

inside #2

MAY 2008

SWEDISH MATCH

DESIGN THAT
STRENGTHENS
THE BRAND

QUARTER
IN BRIEF

PRESIDENT'S
SPEECH AT AGM

FOCUS ON SCANDINAVIA

MARIA & ANNA

WITH A SENSE FOR TRENDS



NEW PRODUCTS

PLUS!
MEET NEW BOARD MEMBER
KAREN GUERRA

**WITH A NOSE
FOR SNUS**

CEO's message

"Strong development in snus"

In this issue of Swedish Match Inside, we follow up on the Group's strategic orientation by studying our Scandinavian market in greater detail. Swedish snus is a key driver of the business and Swedish Match has a leading position in the Scandinavian market based on its unique product portfolio. We develop snus products for modern and discerning consumers. To meet the strong demand for our portion-packed snus products, we recently decided to increase production capacity at our plant in Kungälv, Sweden. We are investing some 265 MSEK in the facility that uses Swedish Match's patented "White Portion Technology." We are the only company to deliver products with this unique technology to the Scandinavian and US markets.

A few words about our performance during the first quarter of 2008. We noted strong profitability for snus products in Scandinavia, as a result of higher volumes and price adjustments. In the US market, we have initiated the nationwide launch of the Red Man snus product, which was received favorably by customers and consumers when it was launched in late 2007. During the first quarter

PHOTO: PETER KNUTSSON



of 2008, Red Man accounted for 15 percent of the total increase in volume, compared with 22 percent a year earlier. Our cigars started the year on a weak note, due primarily to abnormally low first-quarter delivery volumes in the American market. However, we expect an improvement during the remainder of the year, since we have a number of exciting product launches to look forward to.

Other product areas are showing stable profitability trends compared with the first quarter of 2007.

On April 22, Swedish Match held its Annual General Meeting, which was characterized by

excellent discussions with our shareholders. The Meeting approved the motions presented by the Board of Directors, including the dividend proposal of SEK 3.50 per share, 40 percent higher than in 2007.

Also read an interview with our newly elected Member of the Board, Karen Guerra, who has an exciting background from international consumer marketing, gained from a long career at Colgate Palmolive. Enjoyable reading!

Sven Hindrikes,
President and CEO

NO. 2, 2008

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★★★ SWEDISH MATCH

Swedish Match is a global Group with a broad offering of market-leading brands in smokefree tobacco products, cigars, pipe tobacco and lights products. The Swedish Match share is listed on the OMX Nordic Exchange in Stockholm.



PHOTO: HÅKAN IMBERG

CONTENT

MAY 2008



PHOTO: MAGNUS FOND



PHOTO: PETER KNUTSON



PHOTO: MARKUS MARCETIC

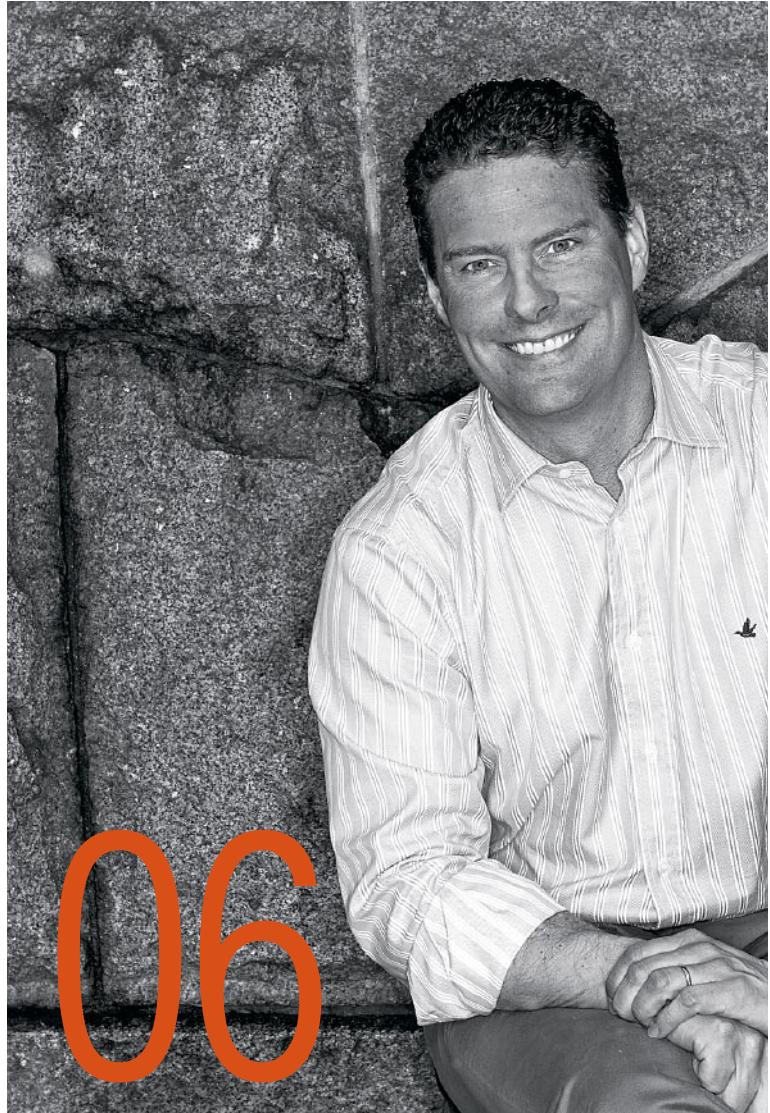


PHOTO: MAGNUS FOND

06 | THE CHALLENGE OF MANAGING BRANDS

A long-term approach, profitability and innovative product development are corner stones to growth in Scandinavia.

08 | WITH A SENSE FOR TRENDS

An instinct for future trends and excellent consumer insight are needed to keep customers satisfied. To date, Anna Neiås and Maria Nicholl are pleased with developments.

13 | ENVIRONMENT HIGH PRIORITY

Act in a climate-smart manner and reduce costs significantly. Environmental Manager, Cecilia Wiksfors, provides information about the proactive environmental work conducted at snus plants. Emissions, energy and waste are always current issues.

14 | A NOSE FOR SNUS

Aroma, flavoring and excellent tobacco balance are some of the ingredients used to produce new tobacco flavors. Read more about a day in the life of a recipe mixer.

16 | ANNUAL GENERAL MEETING 2008

Swedish Match's Annual General Meeting was held at Rival in Stockholm on April 22. Read the summary of the Annual General Meeting and a short version of the President Sven Hindrikes' address.

20 | MEET KAREN GUERRA

Karen Guerra is the newly elected member of the Swedish Match Board. With roots in the UK and a long career in the US, she lives in France.



PHOTO: HÅKAN MOBERG

Congratulations Borkum Riff, 40 years

Borkum Riff is one of the largest brands in the pipe tobacco product category. It has a very strong position and is sold worldwide. Since its first launch, no less than 16 new flavor varieties have been introduced.

Current trends show that pipe tobacco consumers appreciate variation – they try new types, new flavors and are always interested in

new experiences. One trend is the desire for natural tobacco flavor and, in order to satisfy the demand, Swedish Match has launched a new variety of Borkum Riff in 2007. The earlier fully flavored portfolio has been supplemented with Borkum Riff Genuine Pure Tobacco, a product with genuine flavor and the aroma of quality tobacco.

Jubilee matches



125 years. The Swan Vestas brand of matches was launched in the UK in 1883 and is currently the leading brand in its category in the country. The name originated from Roman mythology, in which Vesta is the goddess of fire. Over the years, the Swan brand family has expanded and now includes lighters and accessories.

95 years. The Flower Basket was originally manufactured in the plant in Uddevalla and the brand was registered in 1913. It has long been one of the most widely exported brands, to such Middle East countries as Oman, the United Arab Emirates, Qatar and Bahrain.



75 years. Sampo was founded in 1933 and is Finland's leading brand of matches. The brand name derives from the Finnish national epic, Kalevala, in which Sampo is a magical machine that produces flour, salt and gold.

SwedishSnus.com gets a facelift

The webshop **SwedishSnus.com** has been upgraded with a new design and new features. More information is now available about brands, products and upcoming activities. The search function has been improved and there is now access to a store locator and currency converter. To find out more, please visit www.swedishsnus.com.

Have your say!

Swedish Match is eager to make Inside magazine as up-to-date and interesting as possible. We look forward to receiving ideas, tips and comments from readers. Please e-mail questions and opinions to: inside@swedishmatch.com

FOCUS. Swedish Match's success during 2007 is confirmation that the Group's long-term strategies work. In four issues, Swedish Match Inside provides in-depth insight to the strategies for continued growth and profitability. In this issue, they will be highlighted from a Scandinavian perspective.



Scandinavia has slightly more than 1.5 million snus consumers. Of these, approximately 20 percent are women, a proportion that continues to grow. PHOTO: MAGNUS FOND



Smart steps key to growth

“Long-term approach, profitability and innovative product development are the three keys to achieving Swedish Match’s objectives of growth and increased sales,” says Patrik Andersson, President, Swedish Match North Europe Division.

BY: KAROLINE HAMMAR PHOTO: MAGNUS FOND

The market environment is tough. There is an ongoing battle for today’s consumers, and international players in the smokefree products segment are pulling out all the stops. To cope with the challenge, not only from competitors but also from consumers, retailers, politicians and opinion builders, we need a clear and distinct strategy and to be innovative in everything we do,” says Andersson.

One of the goals is to identify new growth areas in the Scandinavian market and to continue the focus on organic growth.

“To satisfy the increasing demands of customers, we must offer completely new products and develop new market segments, preferably ahead of everyone else. Our products must be an obvious first choice.”

Since Swedish snus is the company’s principal business in the Scandinavian market, being sensitive to signals from consumers and the market regarding snus is essential. The offering must be improved continuously and

new concepts and ideas developed. Vertigo, the snus for women, was launched recently. This is a good example of product development for a specific target group, despite a saturated market.

“I strongly believe in the snus for women concept. I feel that we have understood the target group and actually contributed something new. In the future, we will develop snus products for other specific target groups. The challenge lies in creating a concept where consumers recognize themselves. This is important for purchase willingness.”

INVESTMENTS IN INCREASED GROWTH

Growth through increased sales combined with improved profitability is the engine of the operation. Without a carefully prepared sales strategy, there will be no growth or profitability. This applies regardless of how well adapted the products are to customers needs or how smartly and efficiently they are manufactured.

“Obviously, the key to increased growth is sales. It is vital that we create different strategies for the different sales location. We must understand how different needs control different types of purchases. Restaurants are one channel, while hypermarkets and gas stations are others.”

Larger and fewer tobacco companies in the market combined with the increasing demands of consumers have changed the competitive situation compared with just a few years ago.

“The difference now is that major tobacco companies are showing considerable interest in the snus market. To maintain and additionally strengthen our position in the market, we must form an organization that is characterized by speed, flexibility and entrepreneurship to an even greater degree than today. We must adapt ourselves so that we develop products more rapidly and shorten lead times in both development and production phases.”

Consumer behavior has changed. Today, situations steer purchases to a

larger extent than in the past, when prices and stores were important variables for purchases.

“To strengthen profitability and increase our growth, we must continuously review what we can do better, smarter and more efficiently. The market does not stand still, neither do consumers, and consequently, we must always be one step ahead.”

COMPETENCY AND FLEXIBLE PRODUCTION ARE KEY FACTORS

The goal is to have competent employees in a flexible and adapted production organization that manufactures and sells the right volumes of sought-after products.

“It’s all about genuine teamwork, where we continuously have to improve our approach. Now, more than ever, we need to work across borders employees work across borders in all phases, from innovation and product development to packaging, design and sales,” says Andersson, who continues:

“Our work method supports the whole and thus profitability. We are proud to be one of the leading consumer-product companies in the Nordic region. We have very strong brands to manage.”



“We must continuously review what we can do better, smarter and more efficiently”

THIS IS SCANDINAVIA:

Swedish Match has a leading position in the Scandinavian snus market. Swedish Match develops and operates in all sub-segments of the snus category.

Geographic scope: The market comprises Sweden, Norway as well as tax-free trade and exports.

Product areas: Snus, pipe tobacco, lighter products and Swedish chewing tobacco. Snus forms the basis of Swedish Match operations in Scandinavia, accounting for slightly more than 90 percent of sales.

Major brands: Snus: General, Ettan, Catch, Grovsnus, Kronan

and Göteborgs Rapé. Pipe tobacco: Borkum Riff. Lighter products: Solstickan, Cricket. Chewing tobacco: Picanell.

Production units: Snus is manufactured in Gothenburg and Kungälv. Match manufacturing occurs in Tidaholm and Vetlanda. Picanell chewing tobacco is manufactured in Arvika.

Challenges: Identifying new growth areas for snus by attracting new consumer groups, developing new segments and sales channels and, to a larger extent, realizing new ideas for growth.

MARKET IN FIGURES

Share of the Scandinavian snus market: slightly less than 90 percent*.

Consumers: Scandinavia has 1,5 million snus consumers, of whom about 20 percent are women.

*Source: AC Nielsen

On the picture from left: Anna Meis och Maria Nicholl



INSPIRED BY MARKET **TRENDS**

BY: KAROLINE HAMMAR PHOTO: MAGNUS FOND

What is required to generate growth in a mature market? The answer is simple. Consumer insight, well-segmented and defined target groups and an instinct for future trends. Anna Neiås, Vice President Marketing, Swedish Match North Europe Division, is satisfied with developments to date.



By dividing the market into distinct consumer groups and having good insight into their needs, it is easy to identify gaps in the offering. These gaps facilitate the development of new products and brands. The launch of Vertigo, the snus for women, and the Nick & Johnny snus for men in the 18 to 25-year target group are a couple of examples of this type of development,” she says.

“Development is not only about fulfilling the customer’s rational needs for snus and tobacco-free products, but also about satisfying an emotional need, which we do by offering attractive design and functional packaging, for example.

“When we developed Nick & Johnny, we wanted to fill the brand with confidence and success. Nick & Johnny is designed to attract consumers who value adventure and appreciate a modern city lifestyle.”

Maria Nicholl, Head of Market Research & Analysis at the Swedish Match North Europe Division, agrees and believes that good insight into the various target-group segments makes it easier to understand how

consumers perceive the products.

“Today, our consumer analyses are more needs adapted. By knowing more about consumer values, needs and behavior, we gain a better understanding of how they perceive our brands,” says Nicholl.

However, consumer insight and segmentation are not the only conditions needed for increased growth. Understanding of future trends is equally important. According to Niklas Krohn, Brand Manager for Nick & Johnny, many of the classic brands have to be modernized in order to attract new consumers.

“We see a natural inflow of new consumers through smokers who want a smokefree alternative, as well as new tobacco consumers. This means that Swedish Match’s classic snus brands must be regarded as an attractive and modern alternative, while satisfying the needs of the new target groups,” says Niklas, who continues:

“We must be innovative and develop our own products. There is always a risk associated with new products, but lessons learned in a development project can be beneficial in subsequent projects.

Regardless of whether the product becomes a sales success, we have done the groundwork for new challenges and products.”

According to Neiås, future challenges lie in developing the existing operation and creating new business opportunities.

“In the Scandinavian market, smokers provide great business potential as well as new tobacco consumers. Snus also has major potential outside the Scandinavian region. Efforts to cultivate a new market and new target groups include the launch of the new snus products, General and Triumph, in the US. Our goal is that those who use snus will always find the most attractive alternatives in our portfolio.” ✪

The launch of innovative brands as Vertigo and Nick & Johnny is developing the Swedish Match portfolio.



PHOTO: PETER KNUTSON

From left: Johan Cram, Pontus Carlsund and Jonas Jöhnemark

“Our **range** the obvious choice for retailers”

“A prerequisite for healthy sales is that customers and consumers always choose products from the Swedish Match range. A simple and challenging strategy,” says Jonas Jöhnemark, Vice President Customer Development, Swedish Match North Europe Division.

Competition is severe for every inch of shelf space. As a result of intense and determined work, we are expanding our market positions. We are leveraging business opportunities and showing our customers that we accept the competitors’ challenge. Since consumers make rapid choices when they purchase our products, we must continuously develop sales solutions for stores, restaurants and hotels,” Jöhnemark explains.

He believes that strong sales are the result of customers choosing Swedish Match’s snus refrigerators and sales locations because they are modern, attractive and new.

“This demonstrates that we are

doing what is best for the customer and, ultimately, the consumer as well. The time consumers spend at the sales location is brief. The challenge for us is to entice them to purchase more flavor varieties and new products. We listen to the customer’s opinions of the consumer and develop customized solutions for each store and sales location. The excellent relationship with our customers is the key to consumer satisfaction.”

Pontus Carlsund, Product Manager for Trade Marketing, and Johan Cram, Sales Manager for Horeca (sales to hotels, restaurants and cafés) both within the Swedish Match North Europe Division, agree that the sales climate

has become significantly more intense in recent years.

“Our strength lies in our high sales and the fact that stores make money on our products. We intend to continue to be the obvious cooperation partner for our customers. The challenge for us is to balance our offering and to dare to be tough in the low-price segment, while promoting sales of premium products and new launches, such as Vertigo,” says Cram.

This imposes demands on innovative campaign planning and the visibility of smokefree products at the various sales outlets.

“Due to the Swedish tobacco legislation, we must always consider where in the store we are allowed to be visible and remember to communicate with as many snus consumers as possible, while distinctly marketing our various brands. We must adapt our campaign in collaboration with the store. This can involve everything from producing new material to demonstrating the products in an innovative manner,” Carlsund adds.

“We are invigorating the snus category through new sales concepts in hotel and restaurant environments, for example. We are available at new locations and are visible in new ways. Smart sales are about how to create visibility combined with good function. That’s when we provide our customers with the best service,” says Cram. ✪



PHOTO: PELLE LUNDBERG

From left: Marie Lindvall, Kristian Lindfors and Torbjörn Åkesson. Operational development facilitates continuous improvements.



PHOTO: PETER KNUJSSON

Snus varieties **require** production flexibility

Increased competition and an increasingly rapid product launch schedule. The demands are numerous but the snus plants in Sweden are coping brilliantly. The road to success requires first rate operations. BY: KAROLINE HAMMAR

With the right mix of employees, modern technology and the right conditions, there are no limits to what we can achieve. We set distinct production goals. To meet them, we structure the work, create certification procedures for employees and lift the entire organization by working cross-functional,” says Torbjörn Åkesson, Production Director at Swedish Match North Europe Division and responsible for all snus production in the Scandinavian market.

In 2002, we had 22 products. Today, Swedish Match has approximately 180 varieties in its portfolio and launches up to 14 new products per year.

“As competition increases in Scandinavia, so do the demands for an increased pace of product launches and new packaging formats in a rapid and efficient production process.”

This requires continuous development and involves finding a balanced production technology that reduces costs while enabling the management of several types of snus cans.

“In one of our two plants, we have developed a production model that we call the pilot plant, in which we can develop, test and verify new products without major production interruptions. We also shorten lead times,” Åkesson says.

Improved procedures and new work methods are the keys to achieving increased production flexibility.

Focus

“To guarantee quality, one of our new procedures is to continuously follow up on results. It’s all about rapidly identifying a problem, defining it and devising long term solutions” says Kristian Lindfors, Production Manager at the snus plant in Gothenburg.

Improvements must be permanent and communicated throughout the organization so that employees can learn from each other.

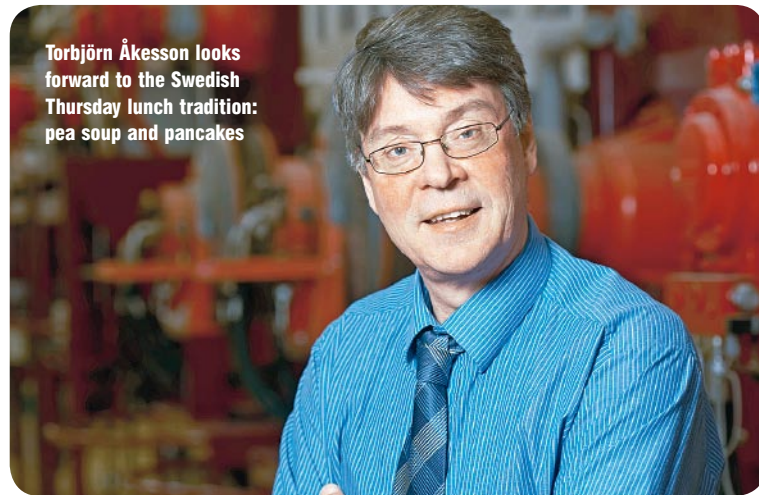
“With an entirely new process for solving problems, we create a positive, unassuming atmosphere in the organization,” says Marie Lindvall, Production Manager at the snus plant in Kungälv.

The results are shorter lead times and production that is easily adaptable to a significantly more mobile market.

“Large scale is a strength in terms of volume, but can be a disadvantage in terms of flexibility. The fact that we have very competent employees is a way of coping with this challenge,” Åkesson explains.

“We recently announced an additional investment for SEK 265 million. By investing in further production infrastructure we continue to lead the way in the snus category. The vision is to create a third generation production model, in which we can manage everything from test products to old, classic brands. Our goal is to supply snus that satisfies the unique demands of all consumers while developing the products of the future. I will not be satisfied until we have an optimally functioning operation and motivated employees who take full responsibility.” ✪

“A good day at work is when I meet employees who have a passion for our operations.”



Torbjörn Åkesson looks forward to the Swedish Thursday lunch tradition: pea soup and pancakes

TORBJÖRN'S THURSDAY AT THE PLANT

- 7.00** Reads the newspaper and e-mails from home. Quick telephone calls.
- 8.00** Arrives at the plant in Gothenburg. Reviews yesterday's results. Checks that material, quality and staffing are under control for the day's production. Everything appears fine.
- 9.00** E-mails and talks to colleagues. Discusses the personnel situation with the production manager.
- 10.00** Operational development meeting with production managers. Checks quality, discusses personnel issues, logistics and purchasing.
- 12.00** Lunch. Torbjörn hopes that the staff restaurant will be serving pea soup and pancakes which is a Swedish Thursday tradition.
- 13.00** Plant management holds group meeting. Reports from quality, supply and finance. Review of plant capacity.
- 15.30** Talks with colleagues, e-mails and makes telephone calls.
- 17.00** Cash Race Relay meeting with controller. Report on the financial strategy. Discussions about investments, manufacturing expenses and depreciation. The goal is to reduce tied-up capital.
- 18.30** Torbjörn is satisfied with the day, switches off the computer and goes home to his family.

PHOTO: PETER KNUTSON

PILOT PLANT

- ✪ is an environment where new products can be developed without affecting traditional production.
- ✪ is used to quality assure a product prior to high-volume production.
- ✪ is aimed at developing new technology to increase flexibility.
- ✪ is best suited for new small-scale launches.
- ✪ enables tests of shortened lead times and fewer interruptions during such tests, and facilitates coping with and adapting new technology.
- ✪ creates a prepared organization.



OPERATIONAL DEVELOPMENT IS A METHOD THAT

- ✪ takes into account employees, the team, management skills and work method.
- ✪ facilitates measuring, defining and analyzing problems, prior to applying management by objectives.
- ✪ is about our attitude towards our work and our behavior.
- ✪ facilitates continuous improvements.

Environment goals important

Swedish Match's snus operations in the Scandinavian market have been environmentally certified in accordance with ISO 14001 since 2003, and the company works actively on achieving environmental goals. BY: KAROLINE HAMMAR

We have an integrated quality and environmental control system based on our operational processes. Since the snus production plants account for most of the Division's energy, water and materials consumption, it is important for us to reduce our environmental impact," says Cecilia Wiksfors, Technology & Quality Manager, Swedish Match North Europe Division.

Environmental awareness has increased sharply among consumers in recent years, and many people are currently talking about the "Al Gore effect." Environmental demands on today's consumer product companies are also increasing.

"There has been a highly significant change in consumer attitudes, and many consumers today make active

climate choices. It's important that we as a company communicate to the general public what we are doing to contribute to a cleaner and greener environment."

Wiksfors also believes that future environmental choices by consumers will impact on business operations, and the challenge now is to ensure that environmental objectives and financial considerations interact in creating satisfactory results for the company.

"We can reduce costs considerably through smart climate actions. By planning our production operations carefully, we reduce tobacco waste. We sort the waste materials, which reduces waste-management costs and



"We can reduce costs considerably through smart climate actions. By planning our production operations carefully, we reduce tobacco waste," says Cecilia Wiksfors.

we minimize our transports through careful logistics planning.

Cecilia considers it important to develop attractive products for today's environmentally aware consumers.

"We're striving to use environment-friendly materials in our packaging. For example, we use recyclable paper in the cardboard boxes, and the plastic we use in plastic boxes has a low chemical content, which generates minimal emissions."

Operating as a climate-smart company is largely a matter of taking small steps in everyday operations. Several years ago, a decision was made to convert to green electricity.

Wiksfors believes environmental goals must be raised continuously.

"We have a strong position compared with many other companies. To become even better, and be able to renew our solutions, we monitor developments in the field of environmental technology and research." ✪

FOTO: PETER KNUTSON

QUALITY AND ENVIRONMENTAL AIMS IN SNUS OPERATIONS

- * To provide consumers with fresh snus with the right properties.
- * To comply with environmental laws.
- * Satisfying the demands of consumers and retailers.

- * Developing cooperation with and imposing demands on suppliers and subcontractors.
- * Gradually changing our utilization of materials, transports and energy to ensure that we meet the conditions for a sustainable society.

A nose for snus

Aroma, flavor and an excellent tobacco balance are the main components used when producing flavors for new tobacco products.

BY: KAROLINE HAMMAR

Eva Sommarström, Project Manager of Product Development, Swedish Match North Europe Division, thinks that the challenge lies in identifying what the consumer wants and then turning them into product characteristics.

“Based on the target group, we weigh up the different aspects that we want to promote with the new product, such as the strength and type of tobacco,” she says.

To create an attractive product, you have to listen to the consumer, who should want to buy the product and be pleased with it.

“Innovation is important, but it is also essential that we nurture our traditional brands so that they meet the expectations for flavor and quality year after year. Our work is a combination of maintaining our strong brands and speeding up the pace of development so that we can reach out to all consumer groups.”

Developing flavors that consumers want, requires a sense for aroma, taste and, not least, market trends.



Eva Sommarström

PHOTO: BO HÅKANSSON

Eva is satisfied when she has created a product that captures the target group’s attention and sells well.

“I like innovation and being at cutting edge,” she says. “It is challenging and enjoyable at the same time. It’s a bit like preparing food, we experiment and create new recipes. And we give the consumer new possibilities.” ✪

“We give the consumer **new possibilities.**”

Product innovations

 <p>OCT 2005 GENERAL ONYX</p>	 <p>DEC 2005 KRONAN PORTION</p>
 <p>FEB 2006 GENERAL MINI WHITE</p>	 <p>FEB 2006 ONICO</p>
 <p>MAY 2006 GÖTEBORGS RAPÉ NO 22</p>	 <p>SEPT 2006 NICK & JOHNNY</p>
 <p>SEPT 2006 ETTAN WHITE PORTION</p>	 <p>NOV 2006 RÖDA LACKET 21 DIFFERENT FORMATS</p>
 <p>DEC 2007 KARDUS SUPERIOR BLEND, HOLIDAY EDITION</p>	 <p>NOV 2007 GENERAL STERK</p>
 <p>DEC 2007 VERTIGO</p>	 <p>MARCH 2008 NICK & JOHNNY IN RECTANGULAR FORMAT</p>

* The list is a selection of product launches by Swedish Match in Scandinavia in recent years.

PHOTO: PETER KNUTSSON



Nina Henriksson

“Design strengthens the brand”

Successful design is a combination of attractive form and good function. Nina Henriksson, Design Engineer at Swedish Match North Europe Division finds inspiration in creating new snus packaging concepts. BY: KAROLINE HAMMAR

What is good design for you?

“There is nothing better than the union of attractive form and good function. It feels great when I see and use a well-designed product. A company that succeeds exceptionally well in this respect is Apple, which works meticulously on product design. The market for Swedish Match snus consists of many target groups, including traditional snus consumers and more modern, trend-sensitive users. For us, good design is a matter of striking a balance that will induce snus consumers to choose our products because they recognize the packaging and design, at the same time as we develop the form and improve the function. This enables us to meet the preferences of our loyal consumers and, simultaneously, to attract new users. Carefully designed snus packaging consists of material that protects the product – and appeals to the consumer.”

Why is design important?

“Due to advertising restrictions in Sweden, packaging design is one of Swedish Match’s primary means of communication. The finished product is what the customer sees, and it’s important to use every dimension to show that it’s a good product that fulfills all requirements in terms of form and function. Good design radiates quality. A consumer does not buy a packaging twice if the packaging isn’t functional. Design is both a competitive tool and a means to be seen and to attract attention.”

What does it communicate?

“Our mission is to strengthen the brand and what it represents. For example, Vertigo, the snus product for women, has a design that appeals to women through its form, color and function and Nick & Johnny is designed primarily for men. The product is strengthened by a innovative packaging design.”



PHOTO: MARKUS MARCETIC

AGM hears leadership aims

We are seeing changed consumption patterns. Our goal is to be the leader in product development and consumer adaptation.” So said Swedish Match President and CEO Sven Hindrikes at the Annual General Meeting of Swedish Match. BY: KAROLINE HAMMAR

This year, the Meeting was held for the first time at Rival in Stockholm. Nearly 500 shareholders participated in the Annual General Meeting and shareholders were welcomed with light refreshments and pleasant music.

SVEN'S ADDRESS IN BRIEF

President Sven Hindrikes commenced his address by stating that Swedish Match could look back on a year in which the strategic focus resulted in continued positive development of the company.

“The year 2007 was a good one for Swedish Match despite the weak start that we noted, which was due to hoarding resulting from tax increases on snus in Sweden. Sales during the year totaled 12,551 MSEK, down 2.8 percent, and operating profit amounted to 2,997 MSEK. However,

consolidated sales during the fourth quarter of 2007 were the highest ever at Swedish Match, which is confirmation that our growth enhancement measures and investments have generated positive results.

“We have a strong position in Scandinavia, with growing markets in Norway and in the tax-free area. In the US, we are well positioned in a strongly growing market. We see a stable trend within premium cigars and we are the largest player in the US tobacco market. We launched several products in the European market to secure organic growth. Examples include Moments, Heeren van Ruysdal Limited Edition and Hajenius de Dam.”

Sven Hindrikes also gave his view of Swedish Match's future:

“We will continue to invest in the

categories offering the greatest growth potential, namely snus and cigars, and primarily by focusing on product development, new launches and a more consumer-focused product portfolio. Today, Swedish Match is a global Group with high profitability, an excellent product portfolio, efficient management and, above all, competent and loyal employees.”

QUESTIONS AND AGM ITEMS

During the question period, questions were asked about Swedish Match's share performance, the effects of Swedish tax on snus and the company's position regarding the relative health benefits of Swedish snus. What conclusions can be drawn from the fact that snus is still banned in Europe?

“The tobacco industry is characterized by regulations and the sales ban

on snus within the EU remains. In February this year, the EU's scientific committee presented an evaluation that clearly supports the relative health benefits of snus compared with cigarettes. There are no longer any scientific grounds for maintaining the sales ban on snus. Sweden has long been the pioneer country in terms of reducing tobacco-related illnesses, in which the switch from cigarettes to snus has played an important role. In Sweden, we currently have a proportion of smokers that is among the lowest in the world," Hindrikes explained.

As regards the issue of tax on snus, Sven Hindrikes responded that it was most unfortunate that the Swedish government has again decided to increase tax on snus in Sweden. However, it is clear that it is only a financial measure and, as the next general election draws near, hopefully the increases of taxes will diminish.

In response to the question concerning Swedish Match share performance, Sven Hindrikes said: "In the past five years, the share has performed favorably and increased in line with Affärsvärlden's general index. During 2007, we saw the share price rise by 20 percent, clearly outperforming the index during the same period. Of course, the trend can vary from one period to the next but, over time, the Swedish Match share has performed very satisfactorily. Four years ago, when I took over as President, the share was valued at SEK 70 and today the price is SEK 130." Following the President's address and question period, the Annual General Meeting continued with the agenda. The Meeting approved all the motions presented by the Board and Nominating Committee. The Meeting also approved a dividend of SEK 3.50 per share.

Board members Charles A Blixt,

Andrew Cripps, Arne Jurbrant, Conny Karlsson, Kersti Strandqvist and Meg Tivéus were re-elected. Karen Guerra was elected as new member of the Board. Conny Karlsson was re-elected as Chairman of the Board and Andrew Cripps was elected Deputy Chairman.

The Annual General Meeting concluded with Chairman of the Board Conny Karlsson thanking the departing President Sven Hindrikes for the four very meritorious years he has spent at the helm of Swedish Match. The Board of Directors is now working to find a suitable replacement. ✪

"In the US, we are well positioned in a strongly developing market."



Shareholders and Board members were welcomed with light refreshments and pleasant music.

FOTO: MARKUS MARCETIC

The quarter in brief

Stable **growth** in the US

The trend in the snus product area was very strong in the first quarter of 2008. We noted significant profitability improvements in the Scandinavian market and in the US the nationwide launch of Red Man accounted for a sharp upswing in volume. Although the US cigar operations reported a weak first quarter, we expect an improvement in both sales and operating profit during the remainder of the year.”

In local currencies, net sales increased ten percent during the first quarter of 2008, compared with the first quarter of 2007.

First-quarter net sales rose six percent to 2,818 MSEK (2,663), with currency translation having a negative impact of 100 MSEK on net sales during the quarter.

For the snus product area, net sales increased 24 percent during the first quarter to 821 MSEK (662) and operating profit rose 38 percent to 318 MSEK (231). Sales of snus in Scandinavia increased 32 percent compared with the year-earlier period. Sales volumes rose, because the negative effects of hoarding in Sweden were not as noticeable during 2008. Sales of snuff in North America rose 21 percent in local currency, as a result of strong volume growth.

During the first quarter, net sales for the cigars product area totaled 757 MSEK (735), while operating profit

amounted to 112 MSEK (164). In local currency, net sales of cigars increased in both the US and Europe, as a result of acquired operations. The operating margin for cigars was 14.8 percent (22.3). The main reason for the decrease in operating profit and the operating margin was the weak start to the year noted for premium cigars in the US.

Consolidated first-quarter operating profit increased two percent to 543 MSEK (534). In local currency, operating profit rose by six percent. Currency translation had a negative impact of 21 MSEK on operating profit.

The operating margin for the first quarter was 19.3 percent, compared with 20.0 percent for the first quarter of 2007.

EPS (basic) for the first quarter amounted to 1.34 SEK (1.23). Diluted EPS for the first quarter amounted to 1.33 SEK (1.22). ⚙



PHOTO: PETER KNUTSON

“In local currencies, net sales increased ten percent.”

3 analyst comments

1 **Henrik Fröjd, analyst Kaupthing Bank:** “The market has underestimated the launching costs for Red Man in the United States and the company’s total indebtedness is relatively high, which limits opportunities to buy back shares in the near future. However, there is no cause

for concern, and the operations are moving along nicely. The launch in the US is of tremendous long-term importance, and the best way to build business is to launch products in that market. The US is a dynamic market, offering enormous growth potential. The company’s global snus operations are extremely interesting and have all the prerequisites for becoming really successful.”

2 **Jonathan Fell, analyst Deutsche Bank:** “Business is generally performing well although Q1 earnings were a bit lower than expected. It was difficult to forecast the impact of volumes in Sweden and the drop in cigar sales in the US. Sa-

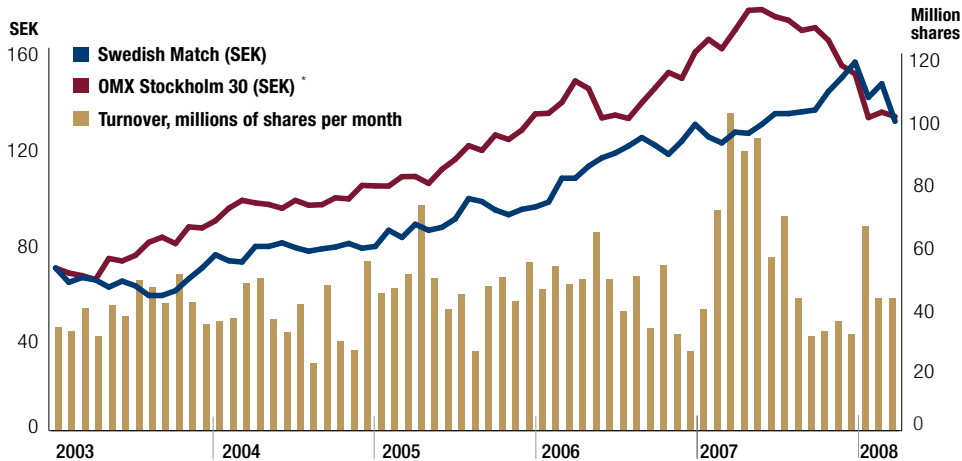
Increased dividend to shareholders

Between December 31, 2007 and March 31, 2008, the share price of Swedish Match declined by 16 percent, to a level of 129,50 SEK. During the same period, the OMXS30 index of the 30 largest Swedish listed companies, declined by 12 percent. Over the

12 month period to March 31st, the Swedish Match share has significantly outperformed the OMXS30. During this 12 month period, the index declined by 22 percent, while the Swedish Match share price grew by nearly 4 percent, demonstrating the defensive charac-

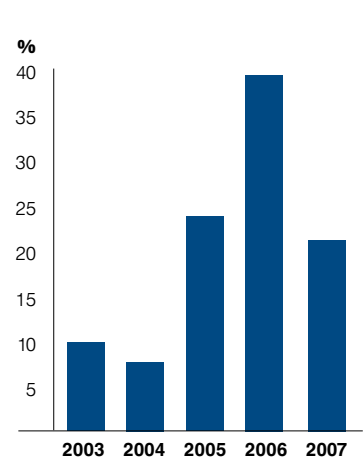
teristics of the Swedish Match share. The Swedish Match Annual General Meeting held on April 22, announced its decision to increase the dividend for the 2007 fiscal year to 3.50 SEK per share payable on April 30, 2008.

Share price and turnover

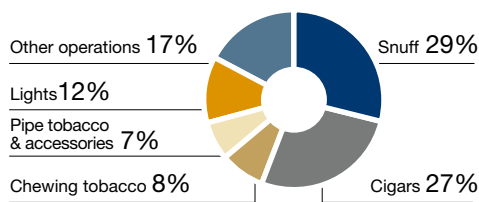


* Indexed to the initial Swedish Match share price on this graph.

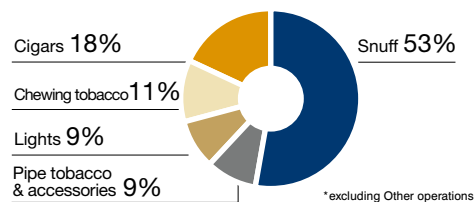
Total return



NET SALES JANUARY-MARCH 2008



OPERATING PROFIT OCT-DEC 2008*



MSEK	Jan-March 2008	Jan-March 2007	Full-year 2007
Net sales	2 818	2 663	12 551
Operation profit	543	534	2 997
Income before tax	427	468	2 662
Net income	341	332	2 056
Earnings per share, SEK	1:34	1:23	7:82

les were on the whole on target but margins were lower due to costs associated with the roll-out of Red Man and a weaker premium cigar result. Ahead it's important to ensure that Red Man in the US grows, and that the profitability in Sweden, where is fine balance between pricing and market share to handle, is defended."

3

Anders Hansson, analyst Danske Bank: Although earnings from cigars and snus were weaker, there were good explanations. The margin on snus was weighed down by launch costs in the US, where it is difficult to calculate

the distribution between the various quarters. It is impressive to note a 24-percent increase in the price mix in Scandinavia, despite growth in the share of value-priced snus. While earnings from cigars were temporarily weaker, due to high costs and delivery delays, we will see a distinct improvement during the remainder of the year.

Portrait

“I am inspired by challenges”

Karen Guerra, an internationally experienced company manager with more than 20 years in leading positions within Colgate-Palmolive, is now a board member at Swedish Match. BY: LOTTA ÖRTNÄS

When Guerra turned 50 two years ago, she began her life's second career, switching from her role as President and General Manager for Colgate-Palmolive in France to being an adviser for several different companies. At the same time, she moved her entire family from Paris to Avignon in southern France.

“It was a very conscious decision,” she says. “I'd been working for a long time in operational management roles and felt it was time for new challenges. It is refreshing and instructive to work in a more strategic role and with many different companies, as I'm doing now.”

As well as a board member for Swedish Match, Guerra is a non-executive director of Inchcape PLC, a leading retail company within the automobile industry with operations all over the world, and an adviser to the RAC motoring organization in the UK and France.

An international perspective runs like a common thread through both Guerra's professional career and her private life. She was born in the UK, but has worked with many countries across Europe. Her husband, who comes from Portugal, has lived and

works internationally, and her son is fluent in English and French.

“You have to have respect for and understand different cultures when you work internationally,” she says. “I think culture management is extremely exciting, as is working with cultural changes. Being appointed as a British President and General Manager for the American Colgate-Palmolive Group in France – when I didn't even speak French to begin with – was a huge cultural challenge.”

Guerra dealt with that by learning the language and also moved her entire family to Paris, where her son started in a French school. The employees saw that Karen Guerra was there to stay and that she was making an effort to understand the business and the culture.

After more than 20 years with Colgate-Palmolive, and at international groups such as PepsiCo International, Guerra has a lot of experience of fast-moving consumer goods and brand development.

“As a board member, I like to contribute with my experience of how to develop and grow global brands. Another area where I've worked a lot is commercial effectiveness via cross functional and multicultural teams. For my part, it

will be exciting to get to know a new industry, Swedish Match and in turn, Scandinavian culture.

“I am inspired by challenges. The biggest professional challenge I have had so far was turning round the fortunes of Colgate-Palmolive in the UK, from being one of the least profitable markets in the group to one of the most profitable. The biggest private challenge was when I had four children in the space of five years: first our son and just after that three teenage stepchildren who moved from the US to be with us. It was at least as big a challenge as running a company.”

KAREN GUERRA

BORN: North London, UK, 1956.

FAMILY: Husband, a son and three stepchildren.

LIVES: Near Avignon in the south of France.

WHERE ARE YOUR ROOTS? In London.

WHAT DO YOU DO IN YOUR FREE TIME? I run most mornings with our dog, practice Iyengar Yoga, and I love cooking.

WHAT IS YOUR FAVORITE PLACE? I have to choose two: central London and Provence in France.

BEST TRAVEL EXPERIENCE: All my trips in Europe. Now that we live in Avignon, we have close access to many fantastic places in several countries.

DREAMS I WANT TO FULFILL: One of them is to build my own house, and another is to do a course in interior design.



FOTO: PETER KNUJTSON

“Give snus a chance”

Less than 1.5 percent of the 107 million smokers in the EU have access to viable, pragmatic and consumer friendly alternatives to their cigarettes. They are simply left behind with a very challenging dilemma; quit or die. Unfortunately for those (for the overwhelming majority) who don't view premature death as an option, the alternatives available just don't seem to work that well. Hotlines, seminars, hypnosis, acupuncture, sprays and inhalers have not yet demonstrated a reliable success rate. According to the Euro Barometer 2007 (no. 272) almost one third of all adult smokers in the EU have tried to give up cigarette smoking during the last twelve months – and three percent of them basically quit every month. It is just not fair.

What do we tell the cigarette smokers that constantly try to quit in Greece, UK, Italy, Belgium, France and all other member states that report smoking rates well above 30

→
“Sound regulation preserves the integrity of the EU free trade principle”
←

percent? Keep the dream alive?

In all fairness and even though cigarette smokers in Sweden enjoy the luxury of the availability of snus, contrary to their counterparts in the other member states, snus is not the answer for everyone. But snus plays an important role which is reflected in the Swedish public health statistics. No country in Europe reports smoking rates below 20 percent, besides Sweden which has less than 15 percent. Swedish National

Board of Health and Welfare (Socialstyrelsen) concluded a few years ago that the unique tobacco consumption pattern in Sweden has had positive public health consequences. And finally, this insight seems to have reached Brussels as well.

In fact, one of the scientific committees of the European Commission, the Scientific Committee of Emerging and Newly Identified Health Risks (SCENIHR), recently also reached that conclusion including that Swedish snus use is not a risk factor for oral cancer and is not a significant predictor of future smoking (the so-called gateway hypothesis).

Swedish snus was originally prohibited in 1992 in the EU due to a perception that the product was considered to be a major risk factor as regards to cancer and particularly attractive to young people (since snus was regarded as the gateway to smoking). Little did the EU policymakers know about Snus at that time and Sweden did not have a saying in the matter since it acceded to the EU three years later. In 2001, however, the EU decided to replace the mandatory cancer warning on all snus cans with a more general one that better reflected the established health risks.

If common sense prevails – and it usually does – the current EU ban will be replaced with a sound and fair product regulation that recognizes the variety of tobacco products and thus its various health effects. The health rationale behind the Swedish snus prohibition does not exist anymore. And a sound product regulation would also preserve the integrity of one of the founding principles of the Union, free trade, which still remains as a cornerstone.

But it may still take some time. As Winston Churchill phrased it; “*It is very easy for someone to just make up a claim, and for others to repeat it, while to compile the evidence and careful argument to show it is wrong is very difficult*”.



PATRIK HILDINGSON

Title: Vice President Public Affairs within Swedish Match AB

Age: 40

Lives: In Richmond, USA but will move to Brussels this summer

Family: Lykke 18 months, Viggo 3 and a half years, and wife Anna

Works with: Public relations, decision makers in society and other groups that might have an interest in our product category.

On top of the agenda:

The introduction of Swedish Snus in the US, and the opening of an Swedish Match office in Brussels.



BORKUM RIFF PURE BLEND

During the spring, Borkum Riff Pure Blend, a new cigarillo for markets in Asia and Eastern Europe, will be launched. It has a genuine tobacco taste without flavoring, a wooden tip and is sold in an elegant metal box of ten cigarillos.

CRICKET FIREPOWER WITH LOCAL BRANDS

In May, the popular universal lighter, Cricket Firepower, will be launched under the Sampo brand in Finland and the Solstickan brand in Sweden. This is a phase in Swedish Match's efforts to collect all lighter products under the leading brand in each country, and based on a similar design in all markets.



LIMITED EDITION PUNCH RARE COROJO

A limited edition of Punch Rare Corojo Cigars make annual return to retail. With sufficient wrapper leaf for another limited return in 2008, the annual allotment of Punch Rare Corojo cigars will be available while supplies last, at tobacconists throughout the U.S. The Honduran cigars are made with a rare, lustrous Ecuadorian Sumatra wrapper and their return to retail is highly anticipated.



NEW CIGAR FROM DON TOMÁS

Don Tomás Classico is now being launched in the new Toro format. The Don Tomás brand is one of the finest to be manufactured in Honduras.



FRESH CIGARS

FoilFresh is a new packaging solution that keeps cigars fresh even longer. Swedish Match developed the new foil packaging and has been using it since the beginning of the year for the popular machine-rolled Game cigars, under the brands Garcia y Vega and White Owl in the US market.



PHOTO: MAGNUS FOND

Punch Gran Puro Sesenta

The hand-rolled cigar, Punch, has now launched the new Punch Gran Puro Sesenta. This is the seventh format in the popular cigar series, which is manufactured in Honduras.

BY: KAROLINE HAMMAR

“Punch Gran Puro is a top-selling, all-Honduran cigar favored by premium cigar smokers for its uniquely rich and complex taste. In response to consumer trends indicating a preference for cigars in larger ring gauges, we developed Sesenta, the largest Punch Gran Puro cigar released to date. We are confident that this exciting new product will be a fast-selling addition to the line,” says Rick Chandler, Director Marketing Cigar & Pipe Tobacco, North America Division.