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SWEDISH MATCH

inside
NO. 3 | AUGUST 2007

CHEWING TOBACCO:

An American lifestyle



Securing our future
management

Optimism for snuff in the EU



PHOTO: MAGNUS FOND

IN THIS SUMMER ISSUE OF SWEDISH MATCH INSIDE, we write about chewing tobacco, a product category in which Swedish Match is market leader in the US and in which we maintain high profitability although the category is declining. Long-term brand care and continuous product development are the reasons for the product's success. In fact, our Red Man brand is so strong that it is nearly synonymous with the product category.

There has recently been further evidence that researchers are increasingly supporting snus as an alternative to cigarettes. During the summer, the scientific committee that evaluated the health effects of smokeless tobacco on behalf of the EU presented its first results. Although the committee highlights the negative health aspects of snus, it supports the standpoint that there are major health gains to be made by smokers replacing cigarettes with snus. During the early summer, two researchers wrote in the editorial of the respected medical journal *The Lancet* that authorities should provide objective information about the considerably lower risks of snus compared with cigarettes. Lars-Eric Rutqvist is interviewed in connection with the publication of the EU investigation.

You can also read about the Group's work to attract and retain the best employees. In a globalized world characterized by tough competition, we must have highly skilled employees and managers, and above all, be an attractive employer.

Swedish Match's grill products, such as disposable grillboxes and grillbags, are possibly less well-known than our snus and cigars. In this summer's issue of *Swedish Match Inside*, we present a few of these products and our employees share their best barbecue tips.

Pleasant summer reading!

Sven Hindrikes, President and CEO

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INCREASINGLY STRONG SUPPORT FOR SNUS

A report that is hopefully a first step toward a reassessment of snus was recently presented by the committee investigating the health effects of smokeless tobacco on behalf of the EU.



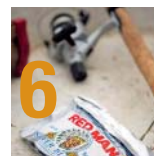
DELIBERATE STRATEGY IN HUNT FOR TALENT

In the face of intense global competition, it is important to have skilled employees in all functions. Swedish Match is securing its succession management using a structured process.



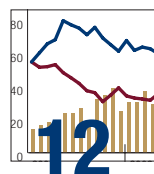
CHEWING TOBACCO IN FOCUS

Read about chewing tobacco, a typical American lifestyle product that is often associated with outdoor activities, and how Swedish Match is upholding its profitability.



SWEDISH MATCH IN FIGURES

In each issue of *Swedish Match Inside*, we present a summary of the most recent interim report, an extract of the analysts' questions about the report and a brief commentary on the share.



PORTRAIT: MEET THE BOARD

New Board member John P. Bridendall regards Swedish Match's product portfolio as the Company's most strategic asset and takes an optimistic view of the Company's future.



SALSA ARRIVES IN SPAIN

In May, Swedish Match launched two new machine-made cigars from the Salsa family that are destined for the Spanish market, Europe's third-largest cigar market.



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Through innovation and product development, we have defended Red Man's leading market position.

READ MORE ON PAGE 8

Swedish Match acquires cigar company

SWEDISH MATCH HAS ACQUIRED BOGAERT CIGARS, a cigar company with a yearly production volume of some 270 million cigars and a turnover of approximately SEK 180 million. Bogaert produces machine-made cigars and cigarillos of the own-brands Bogart and Hollandia as well as private label. The primary markets are France, Germany, the Netherlands and Belgium, which together comprise more than 90 percent of company turnover. The company is headquartered in Belgium with production facilities in Belgium and Indonesia.

"We are very excited about this transaction," says Sven Hindrikes, President and CEO of Swedish Match. "The Bogaert Cigar business fits very well with our existing organization, allows the Company to expand its portfolio of products, and to increase its presence in fast growing segments in several important European markets."



PHOTO: PRO-VISION

Limited edition cigar with wrappers from all over the world

"OP REIS MET DE HEEREN" is a limited edition of the cigar brand Heeren van Ruysdael, where different exciting wrappers from various parts of the world are combined with the original Heeren van Ruysdael blend.

The newest addition to this limited edition is the Heeren van Ruysdael Cameroon. The Cameroon wrapper, with its rich and complex taste, matches the original blend perfectly. Earlier editions in the "Op reis met de Heeren" series were Heeren van Ruysdael



FOTO: SWEDISH MATCH

Brazil and Heeren van Ruysdael Connecticut.

"The series, that has been introduced in the Netherlands and in Belgium, is very successful," says Folmer Zijlstra, Brand Manager for Heeren van Ruysdael at Swedish Match International Division. "Retailers and consumers are enthusiastic and curious to hear what the next edition will be."

Arrival of Onico Juniper Berry

THE TOBACCO- AND NICOTINE-FREE portion-packed snus segment continues to grow in Sweden. We are now launching a new flavor: Onico Juniper Berry.

"Onico's success has clearly demonstrated the need for a snus-like product that is free from tobacco and nicotine," says Anna Lekander, PR Manager, Brands, at Swedish Match North Europe Division. It is gratifying to celebrate Onico's first anniversary with a new flavor. Consumer surveys conducted by Swedish Match have shown that snus users want a fresh-tasting product that is reminiscent of tobacco. This has resulted in Onico Juniper Berry, which has a tobacco-like flavor with a certain amount of sweetness and a hint of juniper berry and fresh herbs.

In addition to Swedish stores, Onico can also be purchased through the website: www.swedishsnus.com. Orders can be made from most countries.



PHOTO: SWEDISH MATCH

EU REPORT ON SMOKELESS PRODUCTS:

Further step toward new view of snus

That snus is a significantly less harmful alternative to cigarettes is a viewpoint that is gaining a stronger foothold in the scientific community. One example is the scientific committee that recently evaluated the health effects of smokeless tobacco on behalf of the EU. In the May issue of the respected magazine, *The Lancet*, two scientists demanded that snus should be allowed where it is prohibited today.

It was the scientific committee, Standing Committee on Emerging and Newly Identified Health Risks (SCENIHR), that received the assignment from the EU Commission to investigate the health risks of smokeless tobacco products, including Swedish snus. The committee presented a preliminary report at the beginning of July, which is also based on a review of a large number of scientific studies and reports, and particular attention was paid to Swedish experience of snus.

The committee states that, while smokeless tobacco contains nicotine, which is addictive, and other health risks cannot be excluded, the committee nevertheless subscribes to the Harm Reduction perspective, meaning that Swedish snus holds a unique position among smokeless tobacco products. It is significantly less harmful than cigarettes and there are major health gains for smokers exchanging cigarettes for snus.

"Hopefully, this can be the first step toward a reassessment of Swedish snus within the EU," says Lars-Erik Rutqvist, Vice President, Scientific Affairs within the Swedish Match Group.

This is also recommended by two reputable American tobacco researchers, Jonathan Foulds and Lynn Kozlowski. In an editorial in the May issue of the respected medical magazine, *The Lancet*, they wrote: "It is a perverse public-health policy that makes an addictive drug (tobacco) widely available in its most harmful form (cigarettes), yet bans or fails to properly inform consumers of the availability of that drug in a much less harmful form (snus)."

Lars-Erik Rutqvist, who is a cancer specialist and professor of oncology, welcomes the acknowledgement published in *The Lancet*. "It is a historic event. A medical magazine, least of all such a respected magazine as *The Lancet*, has never before expressed in an editorial that a tobacco product could be good for public health. It is completely unique and a clear political standpoint."

Current regulations are unreasonable

Lars-Erik Rutqvist believes that SCENIHR's report and *The Lancet's* position should have consequences in quite a number of areas. In

particular, political decision makers should be influenced and the EU's ban on snus should be lifted and replaced by factual, scientifically based demands on the content of smokeless products, according to Rutqvist.

"This would lead to a ban on some other smokeless products that are sold within the EU today, but not on Swedish snus, which is presently prohibited. This proves that the regulations currently applicable are completely unreasonable."

At the same time, he is well aware that the road to lifting the ban on snus will be long and politically complicated. In large parts of the EU's public health establishment, there is a strong reluctance to change policies that have been in effect for the past 30 years. He believes that this also applies to the Swedish National Institute of Public Health.

"The National Institute of Public Health should be pragmatic and regard snus as an important feature in public health work instead of ideologically concentrating on the fact that snus is addictive. It is also strange that all energy is focused on snus, when there are still more Swedes that smoke than use snus."

He believes that the consequence is that Swedes in general are misinformed by the authorities. "There seems to be an element of fear of changing society's tobacco policies, at the risk of 'losing credibility'. I believe the opposite; credibility is at risk when more and more data contradicts government information. Sooner or later people will begin to realize that they are being misinformed."

Clear picture

In recent years, new scientific reports on snus have been published on a regular basis. "This will probably continue," emphasizes Rutqvist. "But all this new research will not change the big picture: everyone is now aware that the risk associated with snus is dramatically lower than that related to cigarettes. My colleague Freddi Lewin and I have had this opinion for more than ten years and it was considered extremely politically incorrect by some. It is very gratifying that *The Lancet* is now saying the same thing."

BIRGITTA GUNNARSSON

The Lancet is a world-leading medical journal. It is independent and authoritative within the various areas of medicine. In addition to *The Lancet* there are special issues on specific subjects: *The Lancet Infectious Diseases*, *The Lancet Neurology* and *The Lancet Oncology*.

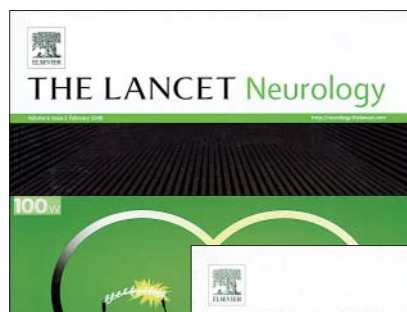




ILLUSTRATION: ELINA NILSSON

For Swedish Match, management supply and management training are prioritized issues. In a globalized world characterized by rapid change and fierce competition, it is important to always have access to qualified managers and that managerial talents in the Company can develop and grow with new assignments.

“At Swedish Match, the matter of succession management has the attention of the senior management and the Board of Directors,” says Nina Hanses, Vice President Management Resources and head of succession management and leadership development for the Group. She also believes that the issue will become increasingly significant.

“Global competition is fierce, with continuously new consumer trends that demand many and rapid changes. This means that we must have qualified employees in all functions. The need is strengthened by the fact that a large number of our employees, who were born in the 1940s, are beginning to leave the labor market. Furthermore, fewer employees want to be managers today.”

As a company, Swedish Match is characterized by flexible structures and few levels. It is a moderately small organization, in which it is quite easy to gain an overview of the available human resources. Despite this, a structured management planning process is required on different levels.

The process is structured so that management teams at division level annually conduct a review of their organizational needs and identify key positions and talents. The work is coordinated by the divisions’ HR Managers. The performance and potential of managers are analyzed, succession plans

are prepared and development requirements reviewed.

The next step is a Group level presentation for CEO Sven Hindrikes, the division managers, Mats Adamson, Group Senior Vice President, Group Human Resources, and Nina Hanses. After the meeting, a summary is compiled, which is then reported to the Board of Directors.

“This enables us to gain an overall profile of the requirements and of the potential available in the Group’s management, their managerial abilities, possible alternative careers and successors. It is up to us to demonstrate to the Board that we have a functioning cadre of qualified replacements,” says Nina Hanses.

She emphasizes that it is important for the process to be pragmatic, simple and realistic.

“The process may not become too bureaucratic. It is important to also have a parallel, informal process, where managers and employees are able to use their initiative. There are numerous opportunities in a company such as Swedish Match. There is always something to be done for everyone, which is due to the fact that we do not have such rigid structures.”

The management supply process will continue by ensuring that promising employees receive interesting assignments and that the quality of each individual is preserved. Managers also need to develop



PHOTO: PETER KNUTSSON

Nina Hanses, Vice President Management Resources, is head of succession management and leadership development for the Group.

their managerial skills.

“We have had global management development programs, which were initiated in the 1990s, a period characterized by several acquisitions. The main objective of the programs was to create a uniform corporate culture,” says Nina Hanses.

“Today, we face new challenges, with a focus on organic growth. We also live in a more complex world, which could be reflected in a new management development program.”

Does the work on management supply and management development have any effect on the advancement possibilities for women? “Yes, indirectly,” says Nina Hanses.

“Swedish Match has been a male-dominated Company, but changes are now occurring on different management levels. We have highly qualified people in this organization, both men and women.”

BIRGITTA GUNNARSSON



PHOTO: SCANPIX

Chewing tobacco

– a leading lifestyle product

Chewing tobacco is one of the tobacco products most closely associated with American tradition and lifestyle. The US market is also undeniably the largest for chewing tobacco and Swedish Match is the leading player in that market. Read more about what chewing tobacco is, the strong Red Man brand, how Swedish Match has succeeded in maintaining high profitability within the category and about the chewing tobacco tradition in Sweden.

This is chewing tobacco

Chewing tobacco is a smokeless tobacco product that is produced using the same type of tobacco used for cigars. It is a typical American lifestyle product frequently associated with outdoor activities, and most consumers are from the southern US.

Swedish Match manufactures two different categories of chewing tobacco: "loose leaf" and "plug". "Loose leaf" represents the majority of the sales. The tobacco is of high quality and cultivated primarily in Pennsylvania and Wisconsin in the US, as well as Latin America and parts of Asia. Most products are flavored with sweet-tasting syrups called casings, which penetrate the tobacco leaves and produce unique and popular flavors.

"Loose leaf" is produced using cut tobacco leaves that are treated in various stages. The production includes cutting the tobacco to the correct size, flavoring, air-drying and packaging of the product.

"Plug" was named after an old method of manufacture. The tobacco was usually saturated in wild honey and plugged into hickory or maple logs to age. In this manner, the tobacco was compressed into a practical shape (a block), while flavors penetrated the leaves. Today, an industrialized process is used.

Swedish Match is the largest player in the US market for chewing tobacco and has a market share of approximately 44 percent*. The brands that are produced and sold by Swedish Match are Red Man, Southern Pride, Granger Select and JD's Blend.

Swedish Match produces chewing tobacco in Owensboro, Kentucky, in the same plant that also produces snuff and pipe tobacco. Sales of chewing tobacco products are very limited outside the US. One example is the Swedish chewing tobacco Piccanell (read more on page 10).

* Source: ACNielsen



PHOTO: PEPE NILSSON

Continued profitability in a declining market

Through innovative marketing, cost-effective production and marketing, and constantly monitoring prices, Swedish Match has been successful year after year in maintaining a stable profit margin for chewing tobacco.

The US market for chewing tobacco is decreasing steadily by 4–7 percent annually. Other, more modern smokeless products, such as moist snuff (snus), are taking over instead. Despite this, Swedish Match has succeeded in maintaining moderately stable sales and profit levels in local currencies and an operating margin of about 30 percent for a number of years.

So, what is the secret behind the healthy profitability, Lennart Freeman, Executive Vice President Swedish Match and President Swedish Match North America Division?

“We focus primarily on four areas,” says Lennart Freeman. “We have increased our market share by innovative marketing. We have successfully reduced costs without compromising quality. We constantly monitor our prices. We have also reviewed our investments in marketing to make them more cost-effective by removing any activities that do not generate sufficient returns.”

“In the past 10 years, Swedish Match has increased its market share for chewing tobacco from 38 to 44 percent. In a declining market, it is particularly important to be the leader,” says Richard Flaherty, Chief Operating Officer OTP, Swedish Match North America Division.

“It is significant since it implies that we have

control of pricing,” he says. “If consumption decreases, manufacturers must be able to compensate for this through price adjustments. When we, as market leader, increased prices by 7 percent in the first quarter this year, other manufacturers quite rightly followed suit.”

Growth through acquisition has not been possible for Swedish Match, or for any of the other players in the market, because of competition regulations.

Instead, an increasing market share has been captured through selective marketing activities. Market investments have been restricted, although they have not ceased entirely. For example, when Red Man Silver Blend was launched in 2005, this was a new variety within the current brand.

What is the future of chewing tobacco?

“We carefully monitor consumer trends and are well aware that they do not support chewing tobacco. This product is associated with outdoor activities and manual labor, while market growth is accounted for by urban service-producing sectors,” says Richard Flaherty. “Chewing tobacco is not compatible with the lifestyle that characterizes the services sector. We can actively market portion-packed snuff to these consumer groups, but we have nothing with which to combat the general trends.”



PHOTO: PETER KNUTSON

Lennart Freeman, Executive Vice President Swedish Match and President Swedish Match North America Division and Richard Flaherty, Chief Operating Officer OTP, Swedish Match North America Division.

Another reason for the favorable results we are noting for chewing tobacco is the constant battle to cut costs. For example, the fact that production is concentrated to one unit in Owensboro, where snuff is also produced, has generated major efficiency profits.

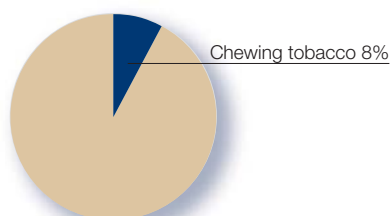
“This means, for instance, that we can offset the surplus capacity caused by a reduction in the consumption of chewing tobacco by increasing snuff production,” says Richard Flaherty. “In the long-term, we are actually also interested in joint production with our competitors, but we are not there yet.”

How long will chewing tobacco be an attractive product?

“We have maintained and actually improved our operating margin and, as long as we can continue to do so, we will remain in the market, and that is as far as I can foresee,” concludes Richard Flaherty.

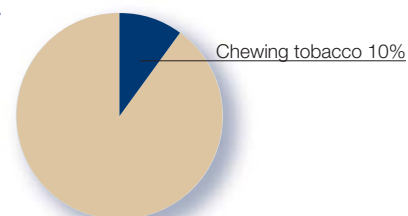
BIRGITTA GUNNARSSON

SALES



Of the Group's sales of SEK 12,911 million in 2006, chewing tobacco accounted for 8%.

OPERATING PROFIT



Of the Group's operating profit of SEK 3,137 million* in 2006, chewing tobacco accounted for 10%.

* Excluding larger one time items.



Red Man

– the flagship of chewing tobacco

PHOTO: MAGNUS FOND

The Red Man brand of chewing tobacco is so strong that it is almost synonymous with the entire product category. But success did not happen by itself. More than 100 years of brand management and product development stand behind Red Man's leading position in the market for chewing tobacco.



PHOTO: SONNY BOWYER

David Price, Vice President Marketing at Swedish Match North America Division

Red Man chewing tobacco is far and away Swedish Match's best-known brand in the US. Even Americans who do not chew tobacco recognize the brand: the logo, the Indian head and the characteristic red print.

"Red Man enjoys such a high level of brand recognition in the US that it is fair to speak of it as a piece of American heritage," says David Price, Vice President Marketing at Swedish Match North America Division.

Swedish Match leads the American market for chewing tobacco and Red Man is the main reason for this. Of Swedish Match's approximately 44-percent share of the American market for chewing tobacco, the Red Man line accounts for more than 85 percent, or a full 37.5 percent of the market.*

The first handwritten recipe for tobacco

The Red Man line comprises five products. Three of these account for most of sales: Red Man Original, Red Man Golden Blend and Red Man Silver Blend. The other two

* Source: ACNielsen



products, Red Man Select and Red Man Plug, have significantly lower sales.

The history of Red Man dates back more than 100 years. The brand was introduced in 1904. Swedish Match possesses a copy of the first handwritten recipe for Red Man, written by the founder of the Pinkerton Tobacco Company (acquired by Swedish Match in 1985).

For the first 50 years, Red Man was only distributed in a handful of states. The brand expanded in 1954 throughout the southern states and went national in 1963. During the 1990s, additional brands were added to the chewing-tobacco brand portfolio, including J.D.'s Blend, but Red Man remains the flagship brand within the product category.

Innovation and product development

"We have been successful in managing the Red Man brand," says David Price. "Through innovation and product development, we have also defended Red Man's leading market position."

To give an example of such innovation, Red Man was the first brand of chewing

tobacco packaged in a resealable bag that extends product life. An example of product development was the introduction of Red Man Silver Blend, the first sugar-free chewing-tobacco product, in 2005. Red Man Silver Blend has since established a strong foothold in the market.

Distinct consumer profile

Red Man consumers are very loyal. Accordingly, it has become an important part of the marketing strategy to reward loyal consumers through programs such as "Buy five packages and get one free." Chewing tobacco is sold in the same kinds of stores as other tobacco products in the US, but most sales occur through convenience stores and low-price tobacco outlets. Specially sized packaging is also produced to fit the space requirements of these sorts of stores.

Besides brand loyalty, Red Man consumers have much else in common. The majority of them live in the southern or southeastern parts of the country – 14 states account for approximately 85-90 percent of the total sales in the US. Another common denominator is that a large percentage of them live out in the country, enjoy spending time outdoors and engage in leisure activities such as fishing and hunting. Sales data show a clear increase in sales during the spring, summer and autumn, when consumers spend more time outdoors than during the winter.

Red Man as a traditional American snuff

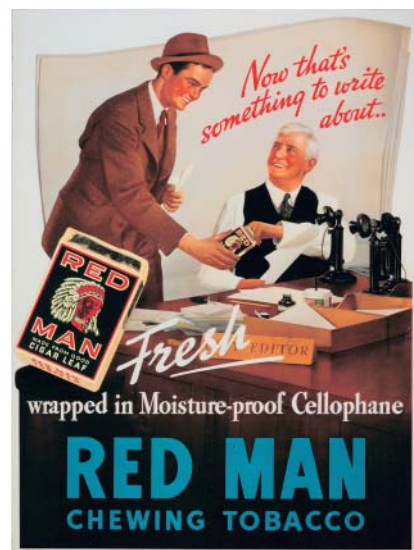
"Chewing tobacco was previously a traditional practice passed on from father to son," explains David Price. "We are clearly seeing a rise in the average age of consumers, with fewer new users entering the category."

"However, the market for moist snuff is growing consistently, despite the consumer profile for moist snuff being very similar to that for chewing tobacco. Accordingly, it seems natural to extend our strong chewing tobacco brand, Red Man, into the market for snuff, and a moist snuff product will be launched under the Red Man brand at the end of the summer. Borrowing the Red Man name and applying it to the moist snuff category provides instant legitimacy, quality and heritage; all values that are very important to the moist snuff consumer. The launch is an integral component of our growth strategy in moist snuff, the category that represents the number one opportunity for Swedish Match North America."

LOTTA ÖRTNÄS

Red Man will undergo a brand shift into the snuff category when it is launched as traditional American snuff.

There is a common denominator that a large percentage of the consumers live out in the country, enjoy spending time outdoors and engage in leisure activities such as fishing and hunting.



The posters are evidence of Red Man's long history. The brand celebrated its centenary in 2004.



PHOTO: GREG STROUBE, BRUTON STROUBE STUDIO



New Piccanell – a modern Swedish chewing tobacco with long traditions

During this spring, one of Swedish Match's most classic brands underwent a proper makeover. Piccanell, a Swedish smokeless chewing tobacco with origins from the 17th century, was renewed with a new design, new packaging and two new flavors.



PHOTO: PETER KNUTSON

“The new Piccanell has two important objectives. First and foremost, we want to ensure that our old and loyal consumers are satisfied, which we achieve by retaining the traditional and popular flavor of the original. The second is to attract new consumers and this is where the new packaging and new flavors will play an important role,” says Mediha Budak, Brand Manager, Swedish Match North Europe Division.

The new package is a small, practical plastic box, which is easy to carry in a pocket. It contains approximately 35-40 portions and is available in three different flavors, with a distinct color coding on the lid. The new Piccanell original, with a mild, smooth, tobacco flavor and elements of dried fruits, was launched early in the spring. Two new flavors, Violet/Licorice and Peach, or Piccanell Tropical as it is known in Norway, were launched more recently.

Potential worth preserving

Mediha Budak states that there are actually several reasons for the major change in Piccanell:

“At the beginning of the year, a new law was passed recommending the sealing of packaging. At the same time, we saw clear signs of increased interest in flavors, which we recognized from the snus and cigar markets. No changes have been made in Piccanell for a considerable time, and with its traditions, the brand has potential that is worth preserving.”

Piccanell originates from the 17th century and was originally the name of the product type

itself, regardless of who the manufacturer was. The earliest information on the brand is from 1766. The entire production is still hand-made and every day approximately one kilometer of Piccanell is manufactured by the skilled tobacco spinners in the small manufacturing plant in Arvika, a town in western Sweden.

Spun and cut portion-packed tobacco

Unlike the American chewing tobacco, which often consists of loose leaves and is used in larger portions, Piccanell consists of small pieces of spun and cut portion-packed tobacco. The tobacco used in the manufacture is high quality Pennsylvania tobacco. The leaves are very thin and can also be used as cigar wrappers.

Just like Swedish snus, Piccanell is placed under the upper lip. The difference is that it must be periodically bitten into to renew the flavor. However, spitting is not necessary, in contrast to traditional American chewing tobacco. Piccanell is also discrete enough to be barely visible when in use.

BIRGITTA SJÖBERG

There are approximately 60,000 Piccanell consumers in Sweden and the number is increasing. More than half are also regular users of snus and approximately 85 percent use snus occasionally. Nearly 25 percent of the users are female.

Mediha Budak, Brand Manager, Swedish Match North Europe Division, wants to retain existing consumers and attract new ones using the new Piccanell.



Outdoor barbecues are always in

From time immemorial, we have cooked food over an open fire, and despite the existence of more modern methods of cooking, barbecuing remains a popular summertime activity. With Swedish Match's handy grillbags and disposable grillboxes, we can satisfy our barbecuing needs based on today's demands: quickly, safely and environmentally friendly.

Lighters and matches are not the only Swedish Match lights products. Since the end of the 1990s, the category has been expanded to include additional fire and grill products.

"We have performed extensive surveys in our largest markets to gain a deeper understanding of consumer behavior and attitudes to our brands and our lights products. It emerged that consumers want inexpensive and innovative lights products that are easy to use, that save time and that are environment friendly," explains Dani Deligoyzova, Managing Director at Swedish Match International Division in Bulgaria.

The result was a wide range of new grill and fire products under the Company's own strong brands in such markets as Sweden, the UK, Spain, Turkey and Benelux.

"Practical grill products, such as grillbags and disposable grillboxes, offer a complete and safe barbecue solution for the time and environmentally conscious people of today. They are perfect for picnics, camping, garden parties or even for the balcony."

The grillbag contains impregnated coal briquettes in a specially treated paper bag that is easy to ignite and that is ready for use as a barbecue in only 15 minutes. The size of the grillbag is suitable for all standard barbecues. The disposable grillbox is supplied with a sturdy tray and a metal rack. Both of the products are easy to handle and carry around, and they also keep the barbecue chef's fingers clean.

BIRGITTA SJÖBERG

Swedish Match's best barbecue tips

We asked coworkers in five countries for their top barbecue tips. The questions were:

- When is it best to barbecue?
- What do you put on the barbecue?
- What is your top barbecue tip?

BAHAR MURTEZAAGLU, PRODUCT MANAGER, TURKEY:



"The disposable grillbox comes out when our family and friends gather at our summer house."

"My husband loves to serve well-grilled chicken wings, traditional kofte (meatballs) sausages and vegetables. When in season, I recommend fish."

"Always use briquettes for healthier meat. Don't burn the meat with charcoal."

ANDREW HARDIE, MARKETING MANAGER, UK:

"Good weather, ice-cold beer, good wine that complements the food and above all else good company create a wonderful barbecue experience."

"For me, it has to be meat, and good quality meat at that."

"Press the meat with your finger. If it feels like your cheek, then it is rare, like your chin, it is medium and like your forehead then it is well-done."



YVES DANIÉLS, ASSISTENT MARKETING MANAGER, BENELUX:

"The best time for a barbecue is a wonderful, warm summer evening with my friends and a fridge full of cold beer."



"Personally, I still cook quite traditionally on my barbecue: spare ribs, chicken, beef, burgers and sausages."

"Never be in a hurry when you barbecue. Let it take its time and enjoy the whole process."

SUSANA NUÑEZ, SALES SUPPORT & MARKETING, SPAIN:

"I enjoy barbecuing outdoors together with family and friends. And I could happily spend the whole day barbecuing."

"I serve my guests a mixture of sausages, chorizo, spare ribs and chicken. Although I like barbecued fish myself, most people prefer meat."



"Barbecuing is a time for socializing, so don't eat alone. Finally, be careful around fire and make sure to extinguish it properly when you are finished."

ROLF BYBERG, MARKETING DIRECTOR, SWEDEN:



"Barbecuing is one of my passions. My favorite place to barbecue is on our wonderful terrace together with my family."

"On our barbecue, we have kebabs, marinated with shallots, cherry tomatoes, mushrooms and baby sweet corn. For the kebabs, I make my own barbecue sauce with chili and Mexican spices."

"Always place the disposable grillbox on a heat-proof surface and never leave it unattended. Have a bottle of water close at hand. Finally, don't litter outdoor areas with packaging and other rubbish."

Analysts' questions

Swedish Match's results for the first six months of the year were presented on July 20. At a subsequent teleconference, Group management responded to questions from the analysts at banks and brokerage firms that monitor the Company.

DAVID HAYES, LEHMAN BROTHERS:

Can you provide some more details regarding why you have found a need to enhance the efficiency of the capital structure? What is your view of the decline for premium cigars in the US? Is this an isolated occurrence?

LARS DAHLGREN, CFO:

We have conducted extensive restructuring in the past two to three years, including divestments and acquisitions. This has led to us seeing a need to simplify our legal structure and create better internal transparency. This has occurred through a whole number of measures that are mainly aimed at creating a legal structure to support our business, but also to achieve a more efficient capital structure.

SVEN HINDRIKES, CEO:

Sales of premium cigars have always been subject to a certain amount of volatility. Historically, there is usually an increase during the second half of the year, so we are not worried.

JONATHAN FELL, DEUTSCHE BANK:

Can you say some more about the plans for a new snus product family under the Red Man brand? What will be the effect of the acquisition of Bogaert Cigars on the cigar margin?

EMMETT HARRISON, VICE PRESIDENT, INVESTOR RELATIONS:

It is a little too early, for reasons of competition, to say much more about Red Man. We will commence a limited launch in September and it will be backed up by strong marketing activities. The intention is to benefit from Red Man's incredibly strong brand in the US market.

SVEN HINDRIKES:

It is possible that there will be certain integration costs initially, but apart from this, we have indicated a margin for cigar operations of 21–23 percent, including Bogaert.

EILEEN KHOO, MORGAN STANLEY:

What are you going to do with the cash injection that you will receive from the sale of properties and the lower tax rate?

LARS DAHLGREN:

Our basic policy is well-known, that any surplus should be distributed to the shareholders as far as possible, through the buy-back of shares and through dividends. We are also actively seeking further acquisitions, mainly within cigars.

APRIL - JUNE

Interim report

SALES AND RESULTS FOR THE SECOND QUARTER

In local currencies, sales declined by 1 percent. Reported sales for the second quarter declined by 5 percent to SEK 3,090 million (3,242) mainly due to currency translation which has affected the sales comparison negatively by SEK 105 million.

For snuff, sales declined by 4 percent during the second quarter to SEK 794 million (831) and operating profit declined by 19 percent to SEK 311 million (383). Operating margin was 39.1 percent (46.1). North European snuff sales were down 5 percent, with lower volumes in the Swedish market, especially at the beginning of the quarter, as a consequence of the sharp excise tax increase on snuff in Sweden effective January 1, 2007. Sales for North American snuff increased by 8 percent in local currency.

Sales of cigars in the second quarter were SEK 847 million (888), while operating profit

was SEK 193 million (207). In local currencies sales were unchanged. Sales and operating profit for cigars grew in both the US mass market and in Europe in local currencies. Operating margin for cigars was 22.7 percent (23.4).

Group operating profit* for the second quarter includes costs of SEK 20 million for the closure of a pipe tobacco plant in South Africa and amounted to SEK 642 million (784). Currency translation has affected the operating profit comparison negatively by SEK 25 million.

Operating margin* for the second quarter amounted to 20.8 percent compared to 24.2 percent for the second quarter 2006.

EPS (basic and diluted) for the second quarter was 1.66 SEK (2.09).

* Excluding pension plan curtailment gain of SEK 148 million before tax in 2006

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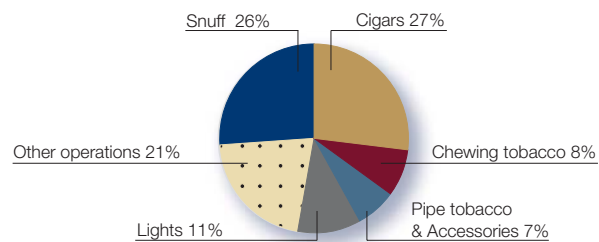


PHOTO: MAGNUS FOND

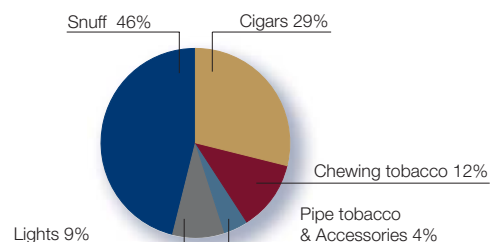
Lars Dahlgren, CFO

SEK million	Apr-Jun 2007	Apr-Jun 2006	Full-year 2006
Sales	3,090	3,242	12,911
Operating profit	642	932	3,285
Income before tax	563	881	3,173
Net income	441	617	2,335
Earnings per share, SEK	1.66	2.09	8.13

SALES BY PRODUCT AREA APR-JUN 2007



OPERATING PROFIT BY PRODUCT AREA* APR-JUN 2007



* excluding Other operations

SHARE COMMENTS

Liquidity increases in Swedish Match share

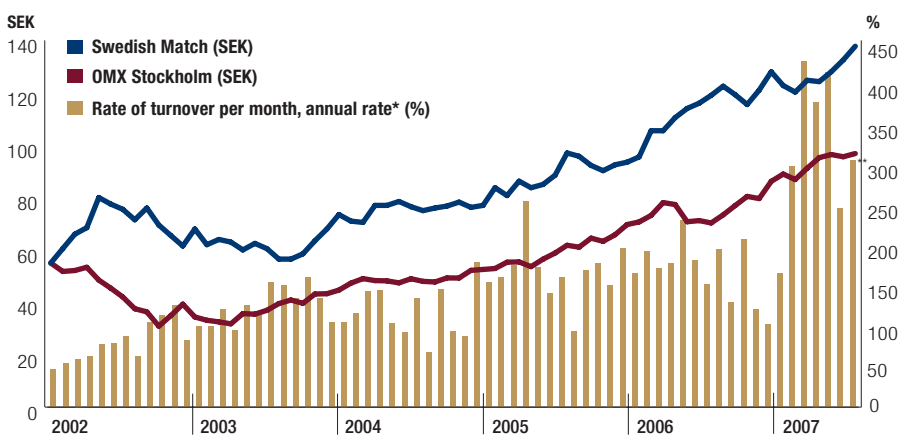
THE SHARES, WHICH BELONG TO the consumer staples category, had a weak start in 2007. From January 1 through July 20, 2007, the consumer staples sector lost a total of 0.2 percent. During the same period, Swedish Match rose by 7.6 percent. The broad OMX Stockholm index, which reflects the trend for Sweden-based companies listed on the OMX Nordic Exchange, had a stronger trend during the same period, increasing by 11.9 percent.

In 2007, the rate of turnover for the Swedish Match share has increased. In 2006, between 9 and 20 percent of the Company's total number of shares outstanding were traded each month. In 2007, the rate of turnover in the months of January through June was between 14 and 36 percent, with the peak of 36 percent occurring in March. For the 15 trading days prior to July 20, 17.5 percent of the shares outstanding were traded.

KEY FIGURES

Earnings per share, SEK	
2006	8.13
2005	5.61
Equity per share, SEK	
Dec. 31, 2006	7.43
Dec. 31, 2005	16.60

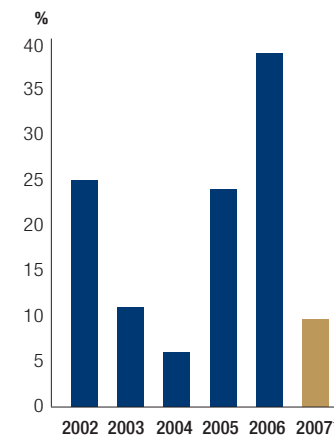
SHARE PRICE AND TURNOVER



During 2007, through July 20, the Swedish Match price rose by 7.6 percent while the OMX Stockholm rose by 11.9 percent.

* The annual rate is based on turnover value in relation to the average market capitalization each month
 ** Through July 20, 2007

TOTAL RETURN



* Through July 20, 2007

FINANCIAL INFORMATION

Faster by e-mail and SMS



PHOTO: PETER KNUTSSON

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Djuli Ruzeskovic, Project Manager
for the Swedish Match website.



PHOTO: PETER KNUTSON

Swedish Match has many excellent brand-building opportunities. According to new Board member John P. Bridendall, the Company's greatest challenge will be to better position Swedish Match for the future and to focus on realizing opportunities that maximize shareholder value. He has extensive international experience of fast-moving consumer products and views the strong brand portfolio as one of the Group's primary assets.

John P. Bridendall had just been elected Member of the Board of Swedish Match when he met *Swedish Match Inside* at the Headquarters in Stockholm. He is highly enthusiastic about his new assignment and does not hesitate when asked to identify Swedish Match's strengths.

"The Group has many strengths: internationally known brands, strong management teams in key markets, extensive brand building experience, large market shares in snuff and premium cigars, favorable product positioning, and a number of relatively untapped markets and channels of distribution. All in all, it is a highly attractive company with a winning product portfolio and significant international growth potential."

John P. Bridendall's own strengths include experience of strong well-known consumer products, particularly in the wine and liquor industry. His most recent position was that of President, Jackson Enterprises in Santa Rosa, California – a control group for Jess Stonestreet Jackson and his family that encompasses 15 wineries, including the famous Kendall-Jackson Wine Estate, as well as extensive investments in vineyards, real estate and thoroughbred horses. Prior to this, he spent five years as Executive Vice President of Finance & Administration for the family's extensive business interests.

Personal investment

For most of his career – over 20 years – however, John P. Bridendall was with the

JOHN P. BRIDENDALL, NEW MEMBER OF THE BOARD OF DIRECTORS:

Staying focused is the challenge

Brown-Forman Corporation, a listed American company with many well-known brands, such as Jack Daniel's, Finlandia Vodka and Southern Comfort. At Brown-Forman, his responsibilities included corporate development and investor relations. At one point, he served as Chief Financial Officer and member of the Board of the legendary Jack Daniel's Distillery, Lem Motlow, Proprietor, in Lynchburg, Tennessee.

I am very optimistic about the Company's prospects.

The important relationships he established with Brown-Forman's institutional investors have now led him, many years later, to the Board of Swedish Match.

"Brown-Forman and Swedish Match, two extraordinary consumer products companies, attract investors drawn to well-known premium brand portfolios, extraordinary growth prospects, excellent cash flow and a belief in the creation of shareholder value. The 'value' investors in Swedish Match, your Nominating Committee, are well known to me. They were also investors in Brown-Forman," Bridendall relates.

"I have known some members of the Nominating Committee for more than twenty years and I understand their objectives. We share a common investment philosophy. Before I accepted their invitation, I analyzed the attractiveness of the Company as a personal investment and became very optimistic about the Company's prospects," Bridendall adds.

Board members are required to invest their entire fee after tax in Swedish Match shares, so that they accumulate a stake in the Company. This requirement appeals to John P. Bridendall.

Strong brands

Bridendall considers the Swedish Match brand portfolio to be the Company's most strategic asset. The brands, in his view, are the key tools by which the Group can achieve its goal of organic growth.

"Swedish Match has unbelievably strong brands and one of the most well-known is Red Man, a Southern icon, a brand as well known in the South as Jack Daniel's. It has a unique position where the product category is almost synonymous with the brand. In addition, the

cigar portfolio represents an excellent list of 'must stock' brands with potential for the future."

With his extensive knowledge of the American and other international markets, Bridendall hopes to help Swedish Match grow its market share in multiple product categories. One example he mentions is Swedish snus. However, in order for snus to assert itself in a new market like the US, consumers have to become aware of the product.

"It's a lengthy process, one that must take place in stages. If we can educate the American consumer of smokeless tobacco products and encourage experimentation with snus, the clear superiority of the product will lead to better distribution and improving market share," he explains.

At home in international environments

Work on the Swedish Match Board will require frequent flights from the US to Sweden, but that does not bother an internationally experienced professional like John P. Bridendall. He has lived abroad for long periods and launched operations in India, Ireland, France, Italy, China and Australia. He also has experience of Board work in many countries, and is at home in international environments.

Regarding his Swedish Match Board assignment, Bridendall has his agenda ready.

"Our most important objective is to assist the Company's leadership with the realization of shareholder value via focus at the most senior level on priority growth areas while improving our position in markets where we are already strong."

LOTTA ÖRTNÄS

JOHN P. BRIDENDALL

BORN: In Lake Charles, Louisiana, 1950.

FAMILY: Wife and four children: an environmentalist in Denver, Colorado; an English teacher in Portland, Oregon; a history teacher in Atlanta, Georgia; and a student in Louisville, Kentucky.

PLACE OF RESIDENCE: Two homes: one in Louisville, Kentucky and the other in Santa Rosa, California.

WHERE ARE YOUR ROOTS?

The Southeastern US, the primary market for smokeless tobacco products.

DO YOU USE TOBACCO PRODUCTS?

Yes, I smoke special cigars on special occasions.

WHAT DO YOU DO DURING YOUR SPARE TIME?

I spend time with my family. In addition, I appreciate college football, basketball, the San Francisco Giants, my dog Jake, travel, music, skiing, touring Northern California by motorcycle, and the occasional great cigar.

WHAT IS YOUR FAVORITE PLACE?

Aspen, Colorado.

WHAT IS YOUR ADVICE FOR ATTAINING BALANCE IN LIFE?

The realization of a balance between family, career, personal interests, church and civic responsibilities has always eluded me. However, I will continue to work at it. My family is my first priority.

WHAT ARE SOME PERSONAL QUALITIES YOU ADMIRE?

Humor, creativity, risk-taking, honesty and a sense of adventure.



PHOTO: PETER KNUTSON



PHOTO: PETER SNEP

Salsa ups the pace

Salsa and cigars are an unbeatable combination that creates sweet music when the blue smoke wreaths intertwine with harmonious tones. This was observed by Swedish Match last year, when the Salsa cigar was introduced to parts of the European market. Now the pace is being accelerated. In May, Salsa was launched in Spain, with the specially developed products Salsa Puritos and Salsa Cigarritos.

“Salsa Puritos and Salsa Cigarritos are customized for the large Spanish market and offer affordable enjoyment for Spanish cigar consumers,” says Marcel Verhoeven, International Brand Director Cigars, Swedish Match International Division.

With annual consumption of approximately

one billion cigars and cigarillos, Spain is the third largest cigar market in Europe, after France and Germany. The popular value-segment is one of the most rapidly growing in the country. Swedish Match currently has 5 percent of the Spanish market for cigars and cigarillos, but is aiming to increase its

market share through launches within product categories that were not previously represented by the Company.

BOTH NEW MEMBERS OF THE LARGE SALSA family are machine-made and have natural wrappers from Java, which produce a mild and pleasant tobacco flavor. They are packaged in modern and practical paper boxes of ten products each.

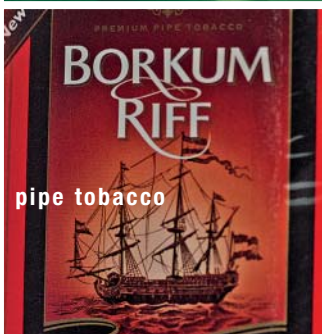
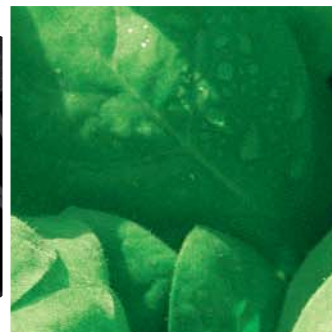
“The introduction started in May, so it is still too early to comment on the outcome, but it looks very promising,” concludes Marcel Verhoeven.

BIRGITTA SJÖBERG



Swedish Match is a global Group of companies with a broad assortment of market-leading brands in snuff/snus, cigars, pipe tobacco and chewing tobacco – tobacco’s niche products – as well as matches and lighters. The Group’s operations generated sales of SEK 12,911 million in 2006. The average number of employees during 2006 was 12,465. The Swedish Match share is listed on OMX Nordic Exchange in Stockholm.

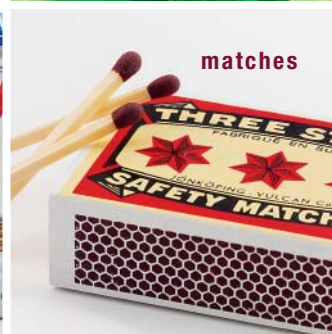
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pipe tobacco



chewing tobacco



matches



lighters