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SWEDISH MATCH

Inside #5

May 2009

SNUS & FOOD

A GASTRONOMIC EXPERIENCE

UNDERSTANDING TOBACCO

- A LIFETIME OF LEARNING

TOBACCONISTS
ROUND
THE GLOBE

TASTING HIGHLIGHTS

ENJOY GREAT CIGAR BRANDS

CHILL WITH
A **CATCH**
NEW TASTE
SENSATION

MEET MARTIN KÄLLSTRÖM

NEW PRESIDENT
NORTH EUROPE DIVISION



PLUS! SOLSTICKAN MONEY SAVES HEALTH CLINIC

Strong start to the year

We continue to face a world in financial turmoil. Many industries are facing major challenges and well-known Swedish brands are at risk of disappearing; investments in Sweden are slowing and many jobs are being lost.

Swedish Match has begun 2009 with both increased sales and an improved result for the entire group. Snus has continued to do well in both Scandinavia and the US during the quarter with increasing market share in the US. Our cigars are showing a particularly good development, mainly because trade in the US took into account the rise in excise duty that was introduced on April 1. Our other product areas are continuing to show good results. Swedish Match has a strong financial base, with limited loan repayments due during 2009, an advantage given the uncertainty in the financial and credit markets around the world.

As a strong industry representative, we have a natural role as a discussion partner with all of those who prepare and make the political decisions that affect our business. It is largely up to us how we use our unique position as the leading snus producer in Scandinavia, and that we always have a long-term approach and are responsible, as well as being aware of how we are perceived. When we get our message across, we usually succeed.

So far during the spring, I feel we are seeing greater understanding of our attitude towards the basic flaws in the European Union's ban on snus. But normal trade in Swedish snus within the EU will require a lot of work and patience.

The production of and trade in tobacco will never be uncomplicated politically, but most people realize the importance of a country's right to allow its industry to compete on similar conditions as all other products that are allowed. And this is a good basis for discussion.

Since mid-2008, we have been working to clarify our company's strategic direction. One important conclusion is that the great growth opportunity for our products is within the smokefree segment, which is why we are now working intensively to strengthen our ability to take advantage of these opportunities. One part of these efforts is the joint venture we have started with Philip Morris International to launch Swedish snus globally. Our joint venture began operations on April 1 this year.

I would also like to welcome Martin Källström, who began with us on May 1 as the divisional President of our North Europe Division. Martin joins us from SCA, where he has had several managerial positions for SCA's consumer products for many years. Martin will be an important addition in our efforts in the smokefree category.

Despite a troubled world economy, we are building on our strengths and investing in the future. We are putting a lot of effort behind our growth strategy so that we can continue to bring enjoyment to our customers and value to our shareholders.

Lars Dahlgren
President and CEO Swedish Match AB



PHOTO: MAGNUS FOND

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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 NASDAQ OMX in Stockholm.



FOTO: HÅKAN MOBERG

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CATCH COLLECTION

Catch is launching a collection comprising four different taste varieties. Chill, Fresh, Cozy and Still will be available for a limited period in Scandinavian shops. Catch up on other product news in different markets!



PHOTO: MAGNUS FOND

Tasting highlights

Swedish Match markets approximately 35 different cigar brands in the North American market. We present a selection of five premium cigar tastings, all with various composition and blends.



DON TOMÁS CLÁSICO ALLEGRO

Wrapper: Honduran Havana Seed **Filler:** Honduran, Nicaraguan

Binder: Honduran **Manufacturing country:** Honduras

One can always count on Don Tomás to have a perfect draw and burn due to the dedication to very high quality control standards. The experience is rich and flavorful, a large stock of very well-aged tobaccos and exquisite construction are what make Don Tomás cigars a consistent experience time after time.



HOYO DE TRADICIÓN

Wrapper: Honduran, Jamastran Viso Rosado **Filler:** Honduran, Nicaraguan,

Dominican **Binder:** Habano Connecticut **Manufacturing country:** Honduras

Hoyo de Tradición is blended from proprietary tobaccos from the world's most revered growing regions. Hoyo de Tradición delivers a new amazing flavor that comes from the unique blend of tobaccos that heightens the experience of enjoying a cigar with friends.



GRAN PURO

Wrapper: Honduran **Filler:** Honduran **Binder:** Honduran

Manufacturing country: Honduras

Punch Gran Puro is all-Honduran, medium-full bodied, with an extra dark and extra bold Havana-seed wrapper developed exclusively for this cigar in the rich San Augustin valley of Honduras. Both the wrapper and binder leaves are sun grown and carefully selected to ensure special color and flavor.



MACANUDO 1968

Wrapper: Honduran San Augustin **Filler:** Dominican, Nicaraguan

Binder: Habano Connecticut **Manufacturing country:** Dominican Republic

Macanudo 1968 boasts a bold new taste that perfectly balances the cigar's fuller-bodied tobaccos. It is aged in tercios and charcoaled wooden barrels to further enrich its flavor.



COHIBA PURO DOMINICANA

Wrapper: Dominican **Filler:** Dominican **Binder:** Dominican

Manufacturing country: Dominican Republic

Boasting depth of aroma and complexity of taste that are at once refined and rich, Cohiba Puro Dominicana cigars are the most exquisite in the history of the Cohiba brand. To smoke this cigar is to be ushered into a world of flavorful aroma, surrounded by nuances of taste that are evident in every draw.



New launch on Game

Garcia y Vega launches FoilFreshII - a new packaging solution that keeps cigars fresh even longer. BY: KAROLINE HAMMAR

In 2008, the original FoilFresh packaging was launched which was well received by the trade and retailers. Consumers appreciated it for the freshness it gave to the cigars, but there were opportunities for improvement:

“The launch of FoilfreshII allowed us for the first time to run the foil packaging on our existing cellophane production lines. The result is a cigar that is tightly wrapped in foil and readily recognized as a cigar.

Moreover, the new FoilFresh cigars cost less and brings more value to customer than the original FoilFresh product”, says Brian Love, Director of Marketing, Mass Market Cigars and Pipe, Swedish Match North America Division.

The original foil was applied more loosely, not all consumers readily recognized it as a cigar at retail. The looser wrapped product also caused the uprights to be larger, taking up valuable space at retail.

“Foil FreshII has made it possible not only to improve our packaging solution expertise, but also allowed us to differentiate Game versus much larger competitors, enabling us to grow the brand well into the future.”

The packaging solution is used for the popular machine-rolled Game cigars, Garcia y Vega and the cigar brand White Owl in the US market.

FoilFreshII differentiate Game versus much larger competitors.

Product News

NEW CATCH COLLECTION

A new Catch Collection comprises four varieties which will be introduced during 2009. Chill, Fresh, Still and Cozy are the new flavors. Each variety will be sold for a limited period, then followed by a new flavor available for those who want to vary their snus consumption. The launch is planned for end of May, August and September.



CRICKET MINI FIREPOWER

Within the light segment, a new product design has been launched to match the original Firepower style. It is a more feminine version of the Firepower with new attractive decorations, a silver push button and a silver neck. It is more compact, modern looking and has a safety lock.



NEW STAR IN THE GENERAL SKY

General White Portion is the second member of the General family to have white portion packages in star formation. The new version of the General White Portion is a result of consumer demands for innovative products presented in an attractive way.



HAVANA HONEYS GET EXTREME MAKEOVER

Four of Havana Honey's most popular flavored premium cigars have been relaunched this year. Under the guidance of Cigar Master Daniel Núñez, the quality of the different tobacco used to make the Honey, Blackberry, Rum and Vanilla collections has been greatly improved. In addition to this, the methods of adding flavor to deepen the aroma have been enhanced by using the best quality flavorings. This method provides a consistent and long-lasting taste.



BORKUM RIFF CLASSIC

After the success of Borkum Riff Genuine comes Borkum Riff Classic. It continues along the same path, with a pure, traditional tobacco taste, but with an even richer and more full-bodied taste and aroma. The character of Borkum Riff Classic has been enriched with spicy aromas, such as herbs, wood and nuts. Classic offers a balanced, flavorful experience with a stronger finish. The smoking characteristics have also been improved to give the tobacco a more even, slightly slower burn, making it easier to light and smoke.



CRICKET IN TRENDY DESIGN

Cricket is keeping up-to-date by launching trendy and modern designs for conscious consumers. Six new designs of Cricket lighters are now available in the international market. The new designs come in poetry, wildlife, lava, American night, T-town and Style series.

GENERAL EKSTRA STERK LOOSE

A new member of the General family has been launched; a loose snus for those who want a strong tobacco flavor and more nicotine. General Ekstra Sterk Loose is based on the same recipe as the portion-packed snus, General Ekstra Sterk, and has the classic and very popular General flavor; a distinct tobacco taste with hints of citrus and pepper. General Ekstra Sterk Loose is available in Norway.



LA PAZ WILDE MEDIOS

La Paz Wilde Medios offers a new, tasteful smoke. It is a full-bodied tobacco enjoyment for every moment of the day. Medios has first been introduced in France and the Benelux countries. Other markets including Spain and Italy will follow soon.





PHOTO: GISELA SVEDBERG

Tony Rickardsson takes on new career

Tony Rickardsson starts a new career after a long and successful engagement in international speeding and car racing. He is appointed Area Manager for Eastern Europe within Continental Europe Division. Rickardsson will work closely with Swedish Match's partners and customers in Eastern Europe. The brands comprise market leading products such as Cricket, Macanudo and Salsa cigars among others.

Tony Rickardsson will complete his engagement in Porsche Carrera Cup during the season and start his new career in Swedish Match in October 2009.

"I have had an excellent partnership with Swedish Match during my racing career and built solid relationships with company representatives, partners and customers on an international basis. I am thrilled to contribute to further success of the company, with a fantastic portfolio at hand, says Rickardsson.

Rickardsson born 1970 is an international sportsman icon in speedway driving and car racing. He has an unsurpassed merit list with six individual world championship titles in speedway racing.

7-Eleven awards Swedish Match

The combination of Swedish Match's competent sales force in Sweden, the great snus coolers and a good cooperation led to 7-Eleven naming Swedish Match as "Årets leverantör 2008" (Supplier of the Year 2008) at Norwegian retailer Reitan Group's annual conference held earlier this spring.

"Five years ago, hardly any snus was sold at 7-Eleven. Now the snus sells more than the cigarettes," says Robert Neiås, Sales Manager Key Account at Swedish Match North Europe Division.

"The fantastic result is thanks to our snus coolers in stores, many good sales campaigns and 7-Eleven's fantastic staff. The award proves we're working in the right direction. Wholesalers appreciate us, which gives us a good basis to create new successful campaigns and activities."

The Swedish franchise concept Pressbyrån and 7-Eleven present the companies that are nominated in different categories, including the category Supplier of the Year. The wholesalers vote for the winners, who are presented at the annual conference. Reitan Servicehandel Sverige AB runs the business concepts 7-Eleven and Pressbyrån in Sweden.

Indulgence products in new exhibition

Tobacco, chocolate and coffee all have similar historical backgrounds.

During first quarter of 2009, a new exhibition telling the history and use of

products for indulgence was inaugurated at Swedish Match's Tobacco and Match Museum at the Skansen open-air museum in Stockholm, Sweden.

"We want to visualize that tobacco, chocolate, coffee and wine all have a great deal in common. Despite being loved and hated, banned and taxed, tobacco is still around," says Museum Curator Inga Junhem. The exhibition recounts the story of how tobacco cultivation emerged throughout Sweden, and eventually ceased completely after nearly 300 years in the 1960s. The museum exhibition also shows beautiful snus cans and match boxes from different time periods.





Packing agreement **new way** of doing business

Swedish Match North America Division and The National Tobacco Company in the United States have entered a co-packing agreement, making Swedish Match the sole producer of chewing tobacco products for National Tobacco Company.

Rusty Warnick, Senior Vice President of Operations, Swedish Match North America, says the agreement is significant in that it allows two competitors to partner, which will allow cost optimization and bring value to the customer. "It signals a new way of doing business, one that will allow a company to build on the strength of its own brands and leverage the efficiencies of scale available in a large manufacturing operation."

The Owensboro production facility in Kentucky, North America, will benefit by having better overhead absorption as a result of higher volumes and better utilization of assets. Moreover, it will create jobs in a product area that was losing jobs due to volume decline in the chewing category. The production of National Tobacco Company products will be phased in over the first six months of 2009.

Contact us!

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Kungälv expansion

Following a decision made in summer 2008 to invest in and expand the production facility for snus products in Kungälv Sweden, construction is now fully underway.

"The investment is viewed as a response to the strong demand for portion-packed snus in the Scandinavian market. To continue being the number one snus supplier, it's of crucial importance to safeguard snus volumes for white products in star formation, says Kenth Gamhed, Project Manager for the construction.

The size of the expansion project, is comparable with the original construction of the Kungälv facility. The expansion areas are consciously optimized and the result will be a 50 percent space increase for new machines. Machine installations will be completed by 1 September 2009 and the entire construction is expected to be complete first half of 2010.

White pouches keep growing in terms of their share of Swedish Match's product portfolio in Scandinavia. By investing in this production structure, Swedish Match will improve the ability to supply the market with innovative products.



Porsche in a cigar tube

With a creative approach from Swedish Match and Porsche, a unique cigar tube has been designed. The cigar tube is now presented exclusively for retailers and customers and used in Porsche marketing activities. The creation of the cigar tube was described as an inspiring challenge due to short lead time, complexity of the design and the need of an "out-of-the-box-approach".

For this innovative project, the cigar La Paz Gran Corona was selected.

This is a cigar which consists of an equal blend between Indonesian tobacco and a spicy nuance from Brazilian and Havana tobaccos. Swedish Match and Porsche Sweden are two out of four partners for the racing team Rickardsson Racing in the Scandinavian Porsche Carrera Cup.



SNUS TASTING DINNER

A GASTRONOMICAL EXPERIENCE

There is a hive of activity behind the frosted glass of the kitchen at Esperanto restaurant in Stockholm, Sweden. The ingredients are brought out. Petals, sea weed, rice flour and richly colored sauces are arranged meticulously, like musical notes and melodies, on square, gold-edged side plates.

BY: **BIRGITTA SJÖBERG** PHOTO: **MAGNUS FOND**

The performance is run by the
chefs, waiters and sommelier.



Snus and food

Food and tobacco have long gone hand in hand. *Big smokes*, events where the entire menu is composed to be accompanied by exclusive cigars, have been popular since the early 1990s. And it is not so long ago that it was entirely normal for each course to be accompanied by constant cigarette smoking – even though the gastronomic experience would not have been the primary focus. However, food in combination with snus must be seen as uncharted territory.

An expectant party is sitting in Esperanto's foyer, one floor up in what was once the Jarla Theater. They have been invited by the master of ceremonies for the evening, Conny Andersson, tobacco connoisseur at Swedish Match, to share in a unique experience.

As twilight slowly falls over Stockholm, he reveals how the concept of a snus-tasting dinner arose after a cigar session in Moscow. This was an event with more than 250 guests, where eight courses were matched with eight large, hand-rolled cigars. Couldn't the same thing be done with Swedish snus? The concept was introduced to the two virtuoso chefs Sayan Isaksson and Daniel



Brisket of Wagyu beef with pressed onion are rounded off with Ettan snus.



The guests experience the gastronomical height where flavors and aromas from snus are echoed in each course.

Höglander who, as well as having been part of the Swedish double gold-medal-winning national culinary team, also has a profound interest in tobacco. They were given the challenge of composing a snus menu in combination with three types of snus – Ettan, General White and Röda Lacket.

This evening, the selected guests will experience the result where flavors and aromas from the snus are echoed in each course. They will ride a wave of taste sensations, which will grow more intense as each course is rounded off with a accompanying snus.

As the guests take their seats in the dining area, the head chef withdraws to the inner reaches of the kitchen and the performance is taken over by the waiting staff and the sommelier. The guests look out across what was once the theater's cloakroom. One of the end walls in the rectangular, windowless hall – which has a vaulted roof and an ultra-modern chandelier – is dominated by the cold kitchen, screened off by a long counter adorned with frosted glass. The opposite end houses a tea bar,

where old-fashioned coat hooks hint at the space's original purpose.

To stimulate the palate before the serious business begins, a petite goose-liver falafel with carrot sauce is served first. After this comes a dollop of cream on winter apple with Bayonne ham and Brussels sprouts, served in a small glass bowl and topped with hot consommé of cabbage. It creates an exciting array of flavors with tones varying between sour and mellow. As their taste buds come to life, the guests begin to realize the standard of the cuisine being served at Esperanto.

The restaurant is an idea that Sayan Isaksson and his former business partner Daniel Höglander got on a deep-sea fishing boat off the coast of Cuba, where they traveled after winning the gold medal at the Culinary Olympics with the Swedish team in 2004. They wanted to open an uncompromising restaurant together, with gastronomy, service and surroundings as the foundation stones and, just as the name suggests, a place



Combining tastes is not complicated. You simply have to think logically, they say at Esperanto.

that was international, limitless and lively.

Despite only a short existence, Esperanto has already received lavish praise and awards. Since it opened in November 2005, recognition has included a Michelin star in 2007, 2008 and 2009, and the Restaurant of the Year award in the 2008 White Guide. Head chef Sayan Isaksson now runs Esperanto with restaurant manager and sommelier Daniel Petterson.


The first snus course served is inspired by Röda Lacket – a mild snus with a rounded and easily accessible flavor of tropical fruit and licorice. On the plate is a licorice-glazed langoustine beautifully adorned with algae, rice flour with a hint of garlic, apricot sauce and a dollop of ice cream on ocean tea with a strong umami taste. A cold mist rises from dry ice through small holes in the plate – a surprising effect.

“A wave of sensations, which grow more intense as each course is rounded off with a accompanying snus”

Combining tastes does not have to be complicated, they say at Esperanto. You simply have to think logically. Find the right tastes that go together and the components in the wine and food that you have to balance. With its hint of peach and licorice, Röda Lacket is a good complement to the dish, which is confirmed by the guests as they insert the first snus under their top lips,

while the elegant, lively but fruity Alsace wine – 2005 Riesling Clos St Landelin – balances the flavors. The taste sensation lingers.

Following an entremets of sea bass with tomato-roasted sardines and black lemon, snus dish No.2 arrives at the table. Brisket of Wagyu beef with pressed onion and crème epoisse are rounded off with an Ettan snus. They have chosen to include genuine

A waiter in a brown suit and patterned tie is shown in profile, holding a silver tray with several small appetizers on sticks. In the background, a chef in a white uniform and hat is visible, working in a kitchen setting. The lighting is warm and focused on the waiter and the tray.

The chefs have a passion for tobacco and they serve their own homemade snus made from spices and fruit, carefully sprayed with sweet wine to heighten the experience.

← Swedish cuisine – and snus culture. A classic dish such as boiled brisket of beef goes together well with Sweden's oldest snus. Ettan's slightly heavier and smokier flavor matches the brisket of beef and trimmings. The sensation is made complete with a mature Bordeaux – 1999 Château Gruaud Larose – which adds a hint of stable, moist tobacco and musty autumn leaves.

The finale is like a romantic proposal of marriage to the sophisticated General snus. Rose ice cream is served on a bed of white chocolate. Served beside it is a delicious cream with a strong hint of roses, with candied almond and freeze-dried raspberry. This is accompanied by Madeleine cakes, sprayed with rose water, and a glass of sparkling sake – Nv Awasaki Sparkling Sake. The guests and the creators consider this an obvious marriage of dessert and snus. The flavor of roses comes together with the General and remains for a surprising length of time, accompanied by the prominent sensation of bergamot. The sake adds a hint of perfume and liveliness, as well as a sparkling feeling designed to complete the meal.

The end of the evening is approaching, but after one or two cups of an exciting and unusual tea and some exquisite wedges of chocolate, the guests are given the final surprise. On the black grand piano in the foyer, they are served Esperanto's home made snus created from spices and fruit, carefully sprayed with sweet wine to heighten the experience. It is a surprising and fun finale to a unique and exciting evening, full of new taste experiences and unexpected combinations. You could never imagine that a few tins of Swedish snus could lead to such a culinary experience. ✪



A unique and exciting evening, full of new experiences and taste combinations," the guests say.

Esperanto

Esperanto opened in autumn 2005. Its vision was to create an uncompromising restaurant based on the building stones of gastronomy, service and ambience. The name Esperanto was taken from "The Alchemist", a novel by Paulo Coelho, in order to illustrate the international and unlimited gastronomical delights represented by the restaurant.

AWARDS

In 2006, Esperanto was named "rising star" by White Guide and was also ranked third-best restaurant in Sweden (international master class). In 2007, it was awarded a single star by Guide Michelin. For both 2008 and 2009, the restaurant retained its star in Guide Michelin and was named Best Tea House of the Year by the Swedish Tea Council. In 2009, it was named "Best Restaurant of the Year – on the basis of culinary experience" by White Guide (international master class).

FACTS ABOUT SAYAN ISAKSSON



Member of the National Swedish Culinary Teams in 2000–2004. In 2002, he won a gold medal as part of the Swedish Culinary Team at the Culinary World Cup in Luxembourg. In 2004, he won the Olympic Culinary Games in Erfurt, Germany, with the Swedish Culinary Team.

AFICIONADOS OF TOBACCO

Meet some of our tobacconists round the globe. They all share a passion for high quality products and the best customer service.

A TIMELESS EXPERIENCE IN NEW YORK

The clientele that Barclay-Rex shops in Manhattan central New York caters to vary in age, but the thirty-plus crowd seems to have caught up to their older, more experienced counterparts. The key ingredient to staying on top for almost a century has been the commitment to the client by offering that added touch of finesse and knowledge. Not everyone is shopping for price, service is as important as the

**“Swedish
snus is
sophisticated”**

quality of the product, Frank Agunzo, Manager at the Lexington Avenue shop says. Another success factor is not to follow the trends.

“By marketing and selling those products we believe in we build up trust towards our customers. A lot of money and effort can be put down in a product that in the end doesn't live up to the customer's expectations. It's a lot more to the shopping experience than just the product itself”, says Frank Agunzo.

Swedish snus performs well, even better than the American style snus. Swedish snus is a modern and sophisticated tobacco product. At the moment the La Gloria Cubana cigar serie sells well. It is because it has a medium to full-bodied flavor and for its value prize.

“I wouldn't mind cheaper and even better cigars, but I guess that won't happen. What we do appreciate though is the Swedish Match sales force. They listen to us and understand our needs. And always with a smile.”



BARCLAY-REX, NEW YORK

ENJOY THE TASTINGS IN STOCKHOLM

Since the 1940s, cigar and pipe aficionados have had a little slice of paradise in the tobacco store now called the Cigar room *Cigarrummet*, situated in the heart of Stockholm City, Sweden. The store has traditions stretching back to the 1880s, when it also included a reading room. Moreover, it used to sell artwork as well as tobacco. Since 2005, tobacco expert Merja Jusélius has been continuing the tradition and the specialist store offers a large selection of tobacco products and accessories for both everyday consumption and special occasions.

Meeting the customer is the most important aspect for Jusélius. She gives her customers a complete experience, spending time with, and providing the advice needed to make the right cigar purchases.

“The customers who visit the shop realize that you can't hurry,” Jusélius says. “We have a pleasant and relaxed atmosphere, sometimes crowded, where the customers chat while waiting for their turn.”



MERJA JUSÉLIUS, THE CIGAR ROOM, STOCKHOLM

New launches are the easiest to sell. Jusélius says her customers are curious and often want to try something new. But they also want the expensive, special products, which are in limited supply.

“Stradivarius is a cigar that is much in demand among my customers, Macanudo is also a popular premium cigar. I’d like to bring in more products if there was room on the shelves. Everything I have sells well, and now that spring is here and the cigar season is starting, I sell a lot more of the big cigars that take longer time to smoke,” she says.

Jusélius describes her customers’ needs and desires as special and exclusive. It is therefore especially important to have a good dialogue with your suppliers who can understand your customer requirements.

“It’s extremely important that you and your supplier talk the same language,” Jusélius says. “But strangely, this isn’t always obvious. Many salespeople just want to sell their selection without trying to understand my needs for this store. Conny Andersson (tobacco expert at Swedish Match), is professional and possess the sensitivity to know exactly which products will suit my customers.”

“New products always sell well”

Cigarrummet is far more than an average tobacco shop. During the summer, its outdoor area is available for cigar smoking, where one can enjoy tobacco products while taking in the pulse of Stockholm city center. In the lounge on the upper floor, it stages themed evenings and various tasting sessions connected to cigars, such as chocolate, wine and whisky.

UPSCALE EMERSON’S IN VIRGINIA

If you visit Southeastern Virginia in the US, also known as the Hampton Roads region, you will notice that this birthplace of colonial America is steeped in history and rich in culture. Your Hampton Roads experience would be incomplete without a visit to Emerson’s Cigars, a tobacconist who has been a part of the area for more than 30 years.

Customers who stop by Emerson’s in the region will receive the full range of experiences one comes to expect when visiting upscale tobacco stores. Owner Scott Regalia says, “People come to us because they like cigars and want to learn more about them. We tell them everything about



SCOTT REGALIA, EMERSON’S CIGARS, RICHMOND

“Snus belongs in an upscale tobacco shop”

the product: from growing the plant to manufacturing and to the humidor. Our goal is to provide a fun and relaxed shopping experience that exceeds the customer's expectations and makes them want to come back for more.” Regalia adds, “Customers are interested in trendy products; they always want something new.” In fact, one of the best things about working with Swedish Match is how they bring new products to market. “No one can launch a new product quite like they do. They offer well organized programs that work quite well for us.”

Customers are also curious about one of the newer tobacco products carried by Emerson's Cigars, General snus. General snus is currently available through select cigar tobacconists in key major markets, including the Hampton Roads region. “Swedish snus is cool. People in our area travel quit a bit so many are familiar with the product. You can imagine how surprised they are to see snus when they come into our stores. It is definitely a product that belongs in an upscale tobacco shop,” Regalia says.

Regalia suggests that stores in the US will need to push snus to be successful. He says not everyone is familiar with it so it won't sell itself. “Let them know about the product, the basic attributes of snus along with its history, and how the product is used in Sweden. Customers who come to Emerson's cigars have an opportunity to sample the product, so it does well. Which leads me to believe there is great opportunity for Swedish snus in the US.”

TRENDY TOBACCONIST IN MADRID

The tobacconist Magallanes is located in the heart of Madrid, Spain. Founded in 1940, it is now regarded as one of the most prestigious tobacconists. Thanks to its wide range of brands and quality of its products, and according to the shop owner Jose Martinez Franco, also due to the helpful manner in which customers always are treated.

“We sell all kinds of products, but if I have to name some, I would highlight Borkum Riff within pipe tobacco. Regarding cigars, Macanudo is obvious. El



Crédito and La Paz perform well too. I have been positively surprised by the new Don Tomás cigars. It is created from a new tobacco mixture done by Daniel Núñez, cigar expert at Swedish Match in the Dominican Republic.

The market trend at the moment is to offer the consumer possibility to choose, in combination with more information regarding their choice. “I am looking forward to offering my customers different types of tobacco to create their own mixtures, or even their own flavors and aromas. This is one of the reasons why I think that pipe tobacco products might increase in Spain,” Franco says.

“With Swedish Match sales force I have a good and constructive dialogue with the common purpose of constantly improving our service to consumers. It seems to me that the creation of Borkum Riff cards, which explain the technical and flavor aspects, has been a useful benefit as it facilitates the understanding of how aroma, sweetness and strength are classified.

Swedish Match has been a pioneer in providing us with knowledge to improve the understanding of pipe tobacco. If I had to say something my customers wish for, it would be a bigger choice of flavors within pipe tobacco. If they could choose different tobacco types to create their own mixtures depending on the moment and their mood, it would be a success. What we are missing today is the possibility to create a personalized smoking experience.”

“We constantly improve our service”



UNDERSTANDING TOBACCO

– A LIFETIME LEARNING

Growing tobacco and turning it into a finished snus product, is a manufacturing process in which traditional handicraft meets high-technological production techniques. It's also about making the right choice of tobacco from the start.

BY: KAROLINE HAMMAR PHOTO: MAGNUS FOND AND PETER KNUTSON



“The feel, smell and flavor of the tobacco is important”

A good dialogue with farmers and suppliers is important to ensure that Swedish Match gets the required quality in its deliveries. “We work closely to the tobacco growers and our suppliers to ensure that the tobacco is grown, picked and dried in the best way. Its flavor and natural chemical content has to live up to our demands, values and expectations,” Tobias Brännberg, Director Product & Packaging Development Swedish Match Philip Morris International, explains. (Read more about SMPMI on page 36)

Analyzing the tobacco at an early stage is crucial, to make sure it meets up with the high quality standards.

“To assess the quality before

we decide to buy, we do chemical analyses on the tobacco. Through our purchasing procedure, high quality is always guaranteed for our most important raw material. It’s about making the right choice of tobacco from the start.”

How the tobacco will be produced and used, as well as how the tobacco ages depends on how it is picked, hung and dried, it is a physical process.

“The feel, smell and flavor of the tobacco is important,” he says. “You have to understand how the tobacco’s quality mark is affected by how the raw tobacco is treated in our manufacturing process. The balance between nicotine and flavor, and how coarse-grained or fine-grained the

tobacco is, also affects the intended product. All of this takes a long time to learn, and is nothing you can read up on in books. It’s a learning process that just has to take place out in the field.”

Maintaining high and consistent quality in everything from purchasing raw tobacco, production and to the finished can, year after year, is a major challenge. The tobacco selection is based on the product range and planned product launches, in addition to the qualitative demands.

“Many tobacco companies make huge tobacco purchases that will last for several years,” Brännberg says. “Then you might end up with large volumes of tobacco, in worst case not even with good enough quality.”



Tobias and Andreas take a close look at the tobacco. Is it good enough?



Maintaining high quality year after year is without a doubt a big challenge.

Tobias Brännberg

“It’s a learning process that has to be taught in the fields”



Products have to be in line with consumer demands.

In brief

TOBIAS BRÄNNBERG

Title: Director Product & Packaging Development, Swedish Match Philip Morris International. Read more about SMPMI on page 36.


Age: 43

Family: Girl friend and her son.

Education: Civil Engineer in Chemical Engineering from Chalmers in Gothenburg

Favorite snus: Göteborgs Rapé loose. But in meetings I use portion snus.

Interests: I play the guitar in two bands; a hard-rock band and a soul band. I like spending time with my friends and family.

A woman wearing a white lab coat and a white headscarf is smiling while working with large stacks of brown tobacco leaves on a table in a factory. She is wearing glasses and has a name tag on her lab coat. The background shows other workers and factory equipment.

Nidia Gonzalez, who works at the plant in the Dominican Republic, takes care of the wrapper leaves that have been hanging to dry. Later in the production process, these leaves will cover the finished cigars. For Nidia, ensuring the quality of the tobacco leaves is just as important as being there for her colleagues. She always has something encouraging to say and a hug for anyone who needs it.

← Swedish Match values flexibility instead which means purchasing is done as often as once a year.

“This gives us a better chance to vary the product offering,” Brännberg says. “We can instead develop new products and vary the flavors to a greater extent. We also reduce the costs considerably.”

Brännberg says it is a major challenge prioritizing the right activities with limited resources.

“We have to use our resources in the best way and we must make the

“The future of our products looks exciting”

right investments. This also means deciding what products we will discontinue to produce.”

“We must continually analyze to be sure that both our existing products and our product development are in line with the consumers’ wishes.”

Brännberg says that in getting the entire production process together, it is a major strength to understand and have knowledge of each stage.

“I’ve been working within Swedish Match for 17 years,” he says. “I’ve learned everything from handling and assessing the quality of raw tobacco, product development and how the production works. I contribute by having an understanding of the entire process. I also see the importance of us working integrated with the production and the market. It creates good networks and we can therefore develop products that are as close to the consumers’ demands as possible.”

Without doubt, Brännberg sees a global potential for snus and smokefree products. The challenge

Facts


TOBACCO

- In total, Swedish Match buys about 3.5 million kg of tobacco per year from 12 countries.
- A grade of tobacco is a qualitative measure of raw tobacco. These grades can be based on elements such as nicotine content and general physical quality.

will be to find the right products for the right target group, regardless of which market the product is to be sold in.

“Success will derive from the cross-functional work in our product development process,” Brännberg says.

“From a global perspective, the future for our products looks exciting. Working with the entire world as your market is wonderfully inspiring.” ✦



“Without a doubt, there is global potential for snus and smokefree products”, Brännberg says.



3 questions...

ANNA-KARIN KARLSSON

Marketing Manager, Swedish Match
North Europe Division

How do you keep the consumer in focus?

“By following our consumers through various surveys, we analyze their requests and behavior. We chart consumers in different markets, where we can follow changes in behavior, selection and preferences over a period of time. But we also delve deeply into their attitudes by interviewing them in small groups to gain a deeper understanding of specific issues. With these results, we can identify new product alternatives.”

How do you develop the right product?

“I wish it was as simple as just asking consumers what they want. The challenge is to be one step ahead. We want to fulfill needs that the consumer has not yet experienced. To create an attractive product, you have to take into account experiences and interpret trends, both within the same product category as well as other general market trends. Moreover, you have to understand the driving forces behind the product choices that the consumer makes. Basically, it means understanding what the consumer is expressing.”

What will the products of tomorrow be like?

“They will be influenced by the market today and how consumers change their needs and attitudes. Other factors also affect us, such as additional smoking bans, taxes, prices and the overall state of the global economy. Swedish Match cannot reach consumers through large-scale advertising, and we therefore cannot influence them to any great extent. The consumers just have to discover our new products for themselves.” ✪



From left: Nina Hanses, Cecilia Wiksfors and Camilla Engdahl, work to increase awareness to reduce Swedish Match climate impact.

THINKING GREEN

Swedish Match works with reducing the negative burden on the environment. Inside Magazine looks at some of the facilities to see how they are reaching the targets. BY: **KAROLINE HAMMAR** PHOTO: **BO HÅKANSSON**

Cecilia Wiksfors, Engineering & Quality Manager and Camilla Engdahl, Environmental Coordinator, both working at the Gothenburg plant in Sweden, say that their work involves conscious decisions both large and small.

“Swedish Match is a company that has been doing business for a long time and we have continuously been working to improve our environmental efforts. Today, it is more

about dealing with issues in the daily work,” Engdahl says.

These could include anything from introducing organic coffee in the staff canteens, to choosing less environmentally harmful business trips, or how to deal with and reduce waste in the factories.

“We constantly improve our daily operations and make our environmental work an integrated part of our business,” Engdahl says. Engdahl views information and

training as important parts of reaching the environmental targets within Swedish Match.

“We have training for all our employees about what we can do on a daily basis,” she says. “If you start talking about the environment, it increases awareness around these issues. That becomes a positive effect in itself.

When major new constructions or new installations are to be assembled in the factories, it is natural to come

Environment

up with a holistic solution that takes into account business demands and the environment at the same time.

One example is to gradually install measuring equipment to calculate the actual electricity usage of machines and production lines.

“It gives us a method where we can continuously measure and see the usage. We make efficient evaluations in order to improve finances and guidelines,” Engdahl says.

Swedish Match has a relatively low effect on the environment

and Swedish Match North Europe Division is ISO 14001 registered since 2003. Although that is a good thing, there is always more to do. The Distribution Center in Solna Sweden, has replaced fuel oil with heating from household waste.

“Transport and greenhouse-gas emissions are of course a constant challenge we work with,” Wiksfors says. “Transporting our products from factories to the distribution centers as effectively and as environmentally friendly as possible requires action,

“Thinking environmentally is here to stay”

and not just from us. We also evaluate our haulers’ environmental work.”

John Danhauer, Manager Utilities & Machine Shop at the Owensboro plant in North America, says great efforts have been made in all environment areas including reduction of energy, waste reduction, reductions in water use and reduction of discharges to air, land and water.

“The production facilities in the North America Division work very closely in the environmental area. All of the production facilities are ISO 14001 registered and share a common commitment to environmental excellence. We share resources and ideas regularly,” Danhauer says.

“Business trips affect the environment, so we are trying to choose travel by train instead of flying when it’s possible and also replace physical trips with video, telephone and web meetings,” Wiksfors says.

For example rail transport is prioritized, which is less environmentally harmful than truck transports, but unfortunately the railroad network is not always extended to areas where the company needs it.

”Thinking environmentally is here to stay. What we have to do is to prioritize the right activities and follow up the results. You can’t do everything at once. But small, gradual improvements make a big difference in the long run.” ✪

Cecilia and Camilla integrate environmental work in daily business.



Important to **reduce** environmental impact

Swedish Match believes that environmental efforts contribute to long-term sustainable development of the environment and business operations.

"It's important for Swedish Match to contribute to a better environment by measure and to reduce our environmental impact," Nina Hanses, Vice President Management Resources and responsible for environmental issues at Swedish Match, says. "A co-operation, called the Environment Council, works across divisions and aims to identify environmental measurements applicable to the organization. The result provides the possibility to benchmark towards other companies.

"This co-operation is a way to strengthen our efforts. By working across divisions, we utilize our knowledge and expertise in the best way. We create a structure

where we can easily improve, develop and follow up our work."

Swedish Match is a company of subsidiaries and a player in international markets. The factories round the world all share high environmental standards.

"Our philosophy is that environmental efforts should be carried out in the local processes. Our targets should be based on identified environmental impacts relevant to that specific operation," Hanses says.

"And they have to be clear, relevant and easy to measure."

Many environmental efforts are achieved in the local day-to-day business in close connection with customers, consumers and employees.

For Swedish Match it is important to contribute to a better environment for society at large.

"As a responsible business we continuously strive to limit our negative impact on the environment. As important as reducing environment impact is the result it brings in terms of great cost savings for our operations," Hanses says.

ENVIRONMENTAL COUNCIL

The Group Environmental Council, with representatives from all divisions, is responsible for environmental issues and for reporting environmental results. The Environmental Council has formulated a common working platform for environmental issues. Its task is to safeguard compliance with Swedish Match's stated policy and the Environmental Management System.

Environmental targets 2009

SWEDISH MATCH NORTH EUROPE DIVISION

- Material:** Reduce tobacco waste by 8 percent.
- Waste:** Reduce waste from production facilities by 15 percent.
- Carbon-dioxide emissions:** Reduce energy consumption in the factories by 2 percent. Reduce fuel consumption in trucks owned by Swedish Match by 1 percent.

SWEDISH MATCH NORTH AMERICA DIVISION,

OWENSBORO FACTORY. **Material:** Recover 90 percent of waste flavorings for alternate use. Residue to be sent to farmers for use as a cattle feed supplement. **Waste:** Reduce waste to landfill by 7.5 tons. Reduce recycled metal by 1.5 tons.

Energy: Reduce compressed air use by 20 percent on packaging equipment. Redesign compressed air points of use for more efficient use of compressed air.

SWEDISH MATCH INTERNATIONAL, DOTHAN FACTORY

Energy Consumption: Reduce energy use on identified equipment by 20 percent. Institute a program to turn off electrical power to radiant heaters and drive motors on equipment during off time.

Waste: 100 percent compliance. Initiate a lead based paint program to ensure proper compliance with regulatory requirements for the removal and disposal of lead based paints from buildings to include training, operational controls and record-keeping requirements.



Solstickan

Nahr El-Bared refugee camp, Lebanon.



PHOTO: LOUISE THORN



Henry Ascher, Solstickan Award winner 2008 and Prinsessan Christina Fru Magnuson.

PHOTO: PETER KNUTSON

ONE YEAR WITH SOLSTICKAN

Henry Ascher, pediatrician and associate professor at the Nordic School of Public Health in Gothenburg, received the 2008 Solstickan Award. He was awarded for ensuring that all children who stay in Sweden, either permanently or temporarily, are treated in a manner that complies with the United Nations' Convention on the Rights of Children.

BY: **KAROLINE HAMMAR**

“The donation kept the clinic going for four months”

What does winning the award mean to you?

“Getting the award was a great encouragement and it confirmed that my work for vulnerable children in society is important and that it’s being highlighted. It’s a challenge getting politicians and decision makers to realize how important asylum-seekers’ children’s right to health is, that it’s actually a human right. The award gave me renewed energy to go on working.”

Have there been any particular highlights during the year?

“Hosting a scientific seminar, the Solstickan Seminar, was inspiring. We gathered experts in the area; spokespeople from the UN, Save the Children and many youth psychologists took part. We had broad room for discussion on a controversial

theme. We also gave a voice to those we’re actually aiming our efforts at; youths took part by speaking about their experiences of living on the run.”

To which organization did you send the prize money?

“The decision wasn’t easy. Many aid organizations already have good financing. The important thing for me was that Solstickan’s money would really make a difference to people living in vulnerable conditions. Palestinian children’s health has always been a concern to me. The Al-Shifa clinic in the Palestinian refugee camp of Nahr El-Bared, in Lebanon, which received the donation, would not have been able to go on operating without this money. The money was enough to keep going four months, and during that time fund raisers for 2009 were found.” ★



PHOTO: LOUISE THORN

Solstickan donation saves **health** clinic

Nahr El-Bared, Lebanon. It is 35 degrees Celsius and the sun is burning ruthlessly over the camp, which holds about 40,000 Palestinian refugees. The refugee camp has existed since 1949, when the first Arab-Israeli War was in progress. The war led to many Palestinians fleeing or being driven away, and the state of Israel was founded. BY: **KAROLINE HAMMAR**



Solstickan

H

Henry Ascher chose to send the Solstickan Award prize money to the Al-Shifa clinic, the health clinic in the Palestinian refugee camp. The two doctors practicing at the clinic receive a total of about 80 patients every day. The burden of their work is incessant and there is not much time to rest.

Ascher says that today, less than two years after the clinic was completely destroyed by the Lebanese Army, the health clinic has been rebuilt and with financial help from organizations such as the UN, Emmaus Björkå and the prize money from the Solstickan Foundation there is now access to clean water, medicine, equipment and material.

Ascher, who served as a doctor in the camp for a total of 14 months in the 1980s, says: "The war in 2007 was one of the worst battles since the civil war. Many families in the camp are now housed in emergency accommodation and most of them are in cramped conditions. The situation is causing frustration, concern and insecurity for children and adults."

When normal frames of reference, such as family, school and local society no longer function, the social protection network breaks down. The Al-Shifa health clinic therefore plays a central role in the people's lives.

"The clinic is important and doctors and nurses are doing as much as they can for all those who need treatment," Ascher says.

Many refugees have psychiatric problems after having been traumatized by what has happened to their loved ones and to their homes. These experiences also manifest themselves in several psychosomatic symptoms.

"Chronic pains, headaches and stomach problems are common," Ascher says. "In terms of purely physical injuries, burns and shrapnel damage, as well as infections are all common too. Doctors also perform basic operations and the clinic offers dentistry as well."

Everyday is a struggle and the refugees feel a great amount of hopelessness. Thanks to the Swedish doctors





Families are housed in emergency accommodation. The situation causes frustration and insecurity. Still children find ways to play in areas destroyed by the war.



PHOTO: LOUISE THORN



Solstickan

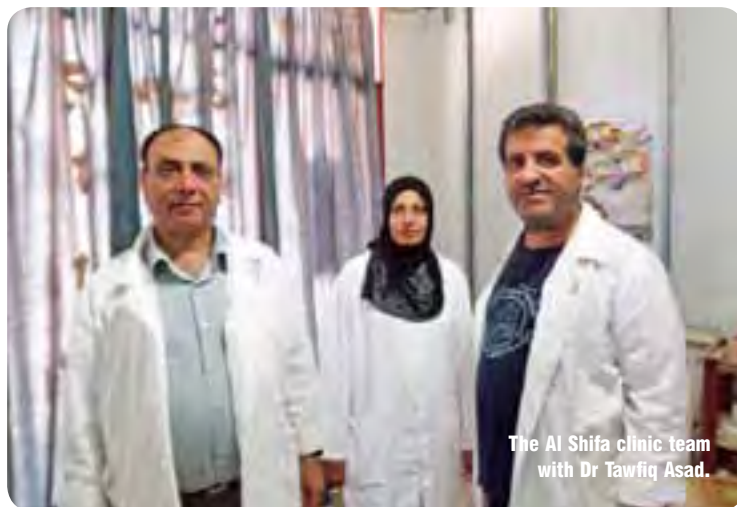
who built up and worked at the clinic in the 1970s and 1980s, and all of those who have worked on a voluntary basis over the years, the clinic's team is stronger than ever. Two doctors practice, sometimes round the clock, together with two nurses and one assistant. Despite threats and uncertainty from the outside, they refuse to leave the camp and the clinic.

Recently, many donors have made it possible to further develop the clinic and wages can now be paid.

"Money and contributions to finance the operation are of course a constant challenge. Solstickan's money benefited the clinic at a decisive phase," says Monzer El-Sabini, coordinator between Swedish aid organizations, the clinic and the refugee camp.

"Solstickan's contribution was enough to keep the operation going for four months, August until November 2008. There was great uncertainty about the clinic's future financing. Now it is solved and it seems to work out for 2009."

But how maintaining courage and keeping strength up to go on working incessantly? El-Sabini says that the strength comes from the opportunity and freedom to act and do something good for someone else.



The Al Shifa clinic team with Dr Tawfiq Asad.

PHOTO: LOUISE THORN

"Being there and channeling contributions and aid, such as that from Solstickan, and then seeing the result brings motivation. The result means small but still slightly improved living standards. By supporting those who are having difficulty, we create unity. It's a small contribution, but I think it means a lot. Every individual has a responsibility to make a difference. I want to look myself in the eye knowing that I do what I can to be a good human being" ✨



"Everyone has a responsibility to make a difference"

PHOTO: BO HÅKANSSON

Dahlgren looks back on a successful 2008 at AGM

Dahlgren described 2008 as a strong year, during which operating profit of snus increased by 24 percent. The Group continues to produce stable results, despite the financial crisis, more smoking bans and rising taxes.

DAHLGREN'S SPEECH IN BRIEF

Much of 2008 was spent developing a new business strategy. Social trends are pointing in favor of snus, and smoking bans are benefiting smokefree alternatives, which have been proved by a rising global interest in Swedish snus.

"Our strategic aim is to raise our ambition level within smokefree products and become global leaders," Dahlgren said. "We shall be the preferred choice by the consumers', the most valued partner for trade and be the industry authority for regulators. We're continuing to look after our brands with measures to further develop our strong brand portfolio."

Swedish Match and Philip Morris International have launched a joint venture to expand smokefree products into the international market.

"I see this as a very exciting development and I truly believe that we can drive the category and make a great contribution to consumers and customers on a global scale. The competition in the industry is increasing the demands on our business," Dahlgren said. "But our innovational strength and strong brands, combined with Philip Morris' international organization, will give us a strong position to grow internationally. The cooperation will strengthen our strategy and business within the smokefree segment."

For our cigar business we recognize opportunities to drive value by improved profitability and global synergies. We aim to be "best in class" for cigars on a global base. Lights and Pipe tobacco demonstrate a winning concept today and I basically see the way forward as "more of the same".

QUESTIONS AND OTHER POINTS ON THE AGENDA

The importance of duty-free trade in the Baltic region and views on organic growth were discussed in the question and answer session. The ban on selling Swedish snus in the EU was discussed and the only way to work towards overturning the ban is to have a real, active dialog with policy makers and politicians. The Swedish government has also taken an active position on this matter in the past six months.

The AGM approved all proposals that the board and election committee put forward. The AGM also decided on a dividend of SEK 4.10 per share. Board members Charles A Blixt, Andrew Cripps, Arne Jurbrant, Conny Karlsson, Kersti Strandqvist, Meg Tivéus and Karen Guerra were reelected. ★



Martin Källström takes the **helm** for Swedish Match North Europe

During Martin Källström's time at SCA Hygiene Products he has gained experience within many different management positions such as local market organizations, manufacturing, R&D and global category organizations. He is now taking helm for Swedish Match North Europe Division and the new Smokefree Division to be created.

BY: **KAROLINE HAMMAR** PHOTO: **BO HÅKANSSON**

What experiences do you bring?

"From my positions in SCA, I have gained management experience from strategy development, manufacturing, innovation, local markets both in and outside Sweden. Due to different categories, channels and geographies the task challenges have varied a lot over the years. My interest for the consumers and customers has always been the red thread throughout my career."

What are your strengths?

"I am action- and result orientated and I have a positive attitude. I always work with a high engagement level. Since I have been in leading positions for an international organization for many years, I have developed a capability to work with different cultures. One major insight from these years is to build on the diversity and differences and create a competitive edge for the company. My background from different

competence areas has helped me understanding the business from a broad company perspective and by that helping me making right priorities and decisions."

Why Swedish Match?

"Swedish Match has a long successful history with a very competent organization. Swedish Match has developed many markets and brands into successful high performance units. I hope I can contribute with experience from other categories and a global business very much built on strong brands."

What are the benefits of working with global organizations?

"A global organization can be highly complex, and to create an effective global organization you need clear goals, clear areas of responsibility and a common way of working. My experience is that by working through efficient networks, we can create a stronger learning culture both from an internal perspective as

well as an external perspective. For Swedish Match a common division for smokefree products gives a better critical mass for expansion. It also gives a prerequisite for making the right priorities for a global snus business."

What is your view on leadership?

"A good leadership always begins with respecting others. I strongly believe that if everyone is motivated and feel committed to good cooperation, it definitely creates lots of energy and good results. As a leader you have to be consistent in your decisions, and stick to them. Clear goals, areas of responsibility, and the ability to use your own initiative, are essential for an effective organization."

What is your view on brand development?

"For consumer-goods companies to succeed, the brands need to be built on a well grounded insight about the consumers and the target groups. The brands also need a clear strategy



“You have to know what triggers the consumers’ needs,” says Källström.

and a consistent execution over time. Consumers shall feel confident and recognize the quality, format and appearance of their brand, year after year.

What are the challenges for a consumer-goods company of today?

“There are many challenges, one is to develop the right and relevant innovations. Companies need to build their innovation portfolio on relevant consumer insight which is a challenging and time consuming process. The innovations and brand development must be consistent in terms of quality, format and appearance.

A challenge within consumer insight work lies in ‘seeing inside’ the consumer, understand the environment where he or she is acting

in, and finally developing the right offer.

Furthermore, sales and distribution needs to be secured, today there is a very tough competition in this field. I believe the new joint venture with Philip Morris International will create a great opportunity for Swedish Match to distribute smokefree products outside existing markets.”

And last but not least, what is your personal relation to snus?

“The fact that I don’t use snus means that I completely rely on listening to our consumers. You can draw a comparison between the brands I’ve worked with before; I didn’t wear sanitary products either. The important thing is to know what triggers consumers’ needs. And who knows, maybe I’ll get a taste for snus?” ☺

In brief

MARTIN KÄLLSTRÖM

Title: President Swedish Match North Europe Division.

Age: 47

Family: Children, Mattias 17 and Frida 15, married to Carina.

Education: Civil Engineer in Chemical Engineering from Chalmers in Gothenburg

Lives: In Mölnlycke outside Gothenburg, and Stockholm. Has a summer cottage in Bohuslän.

Interests: “I get a lot of energy from spending time with my family, and from outdoor activities at the sea in Swedish archipelago. In the last couple of years, I’ve been trying to improve my golf handicap, which is now 22.



Bengt Jönsson

SMPM International finalizes organizational structure

SMPM International, the joint venture company established by Swedish Match AB (SM) and Philip Morris International (PMI) to commercialize smokefree tobacco products worldwide, outside of Scandinavia and the United States, has finalized its initial organizational structure, effective on May 1, 2009.

The joint venture company is headed by Bengt Jönsson from Swedish Match and further consists of a handful of people from both Swedish Match and Philip Morris International. "The new team brings a wealth of experience and skills from their respective companies to develop business opportunities for the joint venture worldwide", Bengt Jönsson says.

The joint venture will utilize the strong combination of Swedish Match's product development and manufacturing expertise in the smokefree category and PMI's extensive sales and distribution infrastructure to develop business opportunities worldwide. Under the agreement, each company will own a 50 percent stake and will license their respective trademarks and intellectual property to the joint venture.

SMPM International, based in Stockholm, started operations on April 1, 2009. The Board of Directors consisting of six Senior Executives, three from each company, was announced on March 10, 2009. ✪

PHOTO: HÅKAN MÖBERG

“Business as usual”

Few other businesses would survive under the commercial limitations that exist for Swedish Match, much less thrive and prosper. Still, our core product – Swedish snus – continues to build the success story that is Swedish Match, while from an outside perspective it continues to face a formidable barrage of legislation and regulation.

Sponsoring and marketing are heavily restricted, giving limited direct access to the consumers. Display bans, infringements of commercial free speech and to top it off a complete ban on exports to the markets within the European Union, a community founded on the principle of free trade, would make conditions extremely difficult for other companies.

But this is all in a day’s work for the Swedish snus industry – a unique industry, where Swedish Match is rapidly taking on the world of smokefree tobacco with the aim of becoming global leader.

I don’t find it strange that regulatory bodies are focusing their attention on tobacco; I would honestly be rather concerned if they didn’t. Our competitors sell cigarettes, a product with considerable risks. The authorities have obligations to the public; nothing to be taken lightly.

We therefore have an obligation to raise awareness about us, and our impact on society, to combat prejudice with knowledge to ensure that

“Openness and cooperation with those who regulate our business is necessary, but never a goal in itself. Access to markets is”

we get fair treatment. And, in return, to always stay true to our values and never compromise with our care for the consumer.

We bridge the gap between those who regulate and those who enjoy the products we offer. We must listen to both sides to completely understand our surroundings and our challenges.

Unpredictability creates uncertainty, which makes it difficult to navigate.

It feeds doubt, when we need to generate pride in our brand and

our products, which have great potential in the future.

To regulate well is an art form; if it’s done clumsily, it will inevitably crush the wealth-creating forces that benefit everyone. Every piece of considered legislation throws employment, exports and company taxes to be used for the common good of society into the political ring. And we shall always take part in that discussion.

Openness and cooperation with those who regulate our business is necessary, but never a goal in itself. Access to markets is.

We have a scientific case, but more importantly a solid business case. Swedish Match is a splendid company with a terrific legacy, well prepared to face the challenges that keep coming. We know where we stand, with our heads held high. It’s business as usual. ✪



PHOTO: PETER KNUTSON

Henrik Olsson

Director of Public Affairs North Europe, Group Public Affairs

The quarter in brief

Sales increased for all product lines

Sales for the first quarter of 2009 increased by 25 percent to 3,535 MSEK (2,818) compared to the first quarter of 2008. Currency translation has affected the sales comparison positively by 431 MSEK. In local currencies, sales increased by 10 percent.

Sales of snuff in the first quarter increased by 18 percent to 969 MSEK (821) and operating profit increased by 24 percent to 396 MSEK (321). Scandinavian snus sales were up 16 percent compared to the first quarter of the prior year while volumes measured in number of cans increased by 14 percent. Snus sales and can volumes in the first quarter of 2008 were unusually low as a result of destocking following excise tax and price increases in January 2008.

As a result of trade destocking related to the increased Federal Excise Tax (FET) as well as higher pipeline volume in the previous year for the Red Man moist snuff national rollout, volumes in the US declined by

5 percent. Improved average prices offset the volume decline and resulted in increased snuff sales in North America by 1 percent in local currency. During the first quarter there was a high level of trade marketing in Scandinavia, related in part to new product launches. Operating margin was 40.9 percent (39.0).

For cigars, sales increased by 56 percent during the first quarter to 1,179 MSEK (757). Operating profit increased to 287 MSEK (112). US cigar sales grew by 43 percent in dollar terms, with sales and volume growth for machine made cigars, and premium cigars positively impacted by hoarding activity in anticipation of FET related price increases. In Europe, sales declined somewhat in local currencies, while volumes increased. Operating profit grew and was unusually strong in the US in local currency and was flat versus prior year in Europe. Operating margin for cigars was 24.3 percent (14.8).


Group operating profit for the first quarter increased by 55 percent to 846 MSEK (547). In local currencies, operating profit increased by 35 percent. Currency translation has affected the operating profit comparison positively by 109 MSEK.

Operating margin for the first quarter amounted to 23.9 percent

“In local currencies sales increased by 10 percent.”

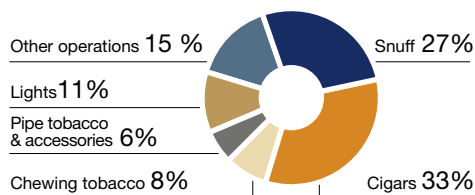
compared to 19.4 percent for the first quarter of 2008, the increase being driven by the exceptionally high cigar volumes, as well as continued growth in the snuff businesses.

The reported tax rate for the Group for the first quarter was 23 percent.

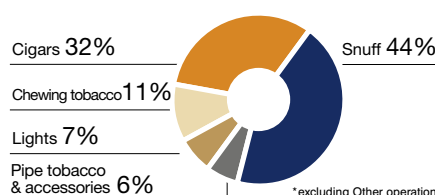
Basic earnings per share for the first quarter amounted to 2.27 SEK (1.36). 

Quarterly results

SALES JAN-MARCH 2009



OPERATING PROFIT JAN-MARCH 2009*



MSEK	Jan-March 2009	Jan-March 2008	Full year 2008
Sales	3,535	2,818	13,162
Operating profit	846	547	3,090
Profit before income tax	737	433	2,646
Net profit for the period	567	346	2,261
Earnings per share, basic (SEK)	2.27	1.36	8.98

CFO JOAKIM TILLY GIVES HIS PERSPECTIVE ON THE RESULT:

“ Without a doubt one of the biggest short term issue for investors, is the US Federal excise tax and how it impacts our businesses. We saw a dramatic trade hoarding of inventory for our cigars, both in the mass market, for our machine made cigars, and in the premium market, for our hand rolled cigars. Unlike for all other tobacco products, there was no tax imposed on the existing inventories of large cigars, and by loading up on inventory prior to the April 1st tax increase, wholesalers and retailers could delay purchases of higher taxed products. For all other tobacco products, there was a tax imposed on inventories, so the incentive works the other way, with wholesalers and retailers wanting to avoid the tax on their inventories and thus holding back on orders,

especially during the month of March.

With volumes up some 30 to 50 percent above what one would normally see for many of our large cigars in the US, Sales and Operating profit were unusually high on the cigar product line. In the second quarter wholesalers and retailers will be working down these inventories, so shipments will likely be quite low, as will operating profit and operating margins.

Retailers and wholesalers reduced their inventories of other tobacco products during the month of March, in order to minimize their tax from inventories. This was especially evident for snuff. For most products, prices increased to reflect the tax changes, but for value priced snuff, prices generally did not change, meaning that it made a lot of sense for wholesa-

lers and retailers to reduce their inventories as much as possible. By doing this, they avoid the tax on inventories, and then can buy the product in April for the same price as before with the manufacturers absorbing the tax hike.

Back in February before US moist snuff pricing announcements were made we thought the destocking effect would be minimal, but then when it was clear that list prices weren't going up, the destocking effect became much more dramatic.

Consumption is holding up well, and all of the tax changes, for cigarettes, for example, might even accelerate the growth of the snuff segment. That being said, we expect that most, if not all, of the destocking will be reversed in the coming months, as retailers and wholesalers revert to normal stock levels.

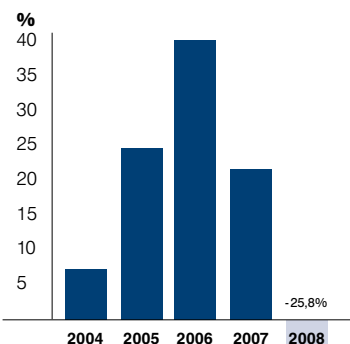
Margins in the US snuff business will be under pressure however, until pricing changes to reflect the tax increase.

Our overall operating margin in the first quarter was a bit higher than consensus estimates for cigars, and a bit lower for snuff, which we believe is due primarily to these inventory changes in the US.”



JOAKIM TILLY

Total return



During the period January 2, 2009 to March 31, 2009 the share price of Swedish Match outperformed the NASDAQ OMX Stockholm large cap index (OMXS30) by five percentage points. The share price of the Swedish Match share declined by less than one percent, closing at 119 SEK per share. During the same period, the OMXS30 index declined by six percent. The Swedish Match Annual General Meeting held on April 28, announced its decision to increase the dividend for the 2008 fiscal year to 4.10 SEK per share.

Ettan – original taste since 1822

Columbus discovered the Americas, and from his many voyages he also brought back with him the experience of how to use tobacco. But it took some time for Europeans to embrace this mean of indulgence. French ambassador Jean Nicot, who gave his name to nicotine, introduced snuff to the French court from Portugal as a remedy for headaches. The cure worked and it became the height of fashion among the royal families of Europe. But this was long before Sweden embraced snus. The snus made then, tasted very different to today's. But a Swedish snus producer decided to make a completely new form of snus using the pure tastes of tobacco, salt and water. His name was Ljunglöf, the new snus was Ettan and the year was 1822. Ljunglöf's factory samples were served in silver

bowls. No.1 was originally a quality rating, as were No.2 and No.3 on a sliding scale. With deliberate marketing, Ljunglöf managed to turn No.1 into his own brand, which was popularly referred to as Ettan. His strategy of compromising neither on quality nor price made his competitors jealous. Ljunglöf kept his recipe a secret and guarded his brand fiercely.

Today, Ettan is one of Swedish Match's strongest brands, built on tradition, knowledge and uncompromising quality. It is a solid brand, where the pure taste of tobacco is always in focus and where the consumer's expectations regarding the contents and design of the cans are fulfilled time after time, year after year. Ettan links Swedish Match's past with its present, and is a strong brand on which to build future products. Ettan remains THE original.

