



SWEDISH MATCH

A magazine for Swedish Match's shareholders and other interested parties • NO 2 • MAY 2000

Annual General Meeting 2000

The new Swedish Match:
“A market leader in cigars and smokeless tobacco”

PAGES 2-5



The quest for a perfect balance

Cigars of the highest quality are rolled at El Credito in the Dominican Republic. Latin American rhythms merge with the thud of the knives used to trim the wrappers. The balance between filler, binder and wrapper is crucial, according to Ernesto Perez-Carrillo, president of El Credito. **PAGE 6**

Equity to shareholders

Swedish Match's healthy cash flow and strong finances will enable equity to be transferred to shareholders. The Board recommended that a total of approximately 2,000 MSEK be passed on to shareholders. **PAGE 3**

Shopper's guide for air travelers

Are you interested in purchasing an exclusive cigar before you board your flight? If so, it will be worth your while to read our little guide to airports in various parts of the world and benefit from some expert advice before you buy. **PAGE 4**

QUARTERLY REPORT JANUARY - MARCH 2000

Earnings show rapid 33-percent increase

Sven Hindrikes, Swedish Match's Chief Financial Officer, reports an operating income of SEK 415 M for the first quarter of 2000, compared with an income of SEK 440 M for the corresponding year-



Sven Hindrikes

earlier period. Last year's figure included earnings of SEK 127 M from the Cigarette Division, which has now been sold. Excluding divested operations, earnings improved by 33%, which Hindrikes declares to be in line with expectations. He is confident that the present frame-

work of operations provides a sound basis for continued expansion and, if recently announced acquisitions are also taken into account, he sees excellent potential for continued increases in sales and earnings at Group level.

Smokeless tobacco

Smokeless tobacco products – meaning snuff and chewing tobacco – continued their strong growth during the first three months of the year, accounting for 72% of Group operating income. While snuff sales increased by 22%, operating income failed to increase at the same rate, ending up with an 8% improvement.

“The lower operating margin for the first quarter is mainly attributable to a temporary increase in marketing costs associated with the introduction of new snuff products in the Swedish market, as well as increased investment in product development.”

“Marketing costs can vary considerably between different quarters when new products are launched, and I predict that snuff will continue to show good earnings growth.”

Chewing tobacco is sold almost exclusively in the US market, where Swedish Match has an extremely strong position. The product area is a stable contributor to Group earnings, and market share has improved during the past six months.

“Our strong position, combined with our size, will help to strengthen the position of our other products in the US market,” notes Hindrikes. “Our large size

in the chewing-tobacco market gives us the critical mass that enables us to implement cost-efficient marketing and sales campaigns in all our product areas.”

Brown tobacco

Together with smokeless tobacco, brown tobacco products, comprising cigars and pipe tobacco, are Swedish Match's strategic growth areas. Several acquisitions made during the past year account for the major portion of the increases in sales and earnings for both cigars and pipe tobacco. During the first quarter, sales of cigars increased substantially more than earnings. Hindrikes attributes this trend to increased depreciation resulting from company acquisitions and a slight shift toward lower-priced cigars in the US market.

“Earnings for pipe tobacco are particularly good, and the earnings figures for the South African company acquired toward the end of last year have exceeded my expectations,” says Hindrikes.

Lighters and matches

“In regard to lighters, the restructuring measures implemented last year have produced results, and earnings are in line with our operating-margin target. Now we are planning a similar restructuring program for matches.”

“The program will comprise cost-reduction measures and a downsizing of production capacity. The restructuring measures could include both closures and steps to enhance efficiency levels in existing production. Our target is an operating margin of 10%,

Sales by product area

MSEK	full year 1999	99Q1	00Q1
Snuff	1,688	376	459
Chewing Tobacco	1,068	261	282
Cigars	1,438	224	405
Pipe Tobacco and accessories	420	55	173
Matches	1,673	448	391
Lighters	662	165	175
Other operations	1,742	243	509
Subtotal	8,691	1,772	2,394
Divested business	729	350	—
Total	9,420	2,122	2,394

Operating income by product area

MSEK	full year 1999	99Q1	00Q1
Snuff	828	193	209
Chewing Tobacco	297	75	89
Cigars	206	39	52
Pipe Tobacco and accessories	109	17	49
Matches	107	29	25
Lighters	14	2	16
Other operations	-127	-42	-25
Subtotal	1,434	313	415
Divested business	255	127	—
Items affecting comparability	3,707	—	—
Total	5,396	440	415

compared with 6% in the first quarter.”

“During the year 2000, we plan to focus on the continued integration of acquired units. If we exploit the potential coordination benefits, we will have an excellent opportunity to strengthen our market-leading positions in our strategic product areas,” concludes Sven Hindrikes.

Equity to be passed on to shareholders

Each year, Swedish Match generates substantial cash flows which, notwithstanding the company's stated growth strategy, also provide a good opportunity to transfer equity to shareholders. At the Annual General Meeting, shareholders had the chance to express their views on the Board of Directors' proposals for three different ways of transferring equity – an increased dividend, a share redemption program and authorization to repurchase the company's own shares. The proposals were based on the company's strong financial position and the Board's desire to pass on surplus funds to shareholders.

A dividend of SEK 1.25 per share was proposed for fiscal year 1999, which is an increase of SEK 0.15 per share.

Under the terms of the share redemption proposal, shareholders will receive one redemption right for each Swedish Match share they own. The redemption

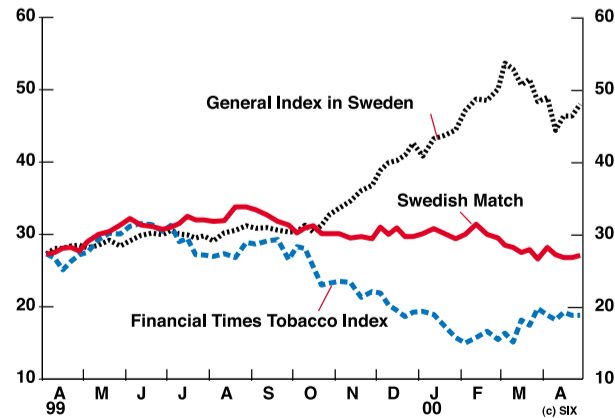
right can then be used in two ways. Shareholders who wish to retain all their shares in Swedish Match can sell their redemption rights and receive a cash payment for them. The redemption rights can also be used to redeem shares. Fourteen redemption rights are needed to redeem one share, and a cash payment of SEK 35 will be received for each share. If all redemption rights are fully utilized, 30.8 million shares will be redeemed and SEK 1,078 million will be transferred to shareholders.

A parallel offer will be made to shareholders in the US and Canada and to holders of ADRs.

The share repurchase proposal involves authorizing the Board, prior to the next Annual General Meeting, to acquire the company's own shares up to a maximum of 5% of all the shares in Swedish Match.

The above proposal involves transferring a total of approximately SEK 2 billion to shareholders.

The share



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ANNUAL GENERAL MEETING SPEECH 2000

Ladies and gentlemen, shareholders and other guests,

“When I met you, the shareholders in Swedish Match, for the first time at last year's Annual General Meeting, I had been President of the Company for a short time. I told you that we faced several challenges, which, in a few words, could be summarized as opportunities to create better potential for growth.

Today, 12 months later, we have accepted those challenges, and I would like to announce that we have made considerable progress.

A program of intensive change and development has generated results that are culminating in the gradual emergence of a “new” Swedish Match.

Swedish Match has become one of the world's leading players in cigars and smokeless tobacco, the market segments characterized by growth in many parts of the world, compared with an otherwise stagnating tobacco market. We have succeeded in efforts to reverse our trend of earnings, which were negative for a few years, and we now show a good income. We are proposing an increase in dividends and other substantial transfers of profits to our shareholders.

In many ways, we are now working with trends in society, while many of our competitors are working against them.

The general themes of my address today will focus on how we implemented the program of change, the results we have achieved and the benefits we expect to derive in the near future. I shall also present the results of our operations during the first quarter of this year and, finally, I shall discuss in detail our view on various measures to provide our shareholders with a greater share of profits to which the Board has committed its support. I will also review the reasons behind, and implementation of, three proposals before the Annual General Meeting here today, which include an increase in dividends, a redemption program and the repurchase of shares.

The very real dialogue we are conducting with shareholders provides executive management and the Board of Directors with a constant reminder of our most important principals—our shareholders. The analysis we conducted when I was appointed President was based on the supposition that stronger growth



“In many ways, we are now working with trends in society, while many of our competitors are working against them,” comments Lennart Sundén, President of Swedish Match, in reference to the “new” Swedish Match that is in the process of taking shape.

offers the potential to increase our earnings per share and strengthen our long-term dividend capacity.

The general background of the strategy choice we faced is a global tobacco market in which cigarette consumption in the world's most advanced markets has been characterized by steady and prolonged decline. In a deeper perspective, it represents a trend that reflects a process of ongoing change in social values, a process of change for which Swedish Match has the utmost respect and in which we in significant respects are participating. We adopted a policy many years ago whereby we stated that tobacco is a product for adults. We do not accept the sale of tobacco to persons under the age of 18.

In terms of business economics, the sale of our cigarette operations was a sound decision and a logical step in our strategy to concentrate resources in growth areas. Cigarettes, clearly the most

dominant sector of the global market for tobacco products, are characterized by a small number of very large global companies and a large number of local and regional companies, like our own. Our market position forced us into a limited role to maintain and defend a group of strong but local brands.

The sale of our cigarette operations last summer has provided the Group with much stronger resources, in terms of aggressive expansion through acquisitions, and greater capacity to serve our shareholders.

As a result of the sale, Swedish Match has strongly advanced its position as one of the world's leading producers of smokeless tobacco – snuff and chewing tobacco. Combined with brown tobacco – cigars and pipe tobacco – these products form the base of our new strategic platform. Our expansion will take place in these two sectors of the tobacco market. And the reason is quite simple – particularly with regard to snuff – these are the areas where we see inherent organic growth that presents clearly discernible potential for future growth.

Smokeless tobacco is a product area with a much greater geographic spread than most people realize. In addition to the Nordic countries and North America, markets in large parts of Africa, the Middle East and India are also characterized by substantial consumption. It is only a niche sector of the large global tobacco market, but it has sustained organic growth of 4 to 5 percent annually in countries where we conduct operations – Scandinavia, South Africa and the U.S.

This growth in market demand is the focal point of our strategy and the main driving force in our expansion. Swedish snuff is our spearhead product, and I would like to take this opportunity to thank everyone in our company for their efforts in developing our world-class technology. Behind our snuff products, in fact, is a relatively complicated, high-tech production process with extremely high quality demands. This applies in particular to portioned snuff, which is also our strongest growth product. We believe Swedish Match has established a technological lead, in addition to our unique portfolio of branded products, as well as global leadership in market know-how and distribution skills.

Brown tobacco, our other growth area, consists of cigars, a market with strong potential in many parts of the world and increased opportunities for consolidation, and pipe tobacco, which is characterized by a steady decline in consumption but high margins. In this sector, our strategy calls for ex-

Strong development

...of our growth areas



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pansion partly through acquisitions. During recent years, the ongoing process of structural change has gained greater momentum, with Swedish Match and several other players advancing their positions through acquisitions and mergers. In 1999, we were one of the market's most active players, with three significant acquisitions.

The driving force has been our brand positioning and the need for greater critical mass to improve cost-efficiency in production, marketing and distribution. We are also forced to work under restrictions in the form of advertising bans in many key markets, which strongly limit opportunities to launch and nurture new product brands. As a result of our acquisitions last year, I believe that Swedish Match now has a very strong portfolio of brand-name products that represent highly significant values for our shareholders.

We started by acquiring the American company General Cigars' operations for machine-made cigars in the U.S. The acquisition immediately established Swedish Match as one of the largest cigar companies in the world, with a market share of 11 percent and strong positions in the world's largest single market.

Later in the year, we acquired El Credito, which provided Swedish Match with La Gloria Cubana, one of the American market's leading premium brands of handmade cigars.

And we must not overlook our acquisition of Leonard Dingler, the market leader in South Africa. The company has a very strong position in the market for pipe tobacco and highly promising snuff operations in a market characterized by significant growth in the range of 3 to 5 percent annually. The acquisition has started our expansion on the very interesting African continent.

In addition to growth opportunities, our strategic package also contained such components as structural change and reduced operating costs.

Last year, we introduced a new organization whereby we abandoned the matrix organization with 15 units and established six divisions with clear profit responsibility. The new structure has enabled us to cut costs sharply throughout the Group. The process of change has been successfully implemented and this first step is virtually completed.

Structural change and cost reductions have

also been the theme of our remaining product category – lighters and matches. We have favorable market positions for both products. The Lighter Division is the world's third largest manufacturer of disposable lighters. In matches, we are the industry's only global production company.

As shareholders, you are fully aware that we have shown weak earnings from these business activities. They operate under tough market conditions, facing strong competition from hundreds of companies in countries with low production costs. During the past few years, they have also faced pressure from weak economies in large important markets characterized by virtually stagnant demand.

The operations are strategically important to the Group, however, based on their global spread with sales in 140 countries, which provides distribution channels, market know-how and local presence.

Our strategy, therefore, has been to work with their profitability problems, to work actively with restructuring and cost reductions.

And I am very pleased to announce that our strategy is beginning to bear fruit, first and foremost for our lighter activities. We have closed a large production plant within lighter operations and generally adjusted the Lighter Division's fixed costs, which has led to a gradual improvement in profitability.

What results did we achieve through our strategic efforts in 1999?

Let us quickly review the income statement and balance sheet, which you have already seen, and examine some important key ratios before we begin to look into the future.

Consolidated net sales increased by 15 percent to SEK 9,420 million. Acquisitions accounted for 9 percent of the increase.

Operating income increased by 13 percent to SEK 1,689 million before items affecting comparability. The marginal decline in our operating margin was due to the sale of cigarette operations. In the future, cigarette activities in the Swedish market will be restricted to distribution. Revenues from distribution activities are reported under Group sales, but generate a lower margin than our former cigarette operations.

As a result, we have reversed the trend of declining operating income – a sign of our growth and internal operating efficiency. For

the sake of completeness, I should also mention that operating income, including capital gains from the sale of cigarette operations, amounted to SEK 5,396 million.

Balance sheet effects of our results in 1999 include a strong increase in the equity/assets ratio, which amounted to 37 percent at year-end. Our cash assets and short-term investments exceeded interest-bearing liabilities by SEK 1,267 million. Your company, accordingly, has strong financial freedom of action to pursue continued expansion through acquisitions and interesting opportunities to transfer profits to our shareholders. I will return to this subject later.

Operations during 1999 provided our company with continued and highly competitive key ratios. The operating margin was slightly more than 18 percent. Earnings per share increased nearly 18 percent to SEK 2.31, before items affecting comparability.

Let me also comment of some of our product areas.

The product area for smoke-less tobacco, snuff and chewing tobacco, showed strong growth of 15 percent in 1999. Snuff performed especially well, with sales rising 26 percent. Sales in the American market were highly favorable, with volumes up 44 percent and market share rising by 1.6 percentage points to 6.6 percent.

Sales of chewing tobacco were unchanged in Swedish currency but declined marginally expressed in local currencies, and the operating income was down 10 percent. As a result of intensified marketing, the Group recaptured market shares we lost due to negative business trends during the preceding year. The operating income for the entire product area increased by 16 percent.

A strong growth also characterized brown tobacco, that is, pipe tobacco and cigars, which rose 66 percent, mainly on the strength of acquisitions. Operating income more than doubled during the past year.

The Match and Lighter product area showed sales increases of 1 percent, which was primarily due to the acquisitions within the match operations that were carried out in 1998. Lighter operations showed decreased sales and decreased operating income in 1999 because of weaker economic conditions in Eastern Europe at the end of 1998. The operating income for the entire area fell by 20 percent, which showed the necessity of major restructuring.

If we turn our attention to the future and look at operations this year, now that we have completed the first quarter, what are the evaluations and outlooks of management and the Board of Directors?

First and foremost, I want to make it perfectly clear that we shall continue to pursue our present strategy.

Determined efforts will continue to be focused on our growth markets – smokeless tobacco and brown tobacco – which offer organic growth potential in many global markets. We expect snuff sales to continue to increase at the same rate as last year in our main markets in Scandinavia and the U.S. We have initiated a comprehensive branding program for snuff products, which in the long-term perspective will gradually strengthen our grip as the market leader.

We are also studying and testing various ways to expand our comprehensive know-how in smokeless tobacco to include new markets. This is an exciting and challenging task that requires a great deal of attention and under-

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standing with regard to local consumption cultures, market conditions, local raw materials and production conditions. It is a time-consuming process that will almost certainly take a few years to implement, but it also offers very significant potential. As shareholders, you will be provided with continuously updated information about important steps in this endeavor.

A dramatic change would be achieved if not only the warning label that is now printed on our snuffboxes were removed, but also if EU lifted its ban on snuff sales. The ban was introduced before Sweden became a member of EU, and the main reason was that snuff was assumed or alleged to be a carcinogenic. Research has shown there is no basis for the assumption. As a result, the EU Commission has proposed that the misleading warning text "Causes cancer" should now be replaced by "May be hazardous to your health," a claim, I might add, that could be put forth concerning most products on the market today.

This is all well and good. Consumer information is important. Even more important, however, is correct and relevant information. Otherwise, there is a risk whereby the credibility of similar warnings could be undermined. Now that the EU Commission has concluded that there is no basis for the claim that snuff might cause cancer, it would be only natural to also lift the ban on snuff sales.

For reasons that are self-evident, we are now facing very substantial consolidation and rationalization work in our cigar operations. We must make every effort to take maximum advantage of the large companies we acquired last year, to integrate production, administration and marketing in order to derive maximum synergy effects. These are very demanding processes that will require a great deal of time and hard work by our employees.

Structural changes in the cigar market will continue parallel with market growth in several parts of the world. The American market appears slightly weaker than last year at this time, but it is too early to draw any major conclusions for the full year. Our goal is to continue to grow at a pace that exceeds growth in our markets, supported by operating improvements in all aspects of our operations and continued acquisitions. We have the same goal for pipe tobacco, a market characterized by strong fragmentation that might offer opportunities for acquisitions.

In our match operations, we shall continue to focus on internal restructuring to adapt our production capacity to current market demand. We are extremely determined to succeed in our efforts to increase margins and profitability to acceptable levels. I am hopeful that we will show improved earnings within 2–3 years.

I should also mention that our focus on growth will require important elements of research and development. We are now allocating resources for innovative projects that seek new directions.

One of these projects is our joint venture with Gum Tech International, an American company in which we own 51 percent of equity. With initial venture capital of USD 10 million, the company will study new business opportunities for non-tobacco based nicotine products. We have noticed a steady increase in the control of tobacco operations in all parts of the world, in parallel with reverse conditions for nicotine products that are not based on tobacco. These products will soon be sold

in the same shops and stores that sell tobacco. And we intend to be positioned strongly when that day comes.

I have spoken at length today about our business strategy, and it would be highly remiss if I did not mention the development of our skills and personnel. With employees in so many different countries, this is an interesting and

challenging task. Swedish Match has long-standing and honorable business traditions, which we shall continue to develop as we take on large numbers of new employees through acquisitions.

Skilled and committed management personnel are a key factor. We are focusing strongly on professional leadership through a number of different programs. A random selection of program names reflects the breadth: international management program, senior management program and international trainee program. The content of these programs focuses on international relations, leadership in difficult conditions and entrepreneurship.

After reviewing present market conditions and our strategy, I shall now present a brief summary of Group operations in the beginning of year 2000 – a review of our results in the first quarter.

Sales increased by 13 percent to SEK 2,394 million.

Operating income, excluding the divested cigarette operations, rose 33 percent from SEK 313 million to SEK 415 million. Profits for 1999, including divested cigarette operations, totaled SEK 440 million.

Strong development continued during the first quarter for both of our growth product areas – Smokeless Tobacco, which consists of snuff and chewing tobacco, and Brown Tobacco, comprising cigars and pipe tobacco.

Sales of smokeless tobacco products rose by more than 16 per-

cent. The 22-percent increase in sales of snuff products was especially large and was primarily attributable to higher volumes in the US. Despite increased costs for product development and marketing activities, operating income increased by 11 percent. Snuff and chew-

ing tobacco considerably increased market share in the US.

Sales of Brown Tobacco more than doubled. Operating income increased by 80 percent. The cigar operations had sales increases of 81%, which was primarily due to acquisitions in the US. Pipe tobacco operations also reported a strong increase in sales, which was also due mainly to a recent acquisition – the activities of Leonard Dingler in South Africa.

Demand for matches continued to decline in Europe, which resulted in a 13-percent decline in sales for Group match activities in the first quarter. Structural changes were initiated several months ago to improve the operating margin from match activities to 10 percent within the next few years. The Lighter Division has begun to see the light at the end of the tunnel and both sales and operating income increased. Improved earnings are a result of restructuring and increased capacity utilization. In total, sales for the entire product area decreased by 8 percent. Operating income increased by 32 percent.

One of the most important events during the first quarter was the agreement to acquire a 64 percent share in General Cigar, pending approval by an Extraordinary General Meeting of shareholders in General Cigar on May 8. We have been given authorization from the authorities to complete the acquisition.

During the first quarter of year 2000, we also reached agreements to acquire the chewing tobacco brands and operations of National Tobacco, an American company. The acquisition is conditional, pending the approval of the American competition authority.

Last, but certainly not least important, I shall return to our main theme – efforts by Swedish Match to create value for our shareholders. At last year's Annual General Meeting, we described a program formulated by the Board of Directors to transfer surplus funds to shareholders. It should be obvious to everybody who has studied Swedish Match that our company has a very unusual position in today's stock market, with particular regard to profit capacity and financial strength. Our position is so strong that the company generates substantial cash flow every year, which, despite our aggressive growth strategy, provides the potential for high return on the company's capital.

Our generous dividend policy is an expression of our financial strength. Over the long-term perspective, we strive to pay dividends corresponding to 40–50 percent of our consolidated net income. The Board of Directors has hedged this declaration with a stipulation whereby the time and size of dividends will be decided from one year to the next, depending on normal business considerations to secure the company's continued long-term dividend capacity.

Today, also the legislation governing purchases of our own shares has been enacted and, accordingly, a proposal has been submitted to this Annual General Meeting regarding three measures for the transfer of profits to shareholders.

1. Dividend
2. Redemption of shares valued at approximately SEK 1,000 million,
3. and a program to repurchase shares in the company

”

Lennart Sundén, President and CEO

Swedish Match 1999

- **Sale of the cigarette operations**
- **Acquisition of General Cigar's operations for machine made cigars in the U.S.**
- **Acquisition of El Credito – premium cigars in the U.S.**
- **Acquisition of Leonard Dingler, South Africa – pipe tobacco and snuff**

First quarter 2000

- **Acquisition of a 64% share in General Cigar (pending approval by Extraordinary General Meeting of shareholders in General Cigar)**
- **Agreement to acquire American National Tobacco's chewing tobacco brands**



Where cigars

The Latin-American rhythms pulsating from the loudspeakers mingle with the thud of knives striking the workbench. The highly skilled cigar-makers – the men and women who are responsible for the cigar's form and content – sit working in rows. Some of them have a cigar in the corner of their mouth – product quality needs to be checked from time to time after all.

At the El Credito plant in Santiago, in the Dominican Republic, nimble fingers pack together the core of the cigar – the filler – and then add the binder that holds the filler in place. Workers in another row roll each



Ernesto Perez-Carrillo, President of El Credito, has been working in the tobacco industry since he was 15 years old.

From one million cigars to 6 million in two years

His grandfather rolled cigars on the streets of Havana. His father worked in the tobacco industry in Cuba, but was forced to flee the country as a political refugee in 1959. Ernesto Perez-Carrillo himself is a successful company manager. Today he runs the El Credito cigar company, which was acquired by Swedish Match in 1999.

“There is nothing that makes me happier than seeing someone smoking one of our cigars – at an airport, or wherever,” says Ernesto.

Ten years after the family's flight from Cuba to Miami, Ernesto's father decided to focus on some-

thing he knew and cared about, rather than go on supporting himself and his family by doing odd jobs.

“My father built up El Credito without any other resources except his considerable knowledge of tobacco,” relates Ernesto.

Ernesto himself came close to devoting himself to something else entirely, rather than cigars. He has a strong interest in music and worked for a time as a drummer in various bands, while simultaneously earning a bit of extra money by working the night shift at the cigar factory. He sees it as an entirely natural course of

Products from El Credito

Many different cigar brands in various sizes are hand-rolled at El Credito. The three largest brands are La Gloria Cubana, El Rico Habano and La Hoja Selecta. La Gloria Cubana, which accounts for 90 percent of production, is produced in 17 different sizes. The tobacco used in the cigars comes mainly from the Dominican Republic, Nicaragua, Ecuador and the US.





-making is a craft

cigar in the wrapper that gives the finished cigar its external form and color, and carefully attach the tiny cap that closes off the cigar at one end.

Cigars are made here from the finest tobaccos – distinctive, full-flavored, and the nearest thing possible to a Cuban cigar without it actually coming from Cuba, according to Ernesto Perez-Carrillo, president of El Credito.

“And of course our cigars are among the best on the market today,” he adds.

He estimates that 60–70 percent of the flavor comes from the wrapper and from how well the wrapper complements the binder. The balance must be perfect.

In another part of the factory, the ready-rolled cigars are sorted meticulously according to the color variations that naturally distinguish each cigar. The cigars move swiftly to and fro under the critical gaze of the sorters until a perfect color combination is achieved. When the box of cigars is finally opened by the consumer, the cigars should be virtually identical in color and shape.

The people working here are young, many of them having learned the trade from scratch at the plant. An example is Joanny Toribio, age 24, who speaks good English and served as our guide at the plant. The plant supervisors, on the other hand, are somewhat older and have

considerable experience behind them. One of them is Felix Rodriguez, who was hand-picked by Ernesto Perez-Carrillo to help build up the plant.

The bands round the cigars are attached by hand, using a special natural glue. Each cigar is inspected and inserted into a small cellophane tube, after which the cigars are packed in handmade cedarwood boxes with the brand name on the outside.

“La Gloria Cubana is my pride and joy,” says Ernesto. “It took six years to create the perfect combination of filler, binder and wrapper.”

At the El Credito plant in the Dominican Republic, cigars are produced in the same way they have been produced for centuries. The painstaking craft can be observed at close quarters, from the shaping of the filler that forms the core of the cigar to the size inspection of the finished cigar, now enclosed in a wrapper of the finest quality.



events that cigars eventually became his full-time occupation.

“My father laid the foundation for my deep interest in cigars and tobacco and taught me everything. He had grandiose visions of how our business could be developed, and he had considerable faith in me, which I hope I have lived up to.”

Today, El Credito comprises two factories – one in Miami, Florida, and one in the Dominican Republic – with a total of some 325 employees.

“During the cigar boom in the mid-1990s, we turned out cigars for all we were worth in Miami, but still could not keep pace with the demand. So we looked around for another factory, and decided on the Dominican Republic, where there are fantastic people with incredible craftsmanship.

Half of the tobacco we use comes from the Dominican Republic.”

Once production was established in the Dominican Republic, volumes continued to grow. In 1997, El Credito produced 6 million hand-rolled cigars, compared with one million in 1995.

“In 1998 the first contacts with Swedish Match were taken. Naturally it was a difficult decision to hand over ultimate control of the business to someone else, but in this way I could realize my ideas and visions.

“Today I am glad that I chose cigars rather than music, and that I had the courage to take the plunge and put everything into the venture. Now I could never think of leaving all this behind,” concludes Ernesto Perez-Carrillo.



Cigar manufacture demands meticulous attention to every constituent and to the balance between the different parts. It can take years to find the ideal combination of filler, binder and wrapper. Every component must be inspected carefully.

Photo: Victor Brott

Swedish Match develops relations with China

The first official contract for the supply of cigars to an agent in China is already signed and sealed. Swedish Match Hong Kong is now making headway into the Chinese market.

Ronald de Groot, who is head of Swedish Match's operations in Hong Kong, sits behind a desk in an office in Chai Wan, a suburb of Hong Kong. It is a 20-minute subway ride from the city's financial district. The office is combined with the warehouse, where tobacco and cigars are stored in chilled containers.

"I was delighted when the contract with the Massfine agency in Beijing was signed in March this year. It was a breakthrough for Swedish Match in China. The first delivery of La Paz and Willem II has already been made," says Ronald de Groot.

"Now we have made a start in China and can continue to work towards increased quotas."

"Tax-free sales are expanding," says Chimy Ng, who is responsible for tax-free sales at Swedish Match in Hong Kong. "This area includes the new major airports that are being constructed and we want to be present there with our products. We are currently focusing on tax-free sales at airports and in important border cities. We already have a high level of sales in tax-free stores."

"Swedish Match Hong Kong has an efficient organization to support its move into China," notes Ronald de Groot. "Logistics, contacts and skills related to this special market are extremely important. And so are the products, of course. We have a very strong product range. Our products are very much what the market is demanding."



Ronald de Groot, head of Swedish Match's Hong Kong operations, proudly displays the first contract for deliveries to an agent in China. The same building in Hong Kong houses both offices and warehouse facilities.

Facts:

- Swedish Match in Hong Kong supplies cigars to Thailand, Macao, Malaysia, Indonesia, the Philippines, Singapore, South Korea, Guam, China, and of course, Hong Kong.
- Borkum Riff pipe tobacco is supplied to Thailand, Indonesia, Malaysia, Singapore, Macao, the Philippines, China and Hong Kong.



Swedish snuff in global spotlight

In April, the prestigious global business magazine BusinessWeek included a feature article on Swedish Match.

The article describes the advantages of portion-packed snuff in detail, as well as the rapid volume growth of snuff sales.

The article also describes the meticulous testing program for new snuff products, which uses a panel consisting of specially trained snuff tasters. Readers who would like to read more can order the full text from Swedish Match's head office. E-mail lena.olofsdotter@swedishmatch.se or send a fax to +46 8 658 23 92.

New chewing tobacco brands strengthen US market

Subject to the approval of the competition authorities, Swedish Match plans to acquire the chewing tobacco brands of US company National Tobacco. The acquisition will result in major synergy gains for Swedish Match.

"The main benefit is that it will enable the Group's organization for the production and sales of chewing tobacco to be utilized more effectively," says Harold Price, marketing director of Swedish Match's North America division.

The acquisition gives Swedish Match access to some of the oldest and most highly regarded chewing tobacco brands in the US: Beech-nut, Durango, Trophy and Havana Blossom. The purchase also includes terminal and ware-

house facilities.

The background is that the total market for chewing tobacco is steadily contracting, and that a purchase will enable Swedish Match to make better use of its production organization.

"By making the best use of the chewing-tobacco capacity we have built up, we can produce and market the new brands without recruiting any new employees," says Harold Price. "Beech-nut gives us an additional advantage, since it is a strong brand in the western and northeastern US – precisely the areas where we plan to expand."

So far, Swedish Match's best-known brand has been Red Man, which has a rather strong flavor. Beech-nut is sweeter and milder, but oc-

cupies the same price range.

National Tobacco's chewing tobacco operations had sales of approximately USD 50 million in 1999.

"The acquisition will enable us to increase our capacity utilization and strengthen our distribution system in North America, as well as improving earnings per share and cash flow," says Lennart Sundén, President and CEO of Swedish Match.



High-flying cigars

Cigar-loving air travelers have plenty of opportunities to find an exclusive smoke while traveling abroad. But it is essential to include the right airports – or even the right terminal in some cases – in your itinerary. Well-known and expensive cigar brands sell well at airports, according to the managers of the tax-free shops. Another trend is “walk-in humidors,” constructed as special rooms in the tax-free shops, where the cigars can be kept at the right temperature and humidity.

Here is a brief guide to aid the harassed traveler. Travelers within Scandinavia are advised to keep their eyes peeled as soon as they reach Copenhagen, since we are reliably informed that Kastrup Airport offers the most extensive selection of cigars and accessories in northern Europe.

What should cigar fans watch out for when buying cigars at an airport?

If an expensive cigar has not been stored in a humidor up to the time of sale, the customer is well advised to request that a box of the cigars be opened so that the quality can be checked, according to Gert Kamphuis, Managing Director of Swedish Match in the Benelux countries.

It is relatively easy for the purchaser himself to check both the moisture content – the cigar should not crunch au-



Check the cigars before purchase, says Gert Kamphuis.

dibly when squeezed – and the color of the wrapper. A box of cigars with wrappers that vary in color is an instant giveaway of the manufacturer's low quality requirements.

“Exclusive long filler cigars are usually wrapped individually in cellophane. Often, the box is also plastic-wrapped to make doubly sure that the cigars retain their moisture,” explains Gert.

Stockholm

Limited range of cigars on offer in the tax-free shop. The airport is planning no changes in the near future, pending the planned major renovation of both terminals and shops.

Copenhagen

Has made cigars a major focus and opened a separate modern shop with a walk-in humidor. Carries a total of 60 brands and an extensive range of accessories. Is enjoying increasing sales of long filler cigars. New brands are added roughly every second month. Offers a broad range of Swedish Match cigars.

London Heathrow

Has separate Cigar House outlets in Terminals 1 and 4. They are small shops with walk-in humidors that have been open for several years and currently offer about 200 types of cigars. The top sellers are exclusive brands of long filler cigars. The shops also carry a large selection of smaller cigars and cigarillos, including La Paz.

London Gatwick, North Terminal

Small but attractive humidors containing a range of different cigar brands are located at both entrances of the World of Whiskies shop.

Zurich

An extensive selection in a walk-in humidor in a special section of the tax-free shops in both terminals, offering a choice of some 400 different cigars. The top sellers are the most expensive Havana cigars. Also among the brands on offer are the Swedish Match brands Montague, La Paz and Willem II.

Paris Charles de Gaulle

Does not have a shop specializing in cigars, but all the tax-free shops have large cigar sections. The largest area, with the most extensive range of cigars, is located in Terminal 2C, where there is a walk-in humidor displaying around 100 brands. The shops sell many medium-size cigars, but the most popular cigars are long fillers. The selection includes Montague and La Paz, among others.

Frankfurt

Has several cigar sections in the airport's tax-free shops, including four-square-meter walk-in humidors. Total of some 200 different cigars available. Long fillers are the top sellers. The selection includes Cortez, La Paz,

Madrid

Has a special cigar shop in Terminal 1. The most exclusive and expensive cigars are stored in humidors. The shop sells a large number of cigars every day but has not noticed any increase so far this year.

Milan Malpenza

Not much here for the cigar aficionado. All that's available in the separate tobacco shop is a few Italian brands. No humidor. Best bet is to buy a hunk of Parmesan cheese and fly on.

Amsterdam

Has large cigar sections with humidors in four tax-free shops. Many long fillers from Cuba and the Dominican Republic are on sale. Demand is highest for the most expensive brands. There are plans to open special cigar shops to cater for the increasing interest and rising sales. The selection on offer includes Montague.

Melbourne

A rather small selection is on offer in the tax-free shops, with a relatively limited choice as regards both cigar brands and sizes. The Swedish Match-owned brands offered include White Owl and Willem II. No accessories are available.

Brussels

Has recently installed humidors in both airport buildings. In the new section, the cigar brands are displayed in glass-walled walk-in humidors, making them easy to see. The older part of the Schengen shop is reported to boast a very fine humidor containing some 20 exclusive brands from Cuba and the Dominican Republic. The most expensive cigars sell best. The selection available includes Montague, La Paz, Willem II and Cortez, among other brands.

New York JFK

Terminal 1 has a cigar section in the tax-free shop featuring a spacious humidor with glass doors, containing some 25 brands. Due to trade restrictions, no Cuban cigars are available. British Airways sells cigars from open shelves in its own tax-free shop.

Chicago O'Hare

Does not have a special cigar shop but has a relatively large number of brands for sale.

São Paulo

Has a small but exclusive range of cigars. The cigars compete for space with high-quality wines and other alcoholic drinks in one of the small shops selling exclusive products in the international terminal.

Singapore

Terminal 2 has a special cigar shop with a large selection and a walk-in humidor. Sales are reported to be good, particularly for the most exclusive and expensive hand-rolled varieties.

Bangkok

Offers a wide range, mainly comprising cigarillos. The best selection is in the tax-free shop at Gate 1-27, where the finest cigars are displayed in humidors.

Hong Kong

A large and impressive assortment in eight self-serve tax-free shops. Extensive offering of both exclusive cigars and cigarillos, with the superior-quality brands stored in cabinets. No accessories available.



Illustration: Charlie Norrman



An Alladin's Cave for pipe and cigar enthusiasts

For anyone who enjoys pipe-smoking, a visit to Peter Heinrichs' pipe shop must be a feast for the eyes. Not to mention the nose! The aroma of tobacco greets you as soon as you enter. And if you happen not to be interested in pipes, you can explore a climate-controlled room where you can choose among thousands of cigars from tobacco companies all over the world – including Swedish Match of course.

Peter Heinrichs' life is exclusively focused on tobacco in general and pipes and cigars in particular. His main outlet is located in Cologne in Germany, a city of more than a million

people, where he is to be found six days a week, opening for business at 6 a.m. But surely there are not many customers that early? On the contrary, rebuts Herr Heinrich with a laugh.

"People prefer to get up a little earlier in the morning so that they have a chance to choose their favorite pipe tobacco in peace and quiet – or perhaps even ponder the purchase of a new pipe. It's different in the evenings – then everyone is itching to get home."

Peter spends his Sundays in the shop in Niederaussem, a few miles to the west of Cologne. He calls it "the house of ten thousand pipes". Parked outside the building is a gleaming American tractor-trailer rig.

"This is going to be the world's first mobile cigar exhibition, where I can invite cigar connoisseurs to enjoy a

They are everywhere – brown and black, discreet models in matte-finish metal and gleaming silver versions, large and robust, small and elegant. And where the walls and shelves are not occupied with pipes in an infinite variety of forms, space has somehow been found for a huge assortment of pipe tobacco.

novel experience in an elegant mobile environment."

Peter Heinrichs laughs readily and often, saying he would rather have a face lined by laughter than by old age.

He laughs again as he relates how he obtained permission to have the shop in Niederaussem open on Sundays. After all, Sunday opening is theoretically forbidden for retailers in Germany. But Peter Heinrichs found a way. He set up a small pipe and tobacco museum and a café on the upper floor. Since both museums and cafés are allowed to open on Sundays, the same applied to the shop.

The pipes on sale range in price from SEK 300–400 up to expensive and exclusive models for which SEK 1,000 would barely serve as a down payment. What is the most expensive pipe he has sold?

"It was only a few weeks ago. A pair of pipes that together cost DEM 16,000, or about SEK 70,000."

A few times each year, Peter Heinrichs invites several hundred guests to a tobacco festival that runs from early evening until midnight and includes entertainment and food – as well as much

talk on the subject of tobacco. He sends out a small advertising newsletter to some 15,000 subscribers. He also sells pipes and tobacco by mail order to customers in the US and has a vision of opening a store in China!

"I am working on it, but it takes time, and if you make a mistake or try to rush things, nothing will come of it. I know of a large company that has in fact had a shop in Beijing for the past five years – but they

have not yet been able to open for business."

Another customer enters the shop – a man aged about 35, who wanders round looking at pipes and testing the aroma of tobacco samples. Then he confesses that he was actually there the day before and had already purchased what he needed – but he finds it so enjoyable just to wander round looking at everything!

Naturally there is pipe tobacco – and it is no surprise that the selection includes various flavors of Borkum Riff from Swedish Match, as well as Mellow Breeze. Peter Heinrichs is a demanding customer, who is not content merely to retail other people's products. He also produces his own blends – more than two hundred according to the most recent price list.

More than half a million pipe smokers

The number of pipe smokers in Germany is estimated to be more than half a million. While this total has remained constant for many years, interest in this area has increased perceptibly, according to Peter Heinrichs.

"I have also noticed that quite a few people are switching from cigars to a pipe, partly because it is cheaper – at least if one has been smoking the rather more expensive cigars. And one of these days, pipe-smoking will be just as trendy as cigars have been during the past few years."



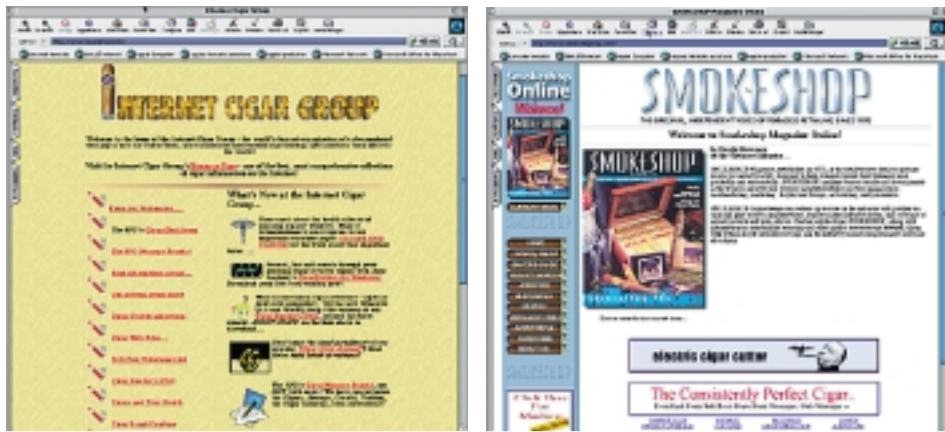
Peter Heinrichs is the man of ten thousand ideas when it comes to pipes and cigars.



Would you like to visit the pipe museum? Go to Voltastrasse/ Ohmstrasse in Bergheim-Niederaussem or Hahnenstrasse 2 in Cologne.



Which shall I choose? Rainer Husfeldt, a pipe smoker for the past 30 years, considers purchasing his 46th pipe.



Cigars on the Web

Did you know that the Internet is a fantastic source of information about tobacco – especially about cigars? All you have to do is go surfing. It goes without saying that one excellent website is www.swedishmatch.com, where you can find information about both the Group and its brands. Here are some other useful tips:

On most cigar web sites advice is given on how to store, buy, smoke and even travel with your cigars. Intriguing cigar web sites include the information-packed and internationally oriented sites www.cigarfriendly.com, which offers tips on suitable cigar music and cigar-friendly restaurants worldwide, and www.fujipub.com/cigar, which lists an enormous number of cigar shops and manufacturers, mainly in the United States.

Another worthwhile website is the Internet Cigar Group's www.cigargroup.com, which calls itself the world's largest organization of cybersmokers. On this site you can access various cigar web sites on the worldwide web, chat in the Cigar Chat Room or access an interactive cigar database.

Read the news – on the web

You can also browse in the web sites of the smokers' and cigar magazines: www.smokemag.com, www.cigaraficionado.com, www.cigarweekly.com and www.smoke-shopmag.com and read the articles of your choice. These sites often feature famous smokers, articles on living the good life and

the latest news from the world of cigars.

The aficionado who absolutely must have his entire cigar selection with him while traveling will appreciate www.burningsolutions.com/roadwar.html, which offers, among other items, brightly colored plastic travel humidors with a lifetime guarantee.

Read more about Swedish Match's own exclusive cigar, Montague on www.montaguecigars.com. The site guides you through the world of Montague – and reveals some of the secrets of how to make a consistently perfect cigar.

While the range of offerings for the pipe smoker is somewhat less extensive, www.pipesmoke.com features every item one could think of, and then some, including articles, tests, accessories, viewpoints, schools, stores, etc. There is also a profusion of websites belonging to local producers, but anyone who wants to take advantage of those pages needs to be an accomplished linguist.



Vanilla Cavendish – European expansion

Swedish Match marked the beginning of year 2000 by launching its latest product, Borkum Riff Vanilla Cavendish, in the German market. At the end of April it was the turn of Austria and Switzerland.

According to Maria Nicholl, product manager for Borkum Riff, Germany makes a good test market for new products, being a large pipe-tobacco market that is always hungry for new alternatives.

Vanilla Cavendish is currently available from many tobacco retailers in Germany, but it is too early as yet to comment

on the sales results.

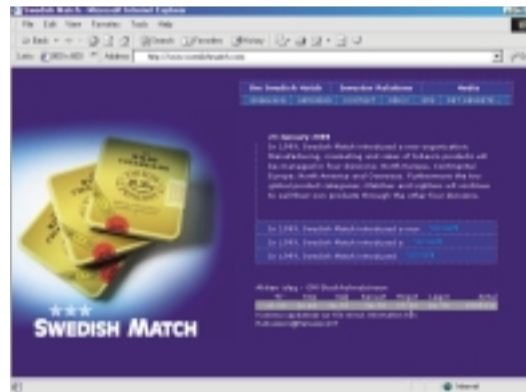
The launch, supported by brochures and free samples in retail outlets, has gone extremely well in all three countries. As many as 15,000 pipe smokers in Switzerland responded with positive comments and have inquired where they can buy the product.

Borkum Riff Vanilla Cavendish was created to satisfy the exacting requirements of today's pipe smokers. It is a blend of Kentucky, Burley and Virginia tobaccos, flavored with the finest vanilla.



www.swedishmatch.com

Swedish Match's new website, www.swedishmatch.com, will be launched in May. As well as information about the company and its products, the site will provide the latest financial news. The site is easy to navigate around and is also interactive – visitors to the site will be able to purchase Swedish Match shares directly via the Net. Shareholders will also receive assistance in calculating the return on their shares. There are plans to progressively expand the site to include a cigar room offering information about the



Group's entire cigar range, a cigar school, accessories, ranking lists, and much more.

Order our annual report



If you do not yet have a copy of Swedish Match's recently published annual report for 1999, you can order a copy by sending a fax to Swedish Match at +46 8 658 02 62.



Rapid success for new cigar

Within only three years, Independence Fine Cigars have become Germany's top-selling cigars. Independence is priced considerably lower than traditional cigars, is sold individually packaged in a silver-colored tube and is available in ordinary supermarkets.

Independence cigars have also been launched successfully in Austria and France. Next in line are Spain and the Netherlands.

Frans Vogels is responsible for 75 brands in all the Swedish Match product areas, and he sells them to half a million retail outlets in 25 countries with very different cultures. Moldova does not bear much resemblance to Great Britain, either in terms of patterns of consumption, the distribution system or business traditions.

“**Y**ou have to be genuinely interested in diversity and mosaic patterns in my job,” Frans Vogels says, “and that’s exactly where I fit in.”

“I spend a high proportion of my working hours talking to people at all stages of the chain – employees, dealers and tobacco retailers in various countries. I regard everyone in our organization as a radar set, and my job is to pick up the information which they are constantly scanning in.”

“And discussions of this kind pay off. Ideas for growth emerge which would not have occurred to me or my counterparts if we hadn’t spoken to each other.”

No doubt, Frans Vogels’ Dutch nationality is a great help. Swedes and Dutchmen are both famous for their ability to absorb a wide variety of influences and exploit them in their companies. This is probably because people from such small countries do not allow their national origins to interfere with their relationships.

The influence of Hofstede

“I have learnt a lot from the theories from Geert Hofstede, professor at the University of Maastricht,” Frans Vogels says. When he was personnel manager at IBM, Senior management asked him why certain local IBM companies failed to obey some of the orders they received from the US headquarters. Hofstede looked into the matter and concluded that you can divide people in accordance with four dimensions: how they relate to authority, whether they adopt masculine or feminine values, if they are individualists or collectivists, and whether they like to take risks or prefer to avoid uncertainty and surprises. These definitions are not entirely obvious. In the case of a masculine orientation, for example, Hofstede was referring to a need to achieve success at the personal level, while a feminine approach reflected a more caring attitude. Collectivism indicates strong family ties.

According to Hofstede’s dimensional chart, Swedes are a nation of feminine individualists, with no respect for authority, but rather wary of taking risks. That is why the Swedes are so advanced in information, communication and technology and Internet development.

“Of course, these are generalizations, but nonetheless there’s a point to be made. If a global corporate group is going to work, it must respect cultural differences and establish its own clear standards for working together within the organization. Being just clear is not enough”.

Frans Vogels cites his Vice-President Sales, Javier Muelas who is Spanish, as an example.

“When he is working with our German staff, he points out the way to achieve his strategic vision, boldly and enthusiastically.”

The challenge facing global companies:

Use the best of all worlds

Photo: Victor Brott

“Great stuff,” the Germans say, “but let’s look at all the details so we can be absolutely sure it will work.”

The final outcome is the best of both worlds – Spanish risk-taking and the German desire to avoid unpleasant surprises. But the decisive factor is the Swedish Match precept that the company’s best interests must always have precedence over personal ego-trips. Internal conflicts would result in total breakdown if this norm is not clearly maintained. Frans Vogels builds international brands in the midst of cultural diversity. Like everything else he does, he has to make a compromise between a clear profile and cultural adaptation.

“We don’t change La Paz”

Frans Vogels takes Swedish Match’s major cigar lines as an example.

“We don’t change La Paz. This is a strong macho cigar, which might be compared with Land Rover in the motor industry. People who buy La Paz and Land Rover are rather similar, all over the world. And so we don’t need to adapt the product to meet local preferences.”

“On the other hand, we do modify Wilhelm II to comply with local tastes. This is a milder cigar, comparable with General Motors or Ford. They also adapt their vehicles for various markets. Wilhelm II has a relaxation image, just as GM and Ford represent transportation.

“Swedish Match offers BMW and Alfa Romeo aficionados Wings – a young, dynamic, sporty cigar. And we have the Montague brand for the Mercedes and Rolls Royce category. Premium cigars, like quality cars, give them status.”

Frans Vogels is the kind of man you would

PROFILE

Name: Frans Vogels

Occupation: Division Manager, Continental Europe

Age: 49

Family: Wife and two sons

Home: Drunen, Holland, half-way between Brussels and Amsterdam.

Spare-time occupations: Jogging, tennis, family life and friends

be happy to buy a used cigar from. He also comes from a family of shopkeepers, selling everything from vegetables to bicycles. He believes that Dutchmen have a nose for business. If there are no Dutchmen in a particular location, there is no money to be made.

When his relatives meet for birthday parties, the adults always talk business, inspiring the younger members of the family to follow in their footsteps.

Frans Vogels grew up in The Hague, 500 meters from the sea. After business school and military service, he started to work for the Dutch telecom administration.

In 1985, he came to Swedish Match, which he regards as “a highly agreeable company.” He was appointed Managing Director of La Paz in Holland in 1990, and became European sales manager in 1993. He started his current job in 1999, and joined the Group management team.

“Swedish Match is not Swedish. It is a typical global company – a combination of Swedish safety, a sophisticated Latin culture of enjoyment, an American entrepreneurial ship and a Dutch nose for business,” he says.