

inside #4

NOVEMBER
2008

☆☆☆
SWEDISH MATCH

QUALITY
HALLMARK OF
CIGAR MAKING

MODESTA FONDEUR
A CIGAR LOVING LADY

7 NEW WONDERS

FOCUS ON NORTH AMERICA

TERRELL, DARRAH AND ELIADES

– ON A MISSION FOR SNUS

PLUS! DEDICATION IMPROVES ENVIRONMENTAL HEALTH

A record-strong quarter

Our recently published results confirm a strong performance in all our product areas. Our snus products continue to deliver strong growth in Scandinavia and the US, and our successfully launched Red Man moist snuff product is now available throughout the US market. Several new products have been launched in Scandinavia, including General Extra Sterk in Norway, a great snus experience that has been well received by our consumers.

The cigar segment has held up well despite some challenging market conditions for European cigars and for premium cigars in the US. New innovative products have been launched in these markets, such as Macanudo 1968 in the US, a rich tobacco experience. You can read more about this new cigar on page 24. For the other product areas, Lights, Chewing Tobacco and Pipe Tobacco, we have delivered a solid performance and strong earnings.

Financially, Swedish Match remains strong despite the prevailing global financial crisis. We maintain good liquidity and loan maturities are limited this year and next. In these turbulent times it is more important than ever to maintain a solid financial position.

In September, the Royal Colleges of

Physicians in the UK presented a report indicating that smokefree products have a role to play in the battle against harmful cigarette smoking. It is particularly interesting that another EU country has presented such findings and demonstrates, once again, how preposterous the EU ban on snus is. Snus plays an important role for the Swedish public health, and personally, I am convinced that snus has played a vital role for the exceptionally low incidence of tobacco-related illnesses among Swedish men compared to other Western countries. This has also been established by the National Swedish Board of Health and Welfare in its public health report of 2005. We have every reason to be proud of our Swedish snus!

Our North American operations, which account for approximately 30 percent of the Group's sales, will be presented in greater detail in this issue. We will describe how we view our future developments for smoke-free products and cigars. You will also meet Modesta Fondeur, Cigar Master in the Dominican Republic, with 35 years in the industry.

Happy reading!

Lars Dahlgren
President and CEO of Swedish Match



PHOTO: MAGNUS FONDB

NO. 4, 2008

Swedish Match Inside is a magazine for Swedish Match shareholders, employees and other interested parties. A total of 50,000 copies are published in Swedish and 6,000 in English.

PUBLISHER
Swedish Match AB

RESPONSIBLE UNDER LAW
Henrik Brehmer, Swedish Match AB

EDITOR-IN-CHIEF
Annette Kaunitz, Swedish Match AB

PRODUCTION
Karoline Hammar, Swedish Match AB

ART DIRECTOR
Tom Sörhuus, Citat Journalistgruppen AB

COVER PHOTO
Chip Mitchell

REPRODUCTION
Bildrepro

PRINTING
Intellecta Tryckindustri

Swedish Match AB
S-118 85 Stockholm
Tel: +46 8 658 02 00
www.swedishmatch.com
inside@swedishmatch.com

☆☆☆ 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 INDBERG

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PHOTO: CHIP MITCHELL



PHOTO: JERRY LINDAHL

PHOTO: MAGNUS FOND



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Tobacco museum ready to **reopen**

In November, the doors will open to a renovated and cultural-historically restored tobacco and match museum. The inauguration will be performed by Swedish Match President Lars Dahlgren and Johan Brattmyr, Director of the Skansen Open-air Museum, during a ceremony featuring a brass band and a large amount of pomp.

In addition to renovation of the building, the manufacturing plant will be in full operation. Museum curator Inga Junhem is pleased:

“We have reviewed and renewed our exhibitions and added new concepts in which we have placed tobacco in the context of enjoyment. Coffee, chocolate and tobacco have similar histories. By linking them, in part through collaboration with the museum restaurant, we hope to



provide visitors with inspiring taste experiences. In future, we will also have cigar tasting at the museum,” says Inga Junhem.



Unscientific snus debate in **Norway**

According to Norwegian media, the Public Health Authorities wants to reintroduce a cancer warning for Swedish snus. The background is a recently published report indicating that Swedish snus can cause cancer in both the oesophagus and the pancreas. Patrik Hildingsson, Vice President, Swedish Match Group Public Affairs, believes that there is no scientific evidence that supports a reintroduction of the cancer warning for snus, a conclusion that the EU already reached in 2001. At that time, the cancer warning was replaced by a more general warning text.

“This type of disinformation makes it difficult for the more than 100 million smokers in the EU who are seeking a sensible alternative to cigarettes,” says Patrik Hildingsson. “The report has been criticized in scientific literature due to its methodological weaknesses. In addition, its assertions are not supported by public health statistics. The incidence of these cancer types among Swedish men is among the lowest in the world, and they are the only men in the world who have used snus on a broader scale over the past 200 years.”

EU’s SCENHIR report 2008, concluded that snus has a positive effect on Swedish public health.

Read more at www.swedishmatch.com.

Final for General Golf



General Golf is Swedish Match’s golf tournament in which the Swedish sales force invite customers to play together with professional golfer Fredrik Jacobsson. The tournament takes place on five Swedish courses, and the final was held at Bro Hof Castle, outside Stockholm. The competition days began with a joint dinner at which Fredrik Jacobsson spoke about life on the PGA Tour.

Swedish Match has had a sponsorship agreement with Fredrik Jacobsson since 2004. His tournaments include competitions on both the PGA Tour and the European Tour. During the 2003 European Tour, he won the Omega Hong Kong Open, Algarve Open de Portugal and Volvo Masters.

Contact us!

Mail to inside@swedishmatch.com or write to: Swedish Match AB, Inside, SE-118 85 Stockholm, Sweden

FOCUS. Swedish Match has enjoyed a number of successes over the past year – proving the viability of the Group’s long-term strategies. Swedish Match Inside provides in-depth insight on the strategies for continued growth and profitability. In this issue we take a deeper look at the US market.



Swedish Match North America Division has substantial businesses in the strategically important cigar and snuff product areas. Other product areas such as chewing and pipe tobacco provide strong cash flows and support the division’s efforts. PHOTO: MAGNUS FOND





NEW PRODUCTS AND INCREASED SALES DRIVING GROWTH

“We have had ten years of success and when looking at the financials, we have increased operating income almost four times over the past decade,” says Lennart Freeman, President, Swedish Match North America Division.

BY: KAROLINE HAMMAR

To be as successful over the next ten years there is hard work ahead. Despite a declining world economy, increasing tobacco regulations and a tough market environment, Freeman is convinced that Swedish Match will continue to successfully drive innovation and increase sales in the North American market.

“With the existing conditions in the US, sales of luxury goods, such as premium cigars, are not doing as well as before,” he says. “Tobacco regulations and the ongoing debate about the health risks in using tobacco products are challenges we have to address. This tests our innovative and entrepreneurial skills, which means we have to find ways to turn tough market challenges

into profitable business opportunities.” Freeman nevertheless describes the market as dynamic and concludes that new segments are constantly growing.

EXPANDING STRONG BRANDS

“The snuff area is growing rapidly,” he says. “Over the past several years the US moist snuff market has grown by more than six percent per year. So far in 2008, ACNielsen estimates market growth to be in the range of seven percent with the value-priced and pouch segments delivering the strongest growth. More consumers are entering this category, including those having, or trying to, quit smoking. A broad range of brands, products and attractive pricing have further fuelled the market growth.”

In the US market, the moist snuff product Red Man was launched in 2007. As the number one brand of chewing tobacco, Red Man has strong recognition among smokefree tobacco consumers in the US. Expanding the brand to include the moist snuff category provides access to the strong brand values that Red Man represents: quality, heritage and tradition. There is also an increased interest in the US for Swedish snus. In 2007, test sales of the Swedish brand General expanded and increased its presence in New York, California and Texas.

“We expect continued growth in the moist snuff area due to smoking bans and increased understanding of the concept of harm reduction,” Freeman says. “When the message

This is North America:

Geographical scope: The North American market comprises the US and Canada.

Product areas: Cigars, moist snuff, chewing tobacco, as well as pipe tobacco and accessories.

Major brands: Premium cigars: Macanudo, Partagas, Punch, Hoyo de Monterrey, Cohiba, La Gloria Cubana, Don Tomas and Helix. Machine-made cigars: Garcia y Vega, Game by Garcia y Vega and White Owl. Snuff and snus: The traditional American moist snuff Timber Wolf, Longhorn and Red Man. In 2007, test sales of the Swedish snus General expanded and it

increased its presence across the US. Chewing tobacco: Red Man. Pipe Tobacco: Half and Half.

Production units: Premium cigars are manufactured in the Dominican Republic and Honduras. Machine-made cigars are produced in Dothan, Alabama. Moist snuff and chewing tobacco are manufactured in Owensboro, Kentucky. The Swedish snus products are manufactured in Scandinavia.

Market in figures: About two-thirds of the premium-cigar production is sold in the US. The US is the world’s largest moist-snuff market with a consumption of more than 1.1 billion cans during 2007. In the last four years, the moist-snuff market has grown more than 6 percent annually.

Source: ACNielsen



PHOTO: CHIP MITCHELL

of relative low health risks associated with smokeless products is fully understood, the market will be enormous.”

ADAPTABLE ORGANIZATION

Consumer dynamics are different in the moist snuff category and the consumers tend to be more conservative than in, for example, the cigar category.

“We have a very strong position in

the premium cigar segment,” Freeman says. “The number of new players entering the markets are increasing, which challenges us to offer a broad selection that attracts our consumers. The cigar category is more of a fashion industry; the consumer appreciates different flavors, new packaging and innovative formats. The volume will always be smaller, especially in the premium segment, it is a lifestyle product of higher value. The

competition is fierce in this category and makes it harder to compete.”

Compared to other large international tobacco companies, Swedish Match is a rather small player on the US market. However, Freeman sees competitive advantages.

“It is not as easy for large corporations to have flexible production, marketing, sales and administration as it might be for smaller companies,” he says. “We are innovative and can easily adapt our efforts, including production, which has especially shown in the category of machine-made cigars. We have an organization with efficient decision processes and thanks to our size, we can more easily adapt to the market and its changing consumer demands.”

Other important success factors, Freeman says, include having the right people in the right places with passion for the business, and a good leadership. “I am proud to say, we have some of the best people in the industry although we are a smaller player in the US market,” he says.

Some of the big tobacco companies have entered the snuff market and are showing strong decisiveness in developing the smokefree category. This is one of the reasons for the joint venture with American tobacco company Lorillard. The venture aims to make Swedish Match products more visible to consumers on the market. A new Swedish snus called Triumph can now be purchased from retailers’ cigarette shelves, which will make snus more visible and accessible to both cigarette consumers and new snus consumers.

“To go forward, we have to follow our consumers, stay focused, be innovative about our strong brands and keep refining our business model from year to year. That’s how we will drive profitable growth through new offerings,” Freeman concludes. ✪



From left: Steve Terrell, Clark Darrah and Elliot Eliades agree that as competition evolves Swedish Match is inspired to move forward.

INNOVATION AT THE FOREFRONT

The United States is the world's largest market for smokeless tobacco, with annual consumption of more than 1.1 billion cans. Smokeless tobacco continues to be one of the fastest growing consumer packaged goods categories in the US with volume growth of more than five percent per year over the past several years. BY: SANDY FOWLER-JONES

PHOTO: CHIP MITCHELL



“**Consumers get premium taste at an affordable price**”

snuff was viewed by many as a product that had a limited growth potential, catering primarily to rural and blue collar consumers. “Several attempts were made to enter the moist snuff category by many

→ **T**he competitive landscape for moist snuff has changed over the past several years with two of the largest US cigarette manufacturers, Altria and RJ Reynolds, entering the category.

Swedish Match is a strong competitor in this fast growing market, and has been gaining market share, from eleven percent to be roughly 12 percent* in volume terms since September 2007. The team leading growth and product development for the North America Division includes Clark Darrah, Director of Marketing for Smokeless Tobacco, Steve Terrell, Product Development Scientist, and Elliot Eliades, Director of New Products and Innovation.

All three agree that as competition evolves, Swedish Match has the tools in place to effectively move forward in this changing, dynamic marketplace.

Prior to 1980, American moist

tobacco companies. But due to extremely strong brand loyalty, most attempts failed,” Steve Terrell says.

In 1994, Swedish Match North America launched Timber Wolf snuff with a value priced proposition. Consumers could finally get a premium taste at a more affordable price.

ACCELERATED GROWTH

By 2006, the moist snuff category was experiencing accelerated growth reaching more than ten percent, led by the rapid expansion of the value priced segment. Since 2005 the value price segments have accounted for 89 percent of the total growth in the snuff category. Eliades also notes

“**Smoking bans contribute to growth in the snuff category**”



* Source: ACNielsen



Focus North America



“Snus presents a great opportunity for us”

in the US, with several tobacco companies introducing snus or 'snus-like' products. Snus presents a great opportunity for us,” Eliades says.

Terrell agrees: “No other tobacco company is better poised to capitalize on the US snus market than Swedish Match. There are several

that: “A proliferation of smoking bans as well as higher tax rates on cigarettes contribute to the growth as cigarette smokers migrate to the category.”

The growth of moist snuff should continue as consumers look for alternatives to cigarette smoking and have the opportunity to enjoy the existing and new products in the moist snuff category, according to Darrah. “Currently, we have approximately 12 percent of the US snuff market. Our objective, however, is to see both short-term and long-term share growth. We are clearly headed in the right direction. In several states we have market shares of 15 percent or more.”

“The current economic conditions in the US favor continued growth in the value priced segments and Swedish Match North America has the momentum. We are well positioned to leverage opportunities,” says Darrah.

Over the past two and a half years, Swedish Match share on the North American market has grown by more than two percentage points, achieving new all-time highs.

SNUS - A GROWING TREND

Innovation has always been at the forefront of the marketing strategy for Swedish Match.

“We have created the value price segment with Timber Wolf, developed the fast growing price brand with Longhorn and is redefining the premium price snuff segment by offering a Red Man moist snuff, a premium brand at a respectable price. Most recently, snus has become a growing trend

key factors for success in terms of development and growth. We must challenge ourselves to create innovative snus products for the US markets. The product development groups within North America and North Europe have a long and strong relationship and this teamwork is vital to successful snus products in the US.”

INNOVATION TO MEET UNIQUE NEEDS

Swedish Match North America faces strong competition by well-financed competitors. However, Terrell and Eliades agree Swedish Match is the original snus and is the sole reason for the ‘Swedish Experience’ because it is a sensible alternative to cigarettes and other smoking products, foremost because it does not deliver toxic pyrolysis products.

“We will leverage this unique quality in the US,” they say. As Swedish Match North America looks to the future the major growth drivers will be continued organic growth and significant new product innovations targeted to meet the unique needs of smokers and current smokeless consumers. Swedish Match is well positioned to successfully compete.

“We have a comprehensive understanding of tobacco consumers. This gives us a clear advantage as we look to optimize our snus offerings in the marketplace. As the manufacturer of snus, we see continued opportunity to provide consumers with less harmful alternative tobacco products,” Eliades says. ★





INFORMATION BRINGS ADVANTAGES

Gary Poehlmann, Vice President Sales, Swedish Match North America Division, stresses the need of business intelligence: "The data we have at our disposal provides us with the business intelligence we need to make good decisions in deploying our resources. Moreover it enables us to distinguish ourselves with a competitive advantage when we are working with customers."

BY: KAROLINE HAMMAR

Multiple data sources provide Poehlmann and his team the ability to identify specific opportunities by geography, brand, chain group, and individual stores.

"Our database includes information on 166,000 stores. We know how many cans of snuff each store sells and have developed a routing system for our sales representatives that target the highest volume stores. From there, we establish distribution goals for our brands, and track and measure our progress against those goals. That same data serves as the foundation for our category management activities, where we are the leader in providing other tobacco products category-expertise to our customers."

INVEST TO ENHANCE LEADING POSITION

The competitive nature of the smokefree business in the US is increasing as cigarette consumption continues to decline and consumers are gravitating toward other alternatives. Snuff sales are growing at accelerated rates year on year.

"The continued robust growth of the snuff category here has encouraged nearly all tobacco companies to want a piece of the action, including the large cigarette companies. This requires that we sharpen our skills even further, and continue to invest in the technology and training needed to stay ahead of the pack. Toward that end, we

recently introduced a faster and more efficient version of our trademarked category management process, and next year we will roll out other new software and hardware to the sales team. We also have a new online learning management system which provides an easy and efficient way to conduct training courses."

PREPARED FOR THE FUTURE

When it comes to the challenges ahead, Poehlmann is very clear about what he thinks Swedish Match biggest advantage and asset is.

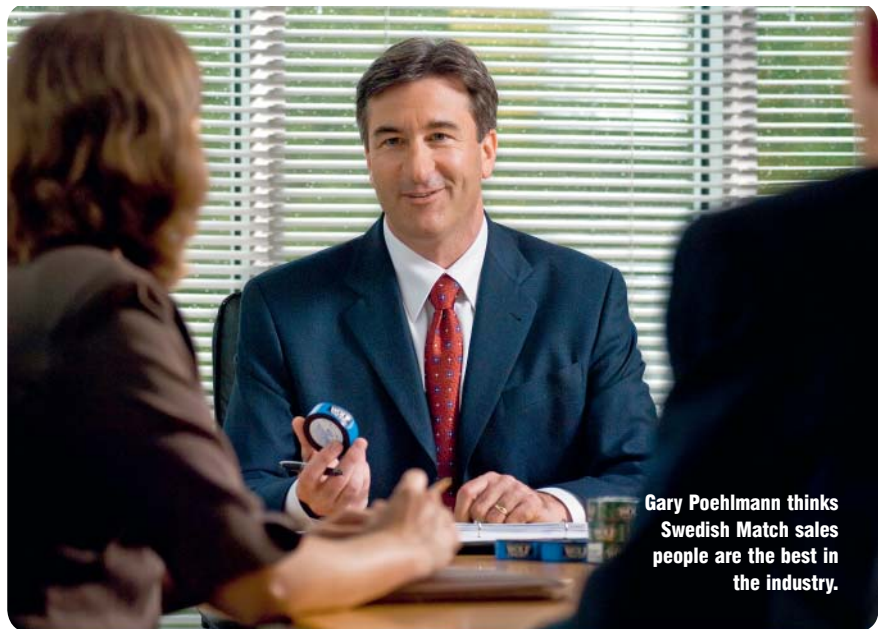
"Our salespeople are simply the best in the business. All the data in the world won't get you anywhere without talented and dedicated employees. The personal relationships and trust they have built with our largest customers and individual

store owners is something I'm very proud of. Add to this our strong leadership and excellent brands, and I'm very confident that we are well prepared for the future." ✪

Facts

SALES NORTH AMERICA

- Four regional offices across the US and a national accounts team based in Richmond.
- The sales organization is divided into account teams who handle distributors and chain groups such as McLane and 7-Eleven, and retail teams who focus on retail store activities.
- The sales force has 396 employees and 254 of them are territory representatives.



Gary Poehlmann thinks Swedish Match sales people are the best in the industry.

PHOTO: CHIP MITCHELL



SMARTER, BETTER AND MORE EFFICIENT

Rusty Warnick, Vice President Operations & Supply, Swedish Match North America Division, says factories must constantly re-evaluate processes to find new ways to compete effectively in a powerful dynamic industry.

BY: KAROLINE HAMMAR

“We must continuously search for innovative streamlined processes,” he says. “Our ultimate goal is to set customer expectations at levels that are difficult for our competitors to meet.”

Swedish Match North America has three plants: Owensboro in Kentucky, Dothan in Alabama and Santiago in the Dominican Republic. All three plants have demand driven production and are continuously working to improve flexibility.

“Each plant has tremendously dedicated workforces who take pride in the products they produce. However, the industry challenges are immense. Economic fluctuations, the possibility of the US government requiring the Food and Drug Administration to regulate tobacco, and increased competition with cigarette manufacturers entering the category are some of the challenges we face. Therefore we are constantly finding ways to improve our operations in production, product management, customer support, inventory and warehouse procedures, in order to gain a competitive edge.”

Efforts in the Owensboro plant have been made to create a demand driven manufacturing.

“By driving leaner inventory levels and adopting efficient pull manufacturing processes, we are guaranteed to have the right product at the right time,” Warnick says. Lower inventory levels also mean lower working capital.

In addition, Owensboro will also

produce all the chewing tobacco for the tobacco company National Tobacco in a co-packing agreement, beginning in 2009. This will allow for increases to chewing tobacco volumes on production lines that have seen steady declines over the years.

Dothan’s strength is in its versatile workforce which is focused on innovation. A spirit of resourcefulness exists at the plant which encourages creativity. One example is the way employees reduced costs through development of special equipment from concept to implementation. In addition the Dothan plant has been successful with its work on the new Cigarillo foil pouches.

“Santiago’s highly motivated workforce focuses on becoming more efficient by learning new ways to improve work processes. We reduce waste, and at the same time we do production quickly and at a lower cost. At all of the plants there is a new mindset where we switch from being reactive to being responsive and proactive. At the end of the day the employees’ commitment to excellence is in alignment with our company values.”



PHOTO: CHIP MITCHELL



“Each plant has dedicated work force who take pride in the production”



Facts

OWENSBORO FACTORY

- The Owensboro factory was built in 1972.
- The facility produces products in three major groups: chewing tobacco, snuff and pipe tobacco.
- The Quality and Environmental Management Systems are ISO certified.
- The factory has 222 employees.
- Owensboro is located 120 miles west of Louisville, Kentucky.

DOTHAN FACTORY

- The Dothan factory was built in 1939, with additional buildings added in 1953 and 1986.
- The facility produces machine made cigars.
- The Quality and Environmental Management Systems are ISO certified.
- The factory has 210 employees.
- Dothan is located in the south east of the US state of Alabama.

SANTIAGO FACTORY

- The Santiago factory manufactures small and large natural and homogenized wrapper cigars.
- The factory has 747 employees.
- Santiago is located in the Dominican Republic.



PREMIUM CIGARS SHOW FUTURE POTENTIAL

The premium cigar industry in the US is facing some challenges, but, in the face of these challenges, Swedish Match's business has seen steady growth and positive trends this year, with the potential for sequential growth in the fourth quarter of 2008.

BY: KAROLINE HAMMAR

Dan Carr, Senior Vice President Sales & Marketing, Swedish Match North America Division, describes the external challenges confronting the cigar business as a downshifting of the economy, inventory readjustments, and increasingly strict legislation activity.

"It's important to remember the industry has withstood legislative and economic threats before. We feel we've assessed the situations confronting us and we're well positioned for the future," he says. General Cigar, a subsidiary of Swedish Match, is market leading in the premium cigar segment in the US with fully integrated tobacco growing, processing, and manufacturing capabilities.

"We see multiple opportunities to expand the premium cigar category. Leveraging our extensive and unique quality tobaccos in the marketplace, staying relevant with each of our brand equities, and

investing in our innovation platforms are critical components to our strategy moving forward."

New smoking trends stress the importance of speeding up innovation and re-evaluating strategies on how to go to market.

"We've strategically and aggressively invested within our infrastructure this year for both the sales and marketing functions."

The future potential of premium cigars is bright as consumers continue to be open to new product ideas.

Dan says, "We have five new product launches this year, the most we've supported into the market, with each initiative designed to

meet a different consumer trend. Our new Macanudo 1968 with its fuller bodied taste profile was exceptionally well received at the International Premium Cigar and Pipe Retailers Associations Annual Convention and Trade Show. The Excalibur Legend was also designed to meet the full-bodied taste profile."

Other launches include La Gloria Artesanos de Miami, a super premium limited edition cigar, a new line



Facts

GENERAL CIGAR CO

General Cigar Co, a subsidiary of Swedish Match, manufactures and markets handcrafted cigars for the premium market. Passionate about delivering cigars of the finest quality, General Cigar produces Macanudo, Partagas, Cohiba, Punch, Excalibur, Hoyo de Monterrey, La Gloria Cubana and several other industry leading brands, which are sold through tobacconists nationwide.





Dan Carr and Debo Mukherjee, General Manager business ventures discuss business opportunities.

“We see multiple opportunities to expand the premium cigar category”

PHOTO: CHIP MITCHELL

extension of Cohiba known as Puro Dominicana, and Havana Honeys, which is designed to establish General Cigar as a major competitor in the premium flavored cigar segment.

“When the economic situation influences the sales of luxury items such as premium cigars, it is even more important to work as close as we can with our customers to find concepts that will help their business. Bringing in new consumers and increasing our value to our customers is our number one priority.”



The cigar named Partagas is one of many cigars that makes General Cigar a major competitor in the premium cigar segment.



“Quality is an integral part of everything we do in cigar production”



QUALITY AND TRADITION

Jhonys Diaz, General Manager of the Swedish Match tobacco plant in the Dominican Republic, has a lot on his mind at this time of the year. Inside asked him about his commitment to producing high-quality cigars. BY: VICTORIA MCKEE

“During this time of year, I work to oversee production of the new products we debuted in July at the International Premium Cigar and Pipe Retailers Association, which is the annual tradeshow for the premium-cigar category,” he says. “This effort entails ensuring that we are fulfilling shipments of new and established products. I am also working to plan production for the remainder of this year and next year.”

How is quality maintained year after year?

“Quality is a hallmark of

General Cigar. It is an integral part of everything we do in cigar production. In my role, I uphold the company’s commitment to quality by ensuring the tobacco is properly cared for and that the people who handle it are well trained. I also oversee our quality-assurance team to make sure that every cigar is handcrafted to perfection.

Another way we maintain the quality of our products is to retain employees. Many of the skilled artisans who work in our Dominican factory have been working with us for decades. In fact, it is not unusual



New tobacco plants

PHOTO: JERRY LINDAHL

for two generations of the same family to have worked in the factory.

How do you create new cigars?

“I am a member of General Cigar’s new product-development team. As such, I consult with Cigar Masters Daniel Núñez and Modesta Fondeur by providing my input on prototypes developed for the US and international markets. We also work to develop cigars that will meet the needs of our consumers, based on input given to us by key executives from our sales and marketing teams. New product development is an exciting process. I truly enjoy creating new cigars together with my colleagues.”

How do you stay on top among competitors?

“To maintain our leading position within the premium cigar category, quality is of the utmost importance. After all, General Cigar has cultivated a stellar reputation for quality among retailers and consumers. Still, we are never able to rest on our reputation. We are only as good as the cigars we bring to the marketplace.”

What inspires you?

“The passion that our employees have for our products. I am also filled with pride when I walk through the factory and speak with our employees because their commitment to making the best cigars in the market is evident in everything they do.” ✪



Jhonys Diaz oversees that every cigar is handcrafted to perfection.

PHOTO: FRANKLIN FILON



DEDICATION **IMPROVES** ENVIRONMENTAL HEALTH

With dedication and enthusiasm all employees at the North American facilities work for the development of environmental well-being. Swedish Match has a long tradition of working with these issues as an integral part of daily business. BY: KAROLINE HAMMAR

“The importance of environmental issues is increasing in pace with more stringent requirements and increased awareness on the part of consumers, customers, suppliers and authorities,” says John Danhauer, Manager Utilities & Machine Shop at the Owensboro plant and Environmental Coordinator for the Swedish Match North America Division. “That’s why we continuously have to develop processes to increase resource efficiency and further develop systems for cleaning and reducing emission.”

“At the same time as we develop our processes it is as much about everyone taking small steps in everyday business. The search for items with negative environmental impact originates at each business

unit. It could include using low energy light bulbs in the factories to save trees by not printing documents unless necessary.”

The production processes and raw materials being used in the factories generally have limited impact on the environment and approximately 80 percent of Swedish Match’s raw materials are renewable and production handles environmentally harmful substances to only a limited extent.

“We have made great efforts in all environmental areas including reduction of energy, waste reduction, reductions in water use and reduction of discharges to air, land and water. The manufacturing facilities in the North American Division have implemented approximately 40 environmental projects in the past year.”

Examples include reforestation

on unused land at the tobacco farm in the Dominican Republic, noise reduction initiatives at the factory in the Dominican Republic, several water and waste reduction projects at the two factories in Honduras, fuel reduction projects in the Dothan Alabama factory and reductions in the use of chemicals and chemical waste reductions in the Owensboro Kentucky factory, just to mention a few.

“Effective the end of November with the registration of the factories in Honduras, all manufacturing facilities in the North America Division will be ISO 14001 registered. This would not be possible without the dedication, interest and enthusiasm shown by everyone who works at these facilities for the environmental health and well-being of our planet,” says John Danhauer. ✪



MATCH BOX IN CHRISTMAS DESIGN

We are celebrating Christmas with a trendy decorated series. This design is available in all match brands, all over Europe.



HOYO DE MONTERREY EXCALIBUR LEGEND

As the boldest expression of Hoyo de Monterrey Excalibur, Legend begins when spicy Nicaraguan tobacco from the mainland is paired with a proprietary tobacco from Nicaragua's remote volcanic island of Ometepe and blended with a powerful Dominican ligero. The new Legend is in keeping with the growing demand for full-bodied cigars that smoke smoothly and effortlessly.

EXPRESS YOURSELF WITH A CRICKET

With this new concept Cricket gives you the opportunity to customize your own lighter. Each blistercard of three lighters includes six fluorescent stickers. Express yourself and write messages on your lighter.



7 NEW WONDERS

Giftbox 2008 is here, the theme is The New 7 Wonders. Over 100 million votes for the New 7 Wonders, were received and revealed during a spectacular live event in Lisbon, 2007. Each wonder has its own exciting history, which you can read more about on the back of the box.

HOT SNUS

GROVSNUS SVART →

Grovsnus Svart is a new rough, masculine and black tobacco experience. It is a coarse-grained snus, packed in a black portion. This snus has a full-bodied, intensive tobacco taste with a hint of vanilla, leather and aniseed. Behind the hint of the new flavors you find the clear and recognizable Grovsnus taste.



BETTER AND TASTIER ONICO →

A new version of Onico, our tobacco- and nicotine-free product, is launched. In cooperation with the Institute of Odontology at the University of Gothenburg, we have developed a new recipe based on oats and cacao fiber. The rare risk of root decay that occurred in the past will be nearly non-existent with the new recipe. The New Onico feels slightly richer and the color is darker, making it more similar to ordinary snus.



AN EXTRA STRONG GENERAL →

A new member of the snus family General is born: General Ekstra Sterk, a stronger original portion-packed snus now available in the Norwegian market. This snus has the classic General taste, with a powerful tobacco flavor with elements of citrus and pepper. The box is black with a discreet red stripe and contains 22 portion packages.



The quarter in brief

Results for the third quarter

In local currencies sales for the third quarter of 2008 increased by 8 percent compared with the third quarter of 2007. Reported sales for the third quarter increased by 5 percent to 3,432 MSEK (3,272). Currency translation has affected the sales comparison negatively by 99 MSEK.

Sales of snuff increased by 16 percent during the third quarter to 992 MSEK (852) and operating profit increased by 26 percent to 483 MSEK (383).

Scandinavian snus sales were up 20 percent compared to the third quarter of the prior year while volumes measured in number of cans declined by 2 percent. Snuff sales in North America were up by 13 percent in local currency, as a result of both volume growth and a higher average price for the portfolio. Operating margin reached 48.7 percent (45.0).

For cigars, sales increased by 4 percent during the third quarter to 936 MSEK (902). Operating profit increased to 188 MSEK (185). Cigar sales grew in the US in dollar terms, as a result of the acquired Cigars International business and improved performance for machine made cigars. In Europe, sales declined. Operating profit increased in the US in local currency and

declined versus prior year in Europe. Operating margin for cigars reached 20.1 percent (20.5).

Group operating profit for the third quarter increased by 14 percent to 864 MSEK (759). In local currencies operating profit increased by 18 percent. Currency translation has affected the operating profit comparison negatively by 33 MSEK.

Operating margin for the third quarter amounted to 25.2 percent compared to 23.2 percent for the third quarter of 2007. The income tax rate in the isolated third quarter was at 11 percent, positively impacted by the reversal of certain tax provisions. Earnings per share (basic) for the third quarter increased by 39 percent to 2.63 SEK (1.89). Diluted EPS was 2.63 MSEK (1.88).



PHOTO: PETER MULLTSSON

Joakim Tilly, CFO Swedish Match

“In local currencies sales increased by 8 percent.”

3 analyst comments

1 Anders Hansson, analyst Danske Bank:
 “Earnings were better than expected. Snus excelled with strong sales and healthy margins. A positive price mix for snus displayed in the US for the first time in five years. The positive deviations within chewing tobacco and lighter products should

be regarded as temporary. Cigars reported earnings in line with market expectations. The strong cash flow for the quarter was also positive. Despite the financial situation, Swedish Match is one of the few companies that were able to beat market expectations. Swedish Match is a stable company with strong shares.”

2 Stefan Mattsson, analyst SEB:
 “The earnings were favorable. Positive elements included the margins on snus and snus volumes in Scandinavia, which only declined 2 percent. Lighter products reported surprisingly strong earnings. Cigars delivered somewhat weaker results than expected. The strengthening of

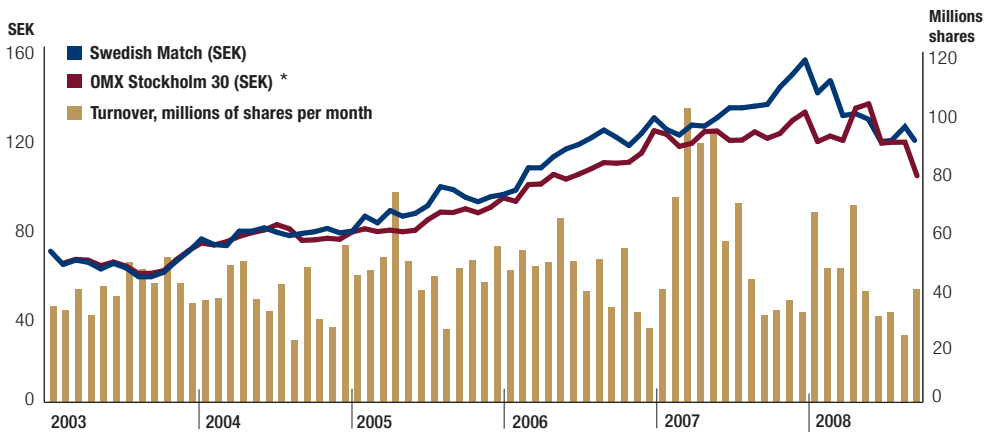
Share development

Between July 1 and September 30 2008 the share price of Swedish Match was virtually unchanged, at 120 SEK. During the same period, the OMXS30 index of the 30 largest Swedish listed companies, declined by

9 percent. Over the 12 month period to September 30, the Swedish Match share has significantly outperformed the OMXS30. During this 12 month period, the index declined by more than 37 percent, while the

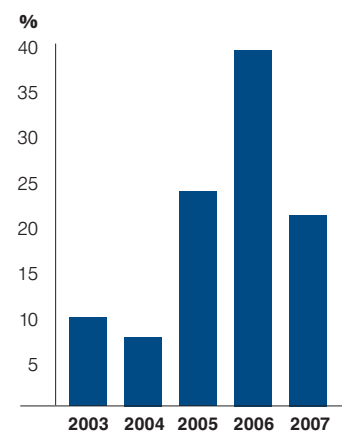
Swedish Match share price declined by 11 percent, demonstrating the defensive characteristics of the Swedish Match share.

Share price and turnover

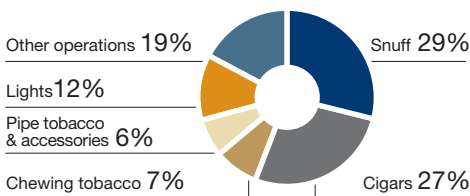


* Indexed to the initial Swedish Match share price on this graph.

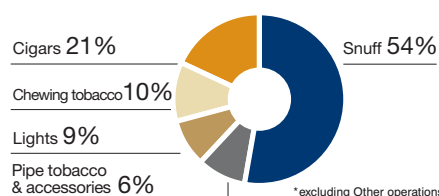
Total return



NET SALES JULY-SEPT 2008



OPERATING PROFIT JULY-SEPT 2008*



MSEK	July-Sept	July-Sept	Full year
	2008	2007	2007
Sales	3 432	3 272	12 551
Operating profit	864	759	2 997
Profit before income tax	747	655	2 662
Net profit for the period	665	491	2 056
Earnings per share, basic (SEK)	2:63	1:89	7:80

the USD will be positive for Swedish Match ahead, although it should be remembered that the margin on snus will be negatively impacted by the geographic mix. Stability in the company remains strong and its cash flow is healthy. Consumers seem to be relatively indifferent to increased taxes and more expensive snus."

3 Jonathan Fell, analyst Deutsche Bank: "This is a good set of figures; in particular snuff sales and margin performance were ahead of forecasts. The core business seems to be moving along very well and is on track. Sales of Red Man in the US are increasing and gaining

market share, although there are a little wary of how competitive dynamics in the US will develop next year. Premium cigars in the US are under pressure, but mass market is performing well. Overall Swedish Match looks like a good stock for the current difficult economic environment."

Portrait

A cigar-loving lady

The tobacco industry has traditionally been dominated by men. After almost 35 years in the business Cigar Master Modesta Fondeur has gained a reputation as one of the most valued cigar masters in the world. She says it is more than cigars; it's a way of life. BY: JERRY LINDAHL

“I was influenced at an early age. As long as I can remember, both of my grandfathers smoked cigars. I enjoyed the smell as a child and was later able to smoke them myself. Today, few people react, but 20 years ago, a woman smoking a cigar attracted attention. Today that may seem a little old-fashioned, but that's the way it was then,” says Modesta with a laugh.

“Today, smoking is part of my job. I need to keep control over production. It is my responsibility to ensure that the cigars that we produce are of high and uniform quality. Test-smoking our cigars is an important part of my work. If the quality and the tobacco blend meet my quality requirements and thus those of our customers, then everything is as it should be.”

WHY GENERAL CIGAR?

“When I finished my degree in economics in 1975, my advisor at the university, who was then also a jurist at General Cigar, asked me to bring my CV to the office at the plant. My employment coincided with General Cigar's establishment of its operations in the Dominican Republic, and I began working the very same day operations started in earnest. Initially, my work involved routine

office duties, but I was soon given responsibility for managing inventory, invoicing, payroll and everything else that goes on in an office.”

Modesta takes a puff from her newly lit cigar and continues:

“At that time, the company had only a couple of hundred employees. Over time, it grew and my focus shifted from administrative work to more practical tasks. In 1978, we began to manufacture cigars here. Because I was alone in administration, I was simply forced to learn everything about what was happening in the tobacco fields. I found that more stimulating and more physical. That was how I began to learn more about cigar manufacturing.

A GREAT CHALLENGE

“In 1997, I became the head manager for the cigar plant. A few years later, we bought the plant in Honduras, and I quickly learned about their culture, other types of tobacco and cigar manufacturing. Quite simply, I liked the challenge of the job.”

Today, there are nearly 6,000 employees in the various stages of cigar production in Honduras and the Dominican Republic, which includes everything from cultivation to finished cigars in boxes.

“Personally, I have always respected

the craftsmanship underlying cigar manufacturing. It is so much more than just cigars. It's a way of life.”

The tobacco industry is by tradition dominated by males, and Modesta had all eyes on her from the beginning.

“Naturally everyone was watching me. They were curious to know whether I would be able to do the job or not. I have never felt a lack of acceptance from my male colleagues. If you are motivated and do a good job, you will get help and respect. I really appreciate my work and find it stimulating. There is always so much happening. Weather and winds are constantly changing. Sometimes it rains a lot and sometimes only a little. I then have to take new decisions and make adjustments in production.”

So tobacco is one part of the job. The other is all the people.

“This job really is about tobacco and people, which makes it intensive and exciting. If you have tobacco but no people who can work with the tobacco, there will be no cigars. It's that simple.”

SOCIAL RESPONSIBILITY

When asked about conditions for workers in the cigar manufacturing plants, Modesta's eyes light up.

“Here in the Dominican Republic and also in Honduras, it should never be taken for granted that people



For Modesta test smoking is a natural part of the job. Quality has to meet her requirements.

PHOTO: JERRY LINDAHL

can read and write. Women are often overlooked because they run the household and do not need to be able to read. We want to change that. We have started a program that provides opportunity for our workers to receive financial support to learn reading, writing and arithmetic. That strengthens their self-confidence and the will to improve their standard of living. When our computers become too old, we donate them to the schools. It's important to remember that it is not only the workers here at the plant who depend on General Cigar, but also the family members who do not work here."

Modesta is involved in nearly everything, although her primary task

is to ensure that the cigars that are produced are of high and uniform quality. She is also a member of the test panel that evaluates the tobacco blends that are used. Since a large amount of cedar wood is used for cigar boxes, a replanting program for both cedar and mahogany trees has been started.

"We try to learn from others' mistakes. We do not want our land to become depleted and erode as in our neighboring country Haiti."

Today, after slightly more than 30 years in the company, Modesta Fondeur is vice president and, together with Daniel Núñez and Ernesto Perez-Carrillo, she is one of the few people in the world with unique, cutting-edge expertise in cigar manufacturing. ★

In brief

MODESTA FONDEUR

Favorite cigar: Partagas size 42-44 rings is the cigar I like the most and it tastes best when I enjoy it after work in peace and quiet.

Age: 57.

Family: Husband Pedro, daughter Mariel and her husband Luis Baez, and Pedro Jose, daughter-in-law Lorena and grandson Manuel Enrique.

Residence: Santiago, Dominican Republic.

Interests: My family.



Rich, dark and unexpected – Macanudo 1968

Ever since the first Macanudo cigar was rolled, America has embraced its quality and consistency, making it this country's favorite premium cigar. To commemorate its origin, General Cigar presents Macanudo 1968 which is named to commemorate the year that General Cigar purchased the Temple Hall factory in Jamaica.

BY: VICTORIA MCKEE

Cigar Master Daniel Núñez is proud to introduce Macanudo 1968, a limited edition collection made solely of proprietary tobaccos.

“It is with great pleasure that I present this cigar. We developed the seeds used in each of the cigar's components and selected specific growing regions to enrich the blend and its aroma. So unique are the tobaccos used in Macanudo 1968,

it tastes like no other cigar I have ever smoked,” Núñez says.

This new line is particularly special because it celebrates Daniel Núñez storied career in the premium cigar business. He has exceeded all expectations, having created a new cigar that is destined to enjoy the success of previously released incarnations of Macanudo.