars Dahlgren - Swedish Match - President and CEO

I'd say 2011 is the year where we will operate the new company; [that's the real year]. And exactly what we say when, and so forth, these are topics where we need to be mindful about sensitivity as well.

Anders Hansson - Danske Bank - Analyst

Okay. Thanks.

Operator

Our next question comes from the line of Martin Sikorski. Please go ahead with your question.

Martin Sikorski - Cheuvreux - Analyst

Hi. Thank you for taking my questions. Martin Sikorski with Cheuvreux in Stockholm. I have three questions, if I may. First of all, you mentioned Scandinavian snus volumes up 6% in the quarter, but could you perhaps give us a little bit of detail on Norway following the tax hike and the blacked-out coolers? That's the first question.

The second question would be if you could quantify the impact of additional US marketing spend on snuff margins in Q1.

And the third one would be what would be the key changes to warning labels on snuff in the US as of June? Thanks.

Lars Dahlgren - Swedish Match - President and CEO

Thanks. I'll take the Scandinavian one, and then I'll let Emmet in here on the US part.

When it comes to the Scandinavian volume growth that we estimate, just to be clear on this Easter effect, so when we remove the Easter effect, we still estimate that there was growth in the three markets, in Scandinavia, Sweden, Norway, and [tax free].

It's positive to see that in Norway the growth has continued. And I think the year-to-date number according to Nielsen is 10%/11%. So, so far there, we haven't noted any negative category growth implications from either the modest price increase in the beginning of the year or the fact that the market has gone black.

When you translate that into Swedish Match volumes, we're out from -- the distributors, the trade, we are not up 10% in Norway. But this is mainly a factor that 2009 was a mixed year, where we had a bit of a slide in market share in the first six months, but then since then it's been a much more stable, and in some periods, growing market share for Swedish Match in Europe.

But this means that when we now compare to last year's first quarter, we're comparing to a higher Swedish Match market share. So, our shipments were up less than those 10%.

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Emmet Harrison - *Swedish Match - VP, IR*

And, [Anders], what was the second question on the US, please?

Martin Sikorski - *Cheuvreux - Analyst*

The second question on the US was --

Emmet Harrison - *Swedish Match - VP, IR*

I'm sorry; Martin.

Lars Dahlgren - *Swedish Match - President and CEO*

It was quantification on the marketing spend.

Emmet Harrison - *Swedish Match - VP, IR*

For?

Martin Sikorski - *Cheuvreux - Analyst*

Impact on the margin.

Emmet Harrison - *Swedish Match - VP, IR*

For the US snuff business? Yes, in the past, we have been saying that the operating margins in Scandinavia kind of already in the [15%] range, while the margins on the US market are below 30%. We also have said that the margins in Scandinavia in the first quarter were up a little bit in the first quarter of last year. So, most of the margin change, you can say, was from spending on the US side.

The big significant change -- we talked about more competitive activity, but one of the biggest changes was on spending for these cars. We had two months of spending in the first quarter; we'll have three months spending in the second quarter since the run through June. And these things can be pretty expensive. They can run -- for the race cars, they can run into the low millions of dollars.

Martin Sikorski - *Cheuvreux - Analyst*

Okay, fair enough. And the third question on warning labels as of June in the US; any key changes there that we should be aware of?

Emmet Harrison - *Swedish Match - VP, IR*

Yes. It's June 22, when we're moving over to the new warning -- the warning labels that will be on the front of a can of -- and it's about -- I think it's 30% of the top of the can of snus. So, there'll be a bit of a transition period going on during the month of June in terms of labeling.

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Lars Dahlgren - *Swedish Match - President and CEO*

I think the key thing there is that, of course, we have looked at the FDA approved cans. And I must say, that they don't look bad. It's -- we're very content with how we fulfill the new labeling requirements, and still we'll be able to display our brands in a good way.

Martin Sikorski - *Cheuvreux - Analyst*

And last follow-up on that, is there any differentiation between snuff and snus as of June 22, in terms of warning labels, or not?

Emmet Harrison - *Swedish Match - VP, IR*

No.

Lars Dahlgren - *Swedish Match - President and CEO*

[Not that are on there]. No, there shouldn't be.

Martin Sikorski - *Cheuvreux - Analyst*

Okay, excellent. Thank you very much.

Operator

Our next question comes from the line of Peter Wallin from Alandsbanken in Stockholm. Please go ahead with your question.

Peter Wallin - *Alandsbanken - Analyst*

Thank you. Hi, guys. To start off, I have a question on the US snuff business. You are stating in the report that you've seen lower average selling prices per can in the US during the quarter; is this purely a mix effect from Longhorn growing faster than your other labels? Or is this also impacted by promotional activities in the quarter?

Lars Dahlgren - *Swedish Match - President and CEO*

It's a bit of a combination, but the main thing is the mix effect.

Peter Wallin - *Alandsbanken - Analyst*

Okay. And also, what would be your best estimate of the difference of sales growth and volume growth for the US, going forward? Would you still expect Longhorn to continue to outgrow the other labels?

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Lars Dahlgren - Swedish Match - President and CEO

Yes. Longhorn has very good traction, and it has had for a long time. And I think it's not only this competitive environment where the consumer has become very price-focused with the price points being displayed very clearly, even for what was traditionally premium brands.

So, Longhorn has good traction. And it's also become a brand which -- of a certain size now, which leads to better and better distribution across the US. Which is extra important, I'd say, for a brand that is priced at the lower price point, if their margin dollars are affected through the trade as well. So, we think that Longhorn has good prospects to continue growing, and more so than the other brands where it's very squeezed right now in terms of price points.

Peter Wallin - Alandsbanken - Analyst

Okay, great. Thanks. And then, you're also stating that you've incurred high costs per sold can as well in the US during the quarter; is this -- are these costs continuing to rise? And then, what's driving those? Or are the cost increase per can going to be more or less the same year-over-year, the coming quarters, going forward?

Lars Dahlgren - Swedish Match - President and CEO

I'd say it's a bit of different things; you have some tobacco [things]; you have some plastic things; and so forth. So, part of the effect, say, we noticed cost increases towards the end of 2009. And one reason is the change in oil prices that affected plastic prices from the beginning of last year to the end of last year.

So, we certainly don't intend to have the same percentage price increase on the cost of goods as we go forward. But we cannot rule out that there will be some increases from today's levels as well.

And if you take the Scandinavian business, we have notice the same. And there, to give you an example, and again it's not the entirety, but tobacco costs are up year-on-year per can, which is dependant on two factors. It is tobacco prices that have come up; but it's also dependant on the fact that we during this quarter have consumed tobacco that has been acquired at a much higher dollar rate since we're basically consuming a year's inventory there. So, we're looking at this strong dollar we had in Q1 last year.

Peter Wallin - Alandsbanken - Analyst

Okay. And also, I would enjoy your guidance for -- or your estimate that the Scandinavian market as a whole will grow about 2% to 3% this year in volumes. Are those estimates based on the current price levels? Or are you still seeing that it's quite likely that there would be a price revision sometime during this year?

Lars Dahlgren - Swedish Match - President and CEO

I think that the underlying market estimate is based on what we know today and what we think about health of the category. And generally speaking, the price elasticity is relatively low in this category. So, it's not necessarily so that we make exact price calculations in effect to the category; it's more of a broader guidance for total Scandinavian category growth.

And as we said, we already had some pricing adjustments on the Norwegian market with the Excise tax increase and slight manufacturers' price increase. So, in Norway, we don't expect any more price increases for the year.

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Peter Wallin - *Alandsbanken - Analyst*

Okay, great. Thank you, that's all from me.

Operator

Our next question from the line of [Matthew Bainger] of Morgan Stanley in London. Please go ahead with your question.

Matthew Bainger - *Morgan Stanley - Analyst*

Hi. Thank you. I just had two follow-up questions on the new smokeless warning labels in the US around the June 22 implementation date. The first is just during the phasing period, as you're transitioning from the old packaging to the new packaging, should we expect that to have any impact on category dynamics around your own shipment volume trends between the second and third quarter? Is there any shift involved there?

And then, the second question is just you mentioned that you were relatively pleased with the final larger warning labels design on smokeless, and I was just wondering if you could elaborate as to how the layout is? Are the principle [phases] just the top and the bottom? Or are the sides of the can impacted as well?

Emmet Harrison - *Swedish Match - VP, IR*

Matthew, I'll take that one. This is Emmet. Starting with the last question, on the website you've been able to go to the capital markets day presentation, and there we actually give you the visual of what the new Timber Wolf can would look like with the bottom third having the warning text on the top. So rather than trying to describe a picture to you, I'd rather you take a look at that particular presentation.

When it comes to, let's say, May/June shipments, a lot of that will really depend on what promotional activity is going on; whether -- yes, there probably will be some issues in terms of shipping a little less, or shipping a little more during that May/June period. And you might see some promotions also changing a little bit to reflect the fact that there has to be some packaging changeover that goes through.

But given the fact that this is a fast moving consumer good, I don't think there's going to be a major issue in terms of loading in or destocking around that period.

Lars Dahlgren - *Swedish Match - President and CEO*

And it's well-known to all manufacturers as well, well ahead of time, and there is a grace period. So, at least our factory is very much on top of what they need to do and by when.

Matthew Bainger - *Morgan Stanley - Analyst*

Okay, thank you very much.

Operator

Next question comes from the line of Stefan Mattsson from SEB Enskilda. Please go ahead with your question.

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Stefan Mattsson - *SEB Enskilda - Analyst*

Yes, hello. Stefan Mattsson here from SEB Enskilda. Two questions related to the new cigar company with STG. First of all, how should we think about the Arnold Andre minority stake you have? Is it right that will not be included in the deal, am I right there?

Lars Dahlgren - *Swedish Match - President and CEO*

Correct.

Stefan Mattsson - *SEB Enskilda - Analyst*

And what will you do with that stake? What's your plan for that stake; if you can say something about that?

And second, also in the agreement do you have any kind of put or call options? Any clauses that we should be aware of like you have, I think, in the PMI joint venture.

Lars Dahlgren - *Swedish Match - President and CEO*

When it comes down to Arnold Andre, this is a minority holding that we have had for a long time where we have a 40% ownership in a German manufacturer. And, no, we haven't decided not to include that in the deal. And it's a relatively small stake, so we will -- we haven't communicated anything different what's going to happen to that stake, but we have had that minority for a long time.

And when it comes to specifics in the agreements like that, it's something we don't disclose.

Stefan Mattsson - *SEB Enskilda - Analyst*

Okay. Thank you.

Operator

(Operator Instructions). Our next question comes from the line of Rolf Karp from Ohmans in Stockholm. Please go ahead with your question.

Rolf Karp - *Ohman Securities - Analyst*

Hi. Could you please give us some flavor about activity during Q1 among your competitors in the US?

Emmet Harrison - *Swedish Match - VP, IR*

There has pricing activity and new product activity going through. There was the launch of a Copenhagen long-cut wintergreen. And there have been two other Copenhagen line extensions that are coming out basically with list prices that are very similar to, or the same, as the list price for our Timber Wolf, Red Man, and Reynolds/Grizzly product.

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We've also seen some promotional activity, both locally and overall, in terms of pricing activity to try to better to -- to try to defend their positioning. We've also done some promotions, and quite a few of them tied together with what we're doing in terms of the racecar events. So, doing some things over there.

Rolf Karp - *Ohman Securities - Analyst*

Okay. Regarding the STG deal, will there be any costs for this joint venture initially? And if so, is it possible to quantify this?

Lars Dahlgren - *Swedish Match - President and CEO*

If you mean costs for achieving synergies, the answer is yes. And we'll get back here with more specifics as we start to operate the new company.

Rolf Karp - *Ohman Securities - Analyst*

Okay. Thank you.

Lars Dahlgren - *Swedish Match - President and CEO*

Thank you.

Operator

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

Lars Dahlgren - *Swedish Match - President and CEO*

Thank you. Just finally, the release of our Q2 results will be on July [21]. Thank you.

Operator

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

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