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PRESENTATION

Emmett Harrison - *Swedish Match AB - SVP of IR & Corp. Sustainability*

Good afternoon, this is Emmett Harrison, Senior Vice President of Investor Relations and Corporate Sustainability. Welcome to the second-quarter 2014 results telephone conference for Swedish Match. Lars Dahlgren, President and Chief Executive Officer, is joined today by Marlene Forsell, 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 Marlene Forsell. A question-and-answer period will follow.

A shortened version of our investor kit accompanies this presentation via webcast and a complete investor kit is available in the Investor Relations section of our website, SwedishMatch.com.

During today's conference call we will discuss certain items which may constitute forward-looking statements. Because such statements deal with future events they are subject to various risks and uncertainties. Although management believes that its expectations are based on reasonable assumptions, it can give no assurance that its expectations will be achieved.

Risk factors are outlined in the latest annual report which is available on our website, SwedishMatch.com. Swedish Match assumes no obligation to update 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 AB - President & CEO*

Thank you, Emmett, and good afternoon, everyone. For the second quarter of 2014 Swedish Match delivered sales growth of 4% with gains in product areas snus and moist snuff, other tobacco products and in the distribution business. Sales in our Lights product area were down.

Operating profit from product areas in the second quarter amounted to SEK862 million, down 1% from SEK871 million in the previous year. Higher operating profit in the snus and moist snuff product area substantially offset declines in the other areas.



The operating margin, excluding Scandinavian Tobacco Group, was 25.8% versus 27.1% in the second quarter last year. The operating margin for our product areas, excluding other operations, was 39.3% versus 39.8% in Q2 last year. There were minimal currency translation impacts in the second quarter versus a year ago.

Operating profit, including our share of net profit from Scandinavian Tobacco Group but excluding largely one-time items, amounted to SEK941 million, down a bit less than 3% from SEK966 million in the second quarter of 2013. Earnings per share for the first six months was SEK6.18 compared to SEK6.24 last year excluding largely one-time items.

Within snus and moist snuff product area sales revenues for Swedish Match snus in Scandinavia were up by 5% in SEK in the second quarter versus the comparable quarter of the prior year. Overall snus shipment volumes in Scandinavia are up by close to 5% versus Q2 last year.

On an underlying basis, adjusted for different timing of Easter between the years, we estimate the volume growth for Swedish Match snus was 2% in the quarter.

Volumes increased in Sweden and Norway as well as in travel retail. Sales and volume growth were positively impacted versus prior year on timing of shipments and we would expect Q3 to be a more challenging comparison versus year ago.

In Sweden price mix effects were impacted by a higher share of low price products in the portfolio, as well as lower prices from the repositioning of the Kronan pouch products, partially offset by small price adjustments on other brands in September 2013.

In Sweden using Nielsen data, excluding tobacconist, our market share for snus in value terms was 76.9% and the four-week period ending June 15, unchanged from 76.9% for the preceding four-week period and down from 78.7% in the corresponding four-week period last year. Our market share and volume terms was 69.9%, down from 70.3% in the preceding four-week period and down from 72.4% in the corresponding period last year.

Based on our own segmentation of Nielsen data for the four-week period ending June 15, Swedish Match had a volume share of 94.1% of the premium segment and 37.5% of the value segment. Our share of the premium price segment was down somewhat from the prior year corresponding period while our share in the value segment was virtually unchanged.

The value segment accounts for 42.8% of the Swedish market in number accounts, up from 39.9% in the corresponding period last year.

In regard to pricing, last September Swedish Match took modest price increases across the portfolio apart from the Kronan brand as this brand was in a declining trend. During the second quarter we decided to strengthen the competitive positioning of Kronan by improving the visibility at retail, secure listings for [a smaller SKU] and affecting a price decrease for the pouch product range.

After a rapid decline in Kronan's share of both the total market and the value segment in 2013, Kronan's share in 2014 is much more stable.

Concerning tobacco taxes in Sweden, while the current government has proposed a higher tax increase on snus than for cigarettes in their preliminary budget for 2015, we know that this has created a relatively large debate in media and the opposition parties have indicated that they would propose a more balanced proposal. The elections in Sweden are in September of this year.

In Norway, according to Nielsen, our market share in value terms in the latest four-week period ending June 15 was 60.2% versus 60.6% in the preceding period, compared with 63.6% in the corresponding period last year. Total market increased by about 7% in the second quarter versus Q2 last year.

During the second quarter Swedish Match consumption volumes are estimated to have been up by about 2% versus the same period last year. While they indicate a 2% volume growth in sales is positive, we are not pleased with the share erosion and have strong focus on the Norwegian market. A current example of an action is the introduction of an (inaudible) product under the LAB Fresh product range and the activity level remains high throughout the year.

In the US Swedish Match moist snuff shipment volumes were down by around 7% versus prior year second quarter, partially attributable to the difference in facing or promotion between the years. But sales and operating profit declined.

Swedish Match estimates its volume share of the US moist snuff market to be in the range of 9% with good volume development in the growing pouch segment. The pouch segment in the US now makes up close to 15% of the moist snuff market and that has been growing faster than the category growth rate over the past several years. Another fast-growing segment is for larger packaging formats and here we continue to see good growth for our Longhorn tubs.

General snus in the US is now available in more than 24,000 stores. For the remainder of 2014 we will focus on adding distribution in selected high-quality outlets and the pace of store expansion is likely to remain modest during the year. With the current plans of expanded consumer engagement and brand building activities, the operating loss for the remainder of 2014 and for all of 2014 is anticipated to be somewhat higher than in 2013.

During the second quarter shipment volumes were down year on year on a net basis. This was due to product returns as well as rapid distribution efforts in the first half of last year affecting comparisons.

With the rapid increase of store count in 2013 average turn rates declined due to typical low initial turns in these stores. Turn rates since the beginning of 2014 have, however, been showing upward trends. General snus has now approximately 11% of the US snus market according to Nielsen. And Nielsen data as well as market data provided by distributors in the case of General is clearly the fastest-growing snus brand in the US during this year.

On June 11 Swedish Match announced that we have submitted a modified risk tobacco products application to the FDA. The application relates to some brands in the General snus product line. Based on the extensive Swedish and international evidence on the health effects of snus, Swedish Match seeks permission to use warning labels that differ from mandatory warning labels on other smokeless tobacco products marketed in the US.

In our other tobacco product businesses, cigar volumes increased by 9% versus second quarter of the prior year. Higher volumes primarily came from our natural wrapper Game by Garcia y Vega products as well as for Jackpot branded products launched in the fourth quarter last year. Sales increased less than volumes in percentage terms and operating profit for the quarter was down as a more promotion of product mix versus a year ago adversely affected the gross margin.

For chewing tobacco, second-quarter chewing tobacco sales were below the second quarter of 2013. Operating profit, however, improved from lower overhead costs partly attributable to timing effects of certain costs between the years and better pricing.

After an exceptionally strong first quarter when our volumes are up year on year, volumes in the second quarter for our own brands were down close to 8%. The chewing tobacco category has historically declined in the range of 4% to 7% per year and volumes for our own brands for the first six months of this year are down by about 3%. Contract manufacturing volumes were also lower in the second quarter compared to the second quarter of the prior year.

In the Lights (inaudible) our sales were down in local currencies for both lighters and matches and lower volumes. Lighters had higher operating profit in local currencies while operating profit declined for matches. Matches suffered from a weaker country price mix and lower volumes. Comparables versus prior year for the second half of this year for our Lights business are challenging partly owing to strong shipments of advertising lighters in the previous year.

In addition to matches and lighters, our Lights reporting segment includes the sale of certain complementary products. In Brazil we sell razors, batteries and energy efficient light bulbs under the Fiat Lux and [Flexor] brands. Currently we are preparing for a limited test of e-cigarettes produced by a third party and sold under the Cricket brand name for the Russian market. Sales and expenses related to this test will also be included in the Lights reporting segment.

Sales in other operations for the second quarter amounted to SEK1.074 billion, up from SEK976 million in last year's second quarter with the timing of Easter favorably affecting the comparison. Operating loss for other operations was SEK28 million in the quarter and SEK22 million in the second quarter of 2013.

STG's performance during the first six months has been relatively soft due to tough market conditions in several markets. (inaudible) EBITDA, which was burdened by restructuring charges and a number of costs of a temporary nature decreased to DKK507 million compared to DKK556 million in the first six months of the prior year.

Adjusted for currency and one-time items, the EBITDA for the first six months was in line with the comparable period of the prior year. For the second half of the year we anticipate a clear improvement compared to the first six months.

The Swedish Match share of net profit in STG for the second quarter amounted to SEK78 million compared to SEK95 million in the prior year. Now I will hand over to Marlene for some more comments on the financials.

Marlene Forsell - *Swedish Match AB - SVP & CFO*

Thank you, Lars. For the second quarter exchange rates had a minimum effect on sales and operating profit comparisons. The Swedish krone was somewhat weaker than in prior quarters, notably versus the Norwegian krone and the US dollar.

Overall, there was a negative translation impact of sales of SEK5 million for the second quarter primarily taking place within the (inaudible) and mainly due to weaker Brazilian real.

The total translation effect on operating profit was a positive SEK1 million in second quarter. At current spot rates we would expect to see some positive currency effects on both sales and operating profit going forward. (inaudible) final costs for the first six months amounted to SEK261 million compared to SEK274 million in the previous year, due to decreased average debt levels and lower average interest rates.

As of June 30, 2014, the interest-bearing debt was SEK10 billion versus SEK10.5 billion at December 31, 2013. For the first six months the reported tax rate was 20.4%, the underlying tax rate was 22%. And we estimate the full-year 2014 tax rate, excluding one-time items, associate companies and joint ventures to be around 22%.

And some brief comments then for the cash flow and balance sheet. Cash flow from operating [expenses] for the second quarter amounted to SEK1.921 billion compared to SEK1.199 billion in the second quarter of the prior year. The cash flow from operations increased compared to the prior year mainly as a result of positive changes in working capital, but also lower income tax payments.

The large positive cash flow from working capital is primarily due to timing effects of excise tax paid and accounts receivables and payables. Net cash used in investing activities amounted to SEK158 million versus SEK30 million in the first half of 2013.

Last year's net cash flow from investing activities, including additional purchase price payments relating to the parcel of land sold in 2007 and the divestment of Swedish Match UK in 2008, in total SEK166 million. We expect that investment intangibles and (inaudible) for the full year of 2014 will be approximately SEK300 million.

During the first six months of the year SEK68 million has been transferred to the shareholders by means of share buyback all occurring in the first quarter. At June 30, 2014 Swedish Match had 1.4 million shares corresponding to 0.7% for the total number of shares. The number of shares outstanding net at June 30, 2014 amounted to 199.1 million.

Call options corresponding to 0.7 million shares and exercisable to February 2016 were outstanding as of June 30, 2014. The net debt declined to SEK8.214 billion from SEK8.308 billion at the end of 2013. And the net debt in relation to EBITDA excluding share of profit in STG is 2.4 [times] for 12 months period ending June 30, 2014.



During the first half of the year we issued no new bond loans and during the first quarter we repaid loans of SEK405 million. During the remainder of 2014 SEK[460 million] of loans was due for repayment, half in September and half in December. The average maturity duration of the bond portfolio is now 3.7 years. And the weighted average interest rate on the bonds is 4.7% with about 95% for the (inaudible) at fixed interest rates.

I will now turn over the conference call back to Lars.

Lars Dahlgren - *Swedish Match AB - President & CEO*

And I think, operator, that we can go ahead and open the floor for questions and answers.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Casper Blom, Handelsbanken Capital.

Casper Blom - *Handelsbanken - Analyst*

A couple of things from my side. Starting off with the STG where it seems that there are these restructuring things burdening the -- [everything] at the moment. Do you have any insight to when you expect to see the results of these restructurings in STG? Let's start with that.

Lars Dahlgren - *Swedish Match AB - President & CEO*

Yes, hello, this is Lars here. Part of the restructuring costs or the one-time costs (inaudible) this year relate to restructuring of the supply chain which is a very complex and ongoing project where we are changing the footprint on the supply chain. But where you also will start seeing benefits in this year.

Then there are some other items of one-time nature that are not pure restructuring. And they actually relate to inventory write-offs, but inventory write-offs on what I would call [girl] projects that haven't materialized. So it is sort of say new ventures that was an upside and not an inventory write-down on existing ongoing product lines. But unfortunately those projects did not materialize as planned and we had to take some inventory write-downs.

Casper Blom - *Handelsbanken - Analyst*

Okay, then I noticed your comment with regard to testing the sale of e-cigarettes in Russia. Maybe you could elaborate a little more on this and whether this means that you might be moving into this area in a broader scale also?

Lars Dahlgren - *Swedish Match AB - President & CEO*

I mean, we are following the development of e-cigarettes and we want to learn more and understand better. We have a very good distribution platform together with our distributor in Russia and they expressed interest to evaluate this opportunity since we have a very strong brand name in Cricket.

And we thought that that was a good idea to do that jointly together with them to gain hands-on experience and insights into the category. And as we said, then we evaluate them and we follow and including of course all regulatory and scientific developments.

Because you should remember that when it comes to e-cigarettes, as opposed to snus where there is a very long track record of -- and long experience of epidemiological data that supports the marginal long-term health effects of snus in relation to cigarettes, for e-cigarettes there is not the same type of scientific platform in long-term effects. So we are evaluating and we are following.

Casper Blom - *Handelsbanken - Analyst*

Maybe then just a final question. If you have any comments with regards to the proposed combination of Reynolds and Lorillard, whether you see that in any way having impact on your business. Maybe if especially Reynolds is busy with that project instead of focusing on snus and snuff in the US?

Lars Dahlgren - *Swedish Match AB - President & CEO*

I prefer not to speculate on those kind of things. But I wish them all good luck. It is a big transaction.

Casper Blom - *Handelsbanken - Analyst*

Okay, thanks a lot.

Operator

Andreas Lundberg, ABG Sundal Collier.

Andreas Lundberg - *BG Sundal Collier - Analyst*

I have a question on the chewing tobacco business. Strong earnings again despite I guess a 10% lower shipment. I guess that is potentially driven by the very strong first quarter. What do you think that this implies for the second half or for your underlying performance in that business? Thank you.

Lars Dahlgren - *Swedish Match AB - President & CEO*

There are quarterly fluctuations, as we know, in the chewing tobacco business. But we are encouraged by relatively strong performance this here and also actually last year as well. As I said, our volumes are down 3%. In relation to historic category declines that is relatively strong. But it is a declining category and we manage it as efficiently as we can.

But I would expect to see a more normal volume type of development for the remainder of this year. And then when it comes to the second quarter in isolation, there was a bit of timing on the overhead costs. So it is better to look at the six-month data, which are encouraging with an increased profitability.

Andreas Lundberg - *BG Sundal Collier - Analyst*

You also had a stronger year than last year, right? Is there anything that has changed in the marketplace?



Lars Dahlgren - *Swedish Match AB - President & CEO*

It's -- we note that the category decline, yes, it is slightly lower than the historic trends, whether that is a temporary thing or more of a long-term trend I think remains to be seen.

Andreas Lundberg - *BG Sundal Collier - Analyst*

Okay. Can I also ask on the travel retail snus volumes in Scandinavia, the growth there is due to the anniversary of last year's larger declines or what is driving those volume gains? Thank you.

Lars Dahlgren - *Swedish Match AB - President & CEO*

Well, I mean the travel retail market normally naturally is a reflection of the rest of the Scandinavian market and including Finnish consumption. So it is basically Swedish, Norwegian and the Finnish consumption to a very large extent. And as the overall category in Scandinavia is doing well, so does the underlying travel retail market here.

And then up until May of this year we have had these distortive effects whereas May of prior year when we implemented the tax relabeling on the entire assortment we saw that volumes went down quite dramatically, which clearly suggested that some of the volumes that previously had been sold in travel retail were then imported into primarily the Swedish market and sold there. And since May then of last year we anniversaried that effect we don't have those artificial difficult comps in that business that we had up until May.

Andreas Lundberg - *BG Sundal Collier - Analyst*

Okay, and finally maybe for Marlene there. Could you just remind us about your year-end policy or year-end target? Thank you.

Marlene Forsell - *Swedish Match AB - SVP & CFO*

Sorry, the year-end target on the (inaudible).

Emmett Harrison - *Swedish Match AB - SVP of IR & Corp. Sustainability*

During.

Marlene Forsell - *Swedish Match AB - SVP & CFO*

Yes, we are having -- I mean we have [sticked] with our financial policy for a long time and I mean (inaudible) and returning cash not needed for the business to shareholders. And we ended up at 2.4 net debt to EBITDA. And that is in relation then to the B2B rating which we find also relevant for the [optimized] (inaudible). So I mean somewhere in between then below 3 and the 2.4.

Andreas Lundberg - *BG Sundal Collier - Analyst*

Thank you.

Marlene Forsell - *Swedish Match AB - SVP & CFO*

Around 2.4.



Andreas Lundberg - *BG Sundal Collier - Analyst*

Thank you.

Operator

Anders Hansson, Danske Bank.

Anders Hansson - *Danske Bank - Analyst*

Two questions on mass-market cigars first. After Q1 you said that the deep discount segment didn't really grow much in the quarter. And I was wondering did we see the same pattern in Q2. I.e., you talk about stiff competition but it is driven by the very low end or just within natural wrappers?

Lars Dahlgren - *Swedish Match AB - President & CEO*

A very similar pattern to Q1. The deep discount segment is there, it is a reality, but we haven't seen it growing much in the second quarter. But on the other hand, in the rest of the markets competition remains very intense. And I would say it is more so the HTL cigars even than the natural wrappers. It is particularly in the HTL cigar segment where it has been increasingly intense.

Anders Hansson - *Danske Bank - Analyst*

One more on mass-market cigars. Lars, you -- I saw your quote with a local news agency where you said that you expect decent volume growth in the second half assuming we continued to gain [fair] in natural wrappers. And I was just wondering on -- what is decent given the very different comparables we have between the quarters especially with Q3 last year being down a lot. 9% up in Q2, was that a decent performance?

Lars Dahlgren - *Swedish Match AB - President & CEO*

I think 9% is very decent. But I didn't give any volume forecast just to be clear here. What I said is that for the first six months we have been delivering on our strategy to focus on the natural leaf segment, which we think is a very attractive segment long-term and we have taken substantial market share within that segment. And that is the result behind our volume growth.

And we haven't changed our strategy and therefore we haven't changed our ambition, that is to continue to grow share there, but of course also do as well as we can in the HTL segment and we also have Jackpot out there. If we are delivering on our strategies we should see decent growth also in the second half.

Anders Hansson - *Danske Bank - Analyst*

Thank you.

Operator

James Bushnell, Exane London.



James Bushnell - *Exane BNP Paribas - Analyst*

Firstly a quick one on the e-cigarettes in Russia. You mentioned you had good distribution there. Are you able to tell us roughly how many outlets you have reached to handle? So can you remind those of us who don't know who your distributors are? Are they also a cigarette distributor, one of the large ones, or is it someone else?

And then my second question is on Norway. Share trends obviously not great. Could you remind us how much of the market is loose versus pouches? And then within pouches why do you think you are losing share to Imperial and what can you do about it? Do you expect these new product launches to rectify that situation? Thanks.

Lars Dahlgren - *Swedish Match AB - President & CEO*

Yes, when it comes to Russia we have presented the concept to the trade. And so it is not out yet. We expect it to be out during this quarter available for consumers at retail. And we will get back to the number of stores and so forth, but it is not -- it is a test launch, it is not a massive launch across Russia or across Moscow. So it is a limited test. But we will speak more about it when we are physically out in the market, so to say.

And in terms of our partner for distribution there, it is a local Russian company that we worked with for many, many years to grow our lighter business and very successfully so to create the best leading premium disposable cigarette lighter brand on the Russian market. And the vast majority of their business is lighters and then they also distribute some cigars and other products. But it is not one of the big, big guys, so to say.

When it comes to Norway, to my recollection loose is down to 16% of the market in Norway according to Nielsen, Emmett will check that. And when it comes to the share erosion in also then pouches, which is not as pronounced as the overall share erosion we have seen since we suffer from the decline of the loose segment, but it is a reality and it is a concern and it is something that we focus a lot on.

And we are doing a lot of good things and we have by high activity schedule for the remainder of the year. And we have just come out with a new upgraded product range on The LAB fresh product, it is a little bit too early to draw any conclusions from that because it takes a little bit of time for consumers nowadays in Norway to discover products as well.

Because following -- it was June 1 or July 1, I don't remember, but now all the [fridges] in Norway have been moving behind the counter in Norway. It was about half of them that were out in stores before and they are not allowed to be out in stores anymore. So also a lot of work has gone into cooperating with the retailers on rebuilding out this and then putting snus fridges behind the counter.

And then we have some other product initiatives and so forth that we prefer not to discuss with you guys about before we have presented them to the retailers and so forth. But we are doing -- in my opinion we are doing a lot of good things on the Norwegian market. We have a very strong and focused organization, but we have a good competitor there as well.

James Bushnell - *Exane BNP Paribas - Analyst*

Okay, thank you very much.

Operator

Kate Kalashnikova, Berenberg.

Kate Kalashnikova - *Berenberg Bank - Analyst*

My question is on Lights. What was main drivers of (inaudible) Lights performance this quarter? And what is generally your expectation of the performance of the Lights product area going forward for the full year?



Lars Dahlgren - *Swedish Match AB - President & CEO*

When it comes to Lights' performance, first of all we have had a long period of very, very good development I would say particularly for our lighter business. And that business is still very strong. We did have volume declines, however, in the lighter business this quarter.

Quite a bit of that volume decline was lower-priced lighters, therefore you don't see the dramatic effect on the gross margin. And we actually grow operating profit and they've also been very effective in working with the supply chain. So they have increased the productivity in the lighter business.

And when we look forward for the second half of this year, as part of the lighter business there was an advertising lighter that tend to be relatively large volumes in short period of time. And what typically happens is that you have sort of a handful of those contracts during a year.

And now when we look into the order pipeline it looks relatively empty on that side for the second half while it looked relatively good in the second half of last year. So we will not have the same amount of advertising lighters in the second half of this year.

In the match business it has been more challenging for some time. In particular I would say the Brazilian market where we have suffered both from the inherent volume decline in the market but also the weakening of the Brazilian real because that has affected the cost of goods sold because some of the raw materials are imported. And so, that has put pressure on [there].

And then there was also a price increase in the second quarter in Brazil, which meant that the volumes were a bit and usually low on the Brazilian market in the second quarter.

Kate Kalashnikova - *Berenberg Bank - Analyst*

Okay, that is very helpful. And also what is your expectation for STG performance for the full year? Are you expecting (inaudible) product mix in machine made cigars to continue, for example, into the second half of the year?

Lars Dahlgren - *Swedish Match AB - President & CEO*

I think that is the trend we are seeing, but at the same time we see that the second half should be substantially better than the first half.

Kate Kalashnikova - *Berenberg Bank - Analyst*

Okay, substantially better. Right. Okay, that is helpful, thank you.

Operator

Kevin Dreyer, GAMCO Investors.

Kevin Dreyer - *GAMCO Investors - Analyst*

I'm curious to learn more about this e-cigarette announcement in Russia. Is this something that you developed internally? Are you going to be reporting it? I mean I know it will be very small, but will it be reported in your Lights segment? And why Russia as the first place to try it out?



Lars Dahlgren - *Swedish Match AB - President & CEO*

It will be reported in the Lights segment and it shouldn't have any material impact on the profitability in the Light segment for this year because it is a relatively small test.

Russia is because we think that it is a market where the Cricket brand-name is very strong and this has been discussed as a potential opportunity to evaluate and learn more about together with our distribution partner. And we have concluded that it is a good market to conduct the test. The product (multiple speakers).

Kevin Dreyer - *GAMCO Investors - Analyst*

I guess if I could just stop you there. I mean you could have used anything for the brand name, so, the fact that Cricket is strong in Russia, I guess I'm still not understanding -- why did you choose that market of any market around the world to test your first e-cigarette brand? Is it because you don't see it pulling from snus sales or moist snuff sales in other areas?

Lars Dahlgren - *Swedish Match AB - President & CEO*

No, I think it's -- the fact that it is a strong brand name and that we have a well functioning distribution business and that there is a curiosity among Russian consumers on e-cigarettes are all good reasons to select Russia. And if you make a test market -- one market has to be the first.

So there are not any other so to say hidden strategic things behind the decision to go with Russia. A lot has to do with working with good people and we have an excellent distributor in the Russian market that expressed a will to evaluate this together with us. And we thought it was a good opportunity and idea to gain more hands on insight. And as regards the product, it is a third-party sourced product.

Kevin Dreyer - *GAMCO Investors - Analyst*

Okay, third-party. All right. Thank you.

Operator

Anders Hansson, Danske Bank.

Anders Hansson - *Danske Bank - Analyst*

I have two follow-up questions. First on the balance sheet, with your net debt being down SEK1 billion year over year and 2.4 times gearing after the dividend payment. And if we look back a few years you still have the phrase of we are going to distribute all-cash not needed in operations. But a few years ago we thought about being below 3, then it was between 2.7 and 3 times, then it was 2.5 to 3 times. And now you are saying 2.4 to 3 times.

I am just wondering have you changed how to interpret distributed cash not needed in operations or have you changed your view on what gearing levels you are comfortable with or how should we look at this?

Lars Dahlgren - *Swedish Match AB - President & CEO*

Well I think we have been clear for quite some time that around 2.4 -- 2.4, 2.5, that is a level which we think is well reflective of our target ratio. And then the reason why distributions or share buybacks have been relatively low is because we haven't seen the type of historic EBITDA development that we have had.

Now in the second quarter there were no share buybacks and that has to do with the fact that we paid out our dividend. But nothing has changed to going forward in terms of our intention to distribute funds that we don't need in operations to our shareholders. So going forward it is our ambitions that share repurchase should resume.

Anders Hansson - *Danske Bank - Analyst*

Okay, one more thing on STG, which you may have commented on but I missed. You say that H2 should be significantly better than the first half. How should the second half be in the year-over-year comparison? Should it still be better or (inaudible) to better or in line'ish?

Lars Dahlgren - *Swedish Match AB - President & CEO*

Yes, I mean I think we will get back to that after the third quarter. But the important thing now, as I see it, is that we improve from where we are, because the development in the first six months and particularly in the second quarter as they have been a little bit disappointing. But we see good indications that it should improve and exactly where it will land we will have to get back to you.

Anders Hansson - *Danske Bank - Analyst*

Okay, thank you.

Operator

(Operator Instructions). James Bushnell, Exane.

James Bushnell - *Exane BNP Paribas - Analyst*

Just on US snus, you say you are now focused on brand building. I know you didn't therefore talk so much about selling [rights] anymore. In terms of where your market share is though, now around 11%, where do you think it can get to by the year end without much increasing the store count just from your focus on getting those sales up through your existing network? And if you could give us any color on what you are targeting beyond that, that would also be interesting. Thank you.

Lars Dahlgren - *Swedish Match AB - President & CEO*

Yes, it is difficult to forecast. But when you look at the market share, I mean we look at Nielsen data, but then we also look at data that we get from the distributors where we can compare only in stores where we compete with the other players in the category. And we have a very clear trend of gaining market share in the second source of data as well.

So it is not the fact that the Nielsen data is exclusively attributable to higher available distribution this year compared to last year. So there is a clear underlying trend. It is definitely our ambition that we should see continued share gains throughout this year. But I am not in a position to give you a number there.

James Bushnell - *Exane BNP Paribas - Analyst*

Okay, it was worth a try. Thank you.

Operator

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

Lars Dahlgren - Swedish Match AB - President & CEO

Okay. Then we thank you, everybody, and just inform you that the release of the third-quarter results will be on October 24.

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