

# Inside

INFORMATION ABOUT SWEDISH MATCH FOR SHAREHOLDERS AND OTHER STAKEHOLDERS

#1 februari 2001

## Record year for Swedish Match share...

While 2000 was a relatively dismal year for the OM Stockholm Exchange and NASDAQ, it was the best year for the Swedish Match share since it was first listed in May 1996. The share price rose 25 percent during the year, from SEK 29.70 to SEK 36.50. During the same period, the OM Stockholm Exchange's General Index declined by more than 13 percent.

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## ...and praise in the media

Swedish Match's successful reorientation prompted a highly positive reaction in the media during 2000. While the successful focus on snuff, particularly in the US, made the greatest impact, the Group's investments and ambitions in the high-quality cigar segment also drew favorable comment.

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## More than a match for the media



»I enjoy being the company's public representative on tobacco issues. It's an intellectual challenge,« says Bo Aulin, Swedish Match's Senior Vice President, Corporate Affairs, Secretary and General Counsel. He has also faced

challenges internally, notably in connection with the Global Challenge program, launched in 1997. »The program has now been successfully implemented,« says Bo Aulin.

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## New acquisition in South Africa

At the beginning of this year, Swedish Match purchased British American Tobacco's pipe tobacco operations in South Africa, with annual sales of about 200 MSEK. The acquisition was the third in South Africa within less than one and a half years.

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## Declaring redemption rights

During May 2000, Swedish Match implemented a redemption program whereby 14 shares entitled the holder to redeem one share at a price of SEK 35. Now that tax-return time is upon us, many shareholders who are Swedish taxpayers are doubtless wondering how to declare the redemption rights in their returns. Inside uses a simple model to explain how to proceed.

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VICTOR BRÖTT/FOTOJOURNALISTEN AB

DOMINICAN REPUBLIC:

## Realm of the cigar

The Dominican Republic is a Mecca for cigar-lovers, and the inhabitants maintain that the country was the original home of the cigar. Today, more than half of the luxury cigars on the US market come from the Republic, which has become a cornerstone of Swedish Match's cigar strategy.

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## Another strong year for Swedish Match

YEAR 2000 WAS ANOTHER strong year for the Swedish Match Group. Both sales and earnings reached record levels and the net profit figures show a considerable strengthening of snuff sales, with growth figures that no other tobacco product can match. Cigar sales also increased strongly – by 87 percent – mainly due to acquisitions.

»Both sales and the earnings trend give

a clear indication that we have geared up the rate of increase,« notes the Group's Chief Financial Officer, Sven Hindrikes. »This means that we have built up a unique position in the industry's growth segments.«

The positive results provide a solid platform for further improvements in sales and operating income during 2001, and this, together with the expanded pro-

gram for buying back the Group's own shares, creates favorable conditions for a continued increase in earnings per share, Group management believes. Against this background, Group management proposes that the Board increase the dividend from SEK 1.25 to SEK 1.35.

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## Dear shareholder!

In this issue you can read about our recently released year-end report for 2000, which presented new record figures for Group sales and income. We are well on the way to realizing the strategies adopted at the beginning of 1999. A »new« Swedish Match is emerging – the unique, global tobacco company that focuses on world-leading brands and niche products in growth markets.

Today, we are the only company in the world that sells snuff in three continents, Northern Europe, North America and southern Africa. Our income figures show that snuff is a product that is going from strength to strength, with growth figures that far surpass those of any other tobacco product. Both sales and income reached new highs in our growth markets in North America and Northern Europe.

In our new role as the world's second largest cigar company, we can now mount a global offensive based on a comprehensive product range in all market segments. The acquisitions we have made during the past 18 months have created substantial synergy effects. All our tobacco products reported increased sales and operating income in 2000.

In regard to lighters and matches, the former product area reported a strong improvement in its operating margin after a radical restructuring program, while the only product area reporting a decline in its operating margin was matches, which is now scheduled for restructuring.

Against this background, we propose that the Board increase the dividend from SEK 1.25 to SEK 1.35. Based on an extended share buy back program and the prospects for continued profitable growth, we shall do our utmost to once again achieve an increased return for our shareholders in 2001.

Lennart Sundén, CEO

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**SWEDISH MATCH**

## NEW RECORD FIGURES

# Earnings bode

The conditions for a continued improvement in sales and operating income during 2001 are favourable after the strong performance in 2000, according to Swedish Match's Chief Financial Officer Sven Hindrikes.

**T**he Group plans to further intensify its focus on product development and product launches in order to strengthen long-term organic growth. »All in all, if we include the ongoing program to buy back our own shares, there are favourable conditions for a continued increase in earnings per share,« says Hindrikes.

Swedish Match maintained its momentum through the last quarter of 2000, with a 25-percent increase in sales and a 26-percent rise in operating income before items affecting comparability. For the full year, the Group achieved new record figures, with sales amounting to 11,533 MSEK and earnings amounting to 1,710 MSEK before tax and items affecting comparability.

This means that Swedish Match has succeeded in carrying through its strategy of accelerating the pace of growth within the Group. The main focus during the year was on:

- Creating growth and strengthening market shares through acquisitions
- Laying the foundations for increased organic growth through business-development and product-development initiatives
- Improving the balance-sheet structure by buying back shares.

»Both the sales figures and the earnings

trend give a clear indication that we have geared up the rate of increase,« notes Hindrikes. »We were already in a world-leading position in smokeless products, snuff and chewing tobacco, and now, through acquisitions, we are the world number two in cigars.

»This means we have built a unique position in the industry in the segments that are growing, and which give the consumer quality and pleasure coupled with lower health risk as regards the negative health effects of tobacco,« Hindrikes continues. »We are the only global company that markets snuff in three continents – Europe, North America and Africa – and we believe that snuff is the best product for consumers who are looking for an alternative to smoking.«

**SNUFF WAS ONE OF THE YEAR'S** success stories, with record figures. In northern Europe, volumes increased by 8 percent, which is more than the average growth rate of 5 percent during the past few years.

»The strong growth is due to the fact that more consumers are now using snuff instead of smoking. We have also launched a number of new products,« says Hindrikes.

The strong breakthrough in the US continued, with the Group's market share increasing from 6 percent in 1999 to 8 percent last year in a growing total



Sven Hindrikes.

market. Volumes increased by 19 percent during the year. Overall, operating income for snuff operations increased by 15 percent to 954 MSEK.

**CIGAR SALES INCREASED** by 87 percent during 2000, mainly as a result of acquisitions. Operating income increased by 68 percent to 347 MSEK. The trend for machine-produced cigars in the US was particularly pleasing, with a 10-percent increase in volume in terms of numbers sold.

»It is worth pointing out that we are now also seeing the positive synergy effects of our acquisitions in the US, where we have a larger sales force with better coverage. This has benefited sales of both chewing tobacco and snuff,« says Hindrikes.

Pipe tobacco also showed strong full-year figures, with sales increasing strongly and operating income more than doubling. The improved figures resulted mainly from the acquisition of Leonard Dingler in South Africa. This transaction has made South Africa one of the Group's major markets. Its significance will increase even more fol-

## SWEDISH MATCH – THE YEAR IN THE MEDIA

# Snuff impresses journalists and

Both on the stock market and in the media, 2000 was a successful year for the Swedish Match Group. In particular, attention was focused on the triumphal progress of snuff outside the product's traditional markets in the Nordic region.

### Swedish Match successfully transforms

French business magazine L'Usine Nouvelle commented on Swedish Match's successful transformation. Previously, writes the magazine, Swedish Match was a small European cigar manufacturer that used its match and lighter operations to establish an international

presence in new growth markets. Today, the company has abandoned cigarettes to become a world leader in the cigar and snuff segments. The Group penetrated the US market aided by acquisitions that increased sales by several times. The Group also mounted a radical drive to reduce costs, notes the magazine. (L'Usine Nouvelle, number 2758/2000)

### »How long will the market ignore a company as shareholder-friendly as Swedish Match?«

This was the question addressed by Johan Wettergren in a column in the Swedish business daily *Finansstidningen* on July 26, 2000. »Who would not wish to own shares in a company that is trading at a multiple of earnings below 10, based on current-year forecasts, while at the same time exhibiting such a rapid growth rate ... and which always manages to make sure that capital winds up with its shareholders?« the paper wonders.

# well for 2001

lowing the acquisition – after year-end 2000 – of BAT's pipe tobacco operations, with annual sales of 200 MSEK.

Sven Hindrikes continues by noting that the impressive upturn in lighter operations is now well established: »We achieved an unprecedented level of earnings, underpinned primarily by a successful restructuring program that substantially reduced costs. But we can also discern an increased demand – for example from Eastern Europe, which is an important market region for us.«

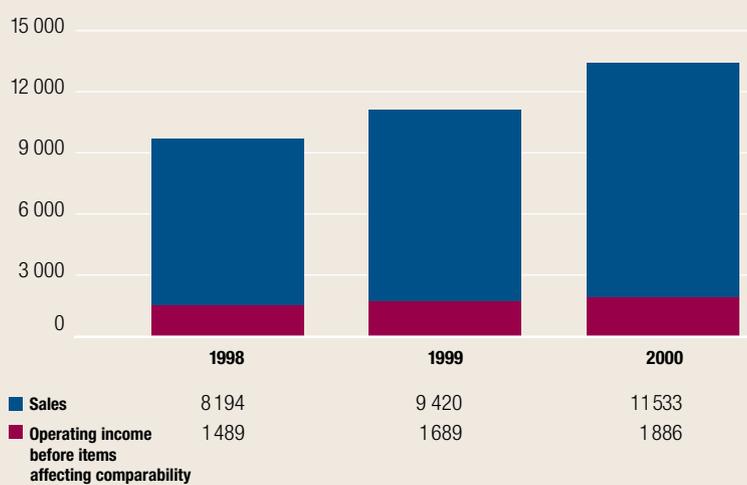
**OPERATING INCOME INCREASED** during the year for all product areas except matches. A restructuring program is going on in this area, with the aim of improving the operating margin.

»The restructuring program in Europe is proceeding according to plan. At the same time we have noted a decline in sales volumes, which means that we face a demanding and long-term task, which will require patience,« says Hindrikes.

Swedish Match has already increased the focus on product development and new product launches. »This will be a key theme in 2001,« continues Sven Hindrikes. »The costs for developing and launching products are set to increase. Our aim is to create a higher rate of organic growth in the long term.«

**ALL THINGS CONSIDERED**, Sven Hindrikes feels that there are favourable conditions for further increases in sales and operating income in 2001. »We have also expanded the share buyback program to apply to up to 10 percent of the company's outstanding shares. Since we can reasonably expect to fulfill this objective, I would venture to anticipate a good return for shareholders, with a possible improvement in earnings per share,« concludes Hindrikes. □

SALES AND OPERATING INCOME, 12 MONTHS MSEK



SALES MSEK

	12 months 2000	12 months 1999	Change %
Snus & Snuff	2 071	1 688	23
Chewing tobacco	1 227	1 068	15
Cigars	2 690	1 438	87
Pipe Tobacco & Accessories	762	420	81
Matches	1 712	1 673	2
Lighters	720	662	9
Other	2 351	1 742	
<b>Subtotal</b>	<b>11 533</b>	<b>8 691</b>	<b>33</b>
Divested business		729	
Items aff comp			
<b>Total</b>	<b>11 533</b>	<b>9 420</b>	<b>22</b>

OPERATING INCOME MSEK

	12 months 2000	12 months 1999	Change %
Snus & Snuff	954	828	15
Chewing tobacco	331	297	11
Cigars	347	206	68
Pipe Tobacco & Accessories	213	109	95
Matches	90	107	-16
Lighters	74	14	429
Other	-123	-127	
<b>Subtotal</b>	<b>1 866</b>	<b>1 434</b>	<b>32</b>
Divested business		255	
Items aff comp		3 707	
<b>Total</b>	<b>1 886</b>	<b>5 396</b>	

## Analyst questions

Swedish Match's earnings for full-year 2000 were at almost exactly the level forecast by market analysts. Pre-tax earnings amounted to 1,710 MSEK, compared with an average earnings forecast of 1,744 MSEK from the analysts.

Shortly after the publication of the year-end report, Group management held its customary meeting, via a telephone conference, with the analysts. Here are some of the questions and answers from the meeting:

**MICHAEL SMITH, MORGAN STANLEY:**

»You announced a proposal to increase the dividend, but the amount in question will still be substantially below earnings per share. Do you have a specific dividend policy?«

**LENNART SUNDÉN, PRESIDENT:**

»Yes, we have a written policy which states that the dividend should correspond to around 40-50 percent of net income. If the proposal to raise the dividend is accepted, it will place us in the upper part of this range. But as you know, we have also been considering other possible ways of satisfying the shareholders. We intend to carry through our buyback program to bring us up to 10 percent of the number of shares outstanding, which was the original aim of the program.«

**JONATHAN FELL, MERRIL LYNCH:**

»I have a question about snuff. You said that you intend to focus increasingly on this area – on product development for example. I assume that you would also like to enter new markets. But won't you also be forced to intensify your efforts in the US?«

**SVEN HINDRIKES, CHIEF FINANCIAL OFFICER:**

»A recent measurement showed our market share in the US to be 8 percent, so growth is continuing there. However, price competition was very tough during the fourth quarter of 2000 and has continued to be so during the first quarter of this year. Accordingly, we take the view that we must focus more on both product development and other projects.«

»But since the initiatives taken during this year will also apply to other markets, we will incur extra costs for a number of launches during the year. Thereafter, we expect to return to normal margins for snuff operations.«

**FRANZ HOYER, CHEVREUX DE VIRIEU:**

»I have two questions. The first concerns match operations, to which 395 MSEK was allocated last year for restructuring. Have these funds been used up, and when will the task of restructuring be completed?«

»My second question relates to future acquisitions: You have been very active in this area to date; will this pattern continue?«

**SVEN HINDRIKES:**

»A small portion of the allocated funds remains unused. We expect to complete the restructuring program by the end of 2002. Among the reasons why it is taking so long is the fact that extensive relocations – and some closures – of production plants will be required. As everyone knows, such measures can take a considerable amount of time.«

**LENNART SUNDÉN:**

»As regards new acquisitions, there will probably be more, but that is all I can say at present. It is difficult to make any predictions, since it is not always possible to plan when opportunities will arise. But we will continue to apply the guidelines as before – with the aim of continuing to grow in those segments where we see growth potential.«

tions last year, the company has increasingly come to be regarded as having an undeservedly low valuation, considering its favorable profitability, insensitivity to changes in economic conditions and the growth potential in its remaining operations – snuff and cigars,« writes Veckans Affärer. (VA, number 50/2000)

### Snuff: healthy alternative

»The attention paid internationally to Swedish moist snuff is increasing,« says the magazine in the introduction to an article. The author, focusing primarily on the successes achieved by Swedish Match in the US market, states his view that »... the way (should) be open for Swedish Match to continue to take market shares.« While it undoubtedly takes time to outcompete established brands, »Swedish Match's low-price strategy has already proved highly successful.« (Affärsvärlden, number 4, 2001)

mer and Robur Fonder, which is the largest Swedish shareholder in the company. (DI, November 27, 2000)

### Pinch with potential

Swedish business weekly Veckans Affärer was also among those who noticed the upturn. Under the above headline, Veckans Affärer notes that »snuff and cigars pick up the slack when the smokers butt out.« At the same time as cigarette-smoking has fallen out of favor, it is still fully acceptable to use snuff or puff on a cigar. »It took a long time, but the market finally opened up its eyes to one of the most stable publicly traded companies. Following the sale of its cigarette opera-

## analysts

### Investors find Swedish Match snuff to their taste

As everyone knows, things were happening with the Swedish Match share after the summer, and the turn of events was reflected in the news coverage. Swedish business daily Dagens Industri, for example, noted that »the previously overlooked share broke its price record seven times during November.« The article identifies several large investors who bought Swedish Match shares for the first time or increased their holding in the company during the year, including the investment companies Investor, Lundbergs and Latour. Other major shareholders are the Zenit mutual fund run by Swedish financier Patrik Brum-

DOMINICAN REPUBLIC:

# A Mecca for cigar lovers

Accounting for more than half of the US market for prestige cigars, the Dominican Republic is an important base in Swedish Match's cigar strategy. Here, the Group employs almost 4,000 people on its plantations and particularly in the production of quality cigars.

The flight approach to Santiago Airport, at the northern end of the Dominican Republic, gives visitors a pretty good idea that they will soon be landing at one of the world's cigar Meccas. The lush tropical vegetation soon gives way to endless rows of neat tobacco plants. Christopher Columbus stepped ashore not far from here in 1492, which signaled the start of tobacco's conquest of world markets, initially as a medicinal plant and later as a pleasurable diversion. Not unnaturally, Dominicans claim that this is the global home of the cigar. The Spanish seamen (under Columbus) were

the first outsiders to see the local inhabitants roll their tobacco leaves, light them and inhale the smoke.

THANKS TO THE US embargo against Castro's Cuba in 1961 and the cigar-smoking boom in the US during the 1990s, the Dominican Republic has developed during the space of just 25 years to challenge Cuba for its world-leading position as a producer of hand-rolled luxury cigars.

After a tentative start in the 1960s, the Dominican industry has made rapid and substantial progress. General Cigar was one of the first major producers of quality cigars to establish operations in Santiago, the second largest city of the Republic and the heart of its cigar district, in 1978. General Cigar helped to build the prerequisites for an efficient industry by investing in training, quality control processes and marketing channels.

Several other major producers did the same and when the boom took off in the US at the beginning of the 1990s, the Dominican cigars secured a dominant position in the US, with a 50-percent market share, which has subsequently been maintained and consolidated. At the beginning of the decade, some 50 million quality cigars were shipped annually to the United States. Deliveries peaked in 1997, when more than 250 million cigars were delivered.

TOBACCO HAS BECOME a vital commodity in the country. Around 10 percent of the population of 9 million rely on the tobacco industry for their livelihood, most of them living around the city of Santiago, which has some 1 million inhabitants. Other traditional local products are sugar, rice, fruit and vegetables, which are exported to other Caribbean countries. During the 1990s, tourism also became a mainstay of the economy.

Like many other producers, General Cigar constructed its plant in a tax-free zone on the outskirts of the city. Only export companies are exempt from tax in the republic. The plant has around 3,000 production employees and a further approximately 500 work in the plantations.

»Quality and professional expertise are decisive factors as we embark on a global offensive with our premium cigars,« says Edgar Cullman Jr., President of General

## Global expansion of PRESTIGE CIGARS



The world's most-sold prestige cigar, the Macanudo, will spearhead this year's international launch of the Swedish Match range of premium cigars.

Thanks to the acquisition of the US companies, General Cigar and El Credito, last year, the Group is today one of the world's largest producers of exclusive cigars. The plan is for the top American brands, backed by General Cigar's distributors and Swedish Match's strong global distribution network, to capture positions in Europe, Asia and other markets during the next few years.

»Spearheaded by Macanudo, we commenced our international expansion about five years ago and today have sales in 85 countries. To date, we have successfully

focused on building up sales. Our objective is to build up our premium cigars into as big a success in Europe as they have been in the US,« says Edgar Cullman Jr., President of General Cigar.

THE CAMPAIGN WILL BE LED by Macanudo, which every third smoker of prestige cigars in the US ranks as one of their favorites. »This is a cigar that appeals to the modern cigar lover. It has a round, smooth and full flavor and is produced in the classic Cuban manner dating from the country's 'golden age' of cigar production. Macanudo has the potential to become the market leader in many other countries besides the US within the next five years,« adds Cullman.

The executives who will mainly be responsible for the expansion are Frans Vogels, President of General Cigar International, Richard Laing and David Danziger, with

the help of representatives of Swedish Match's North Europe, Continental Europe and Overseas divisions. Vogels comments:

»Our strategy is for the Swedish Match sales organizations to focus their efforts initially on the well-developed cigar markets in Spain and France and the somewhat less-developed markets in Sweden and the Benelux countries. The exact way in which we plan to launch the products must remain confidential at this stage. The cigars will command high prices – after all, we're talking about a luxury-class cigar. Several different versions will be introduced, namely Robustos, Maduros, Café and Vintage.«

HE ALSO REPORTS that the marketing channels will be as exclusive as the cigars themselves. »Distribution will be handled through professional cigar specialists and via exclusive restaurants, bars and hotel chains.



Edgar Cullman Jr.

VICTOR BROTT/FOTODJOURNALISTEN AB



Every single leaf is processed by hand in the approximately 20 different process stages.

»Quality and professional expertise are decisive as we embark on a global offensive.«

EDGAR CULLMAN JR

Cigar, in which Swedish Match has a 64-percent stake.

GENERAL CIGAR'S PRODUCTS occupy a front-line position in the Dominican Republic's quality offensive. This is where Macanudo cigars are produced, among others. Macanudo is today the most-smoked quality cigar in the US. Partagas, Punch and Hoyo de Monterrey are other General Cigar products that can normally be found in the top-five list of cigars in the US market.

What is the secret behind all this success?

»Tradition, competence, trade skills and resources,« responds Daniel Nunez, an Executive Vice President at General Cigar. »Our strength lies in our tobacco traditions. Top cigars are made by combining various blends of different tobaccos. Take Macanudo as an example. This is a blend of Dominican and Mexican tobaccos with a wrapper – 'Connecticut Shade Wrapper' – from the US state of the same name, and offers an exquisite medium-strength flavor that appeals to American consumers. Partagas features a wrapper from Cameroon. Since the wrapper accounts for two thirds of the cigar's flavor, it's important to find exactly the right balance in the blend.«

But that's still not enough, he continues. »To achieve the ultimate in quality, you

need resources in the form of time and money. Since tobacco is a living product that is exposed to wind and weather, it is essential to maintain large inventories of quality tobacco in order to constantly select and use only the prime grades. Tobacco for our top-of-the-range cigars has matured in our warehouses for two to three years after harvesting.«

WE TAKE A TOUR THROUGH the enormous warehouse area and follow the process from the fresh green leaves to the wonderfully aromatic, slightly oily and smooth – almost elastic – leaves being worked by the quick hands of the rollers. The craft of producing premium cigars is a 100-percent manual process. Every single leaf is processed by hand in the approximately 20 different process stages (see accompanying article). Consequently, the tobacco accounts for 65 percent of the cost of making a cigar.

Modesta de Fondeur, another executive at General Cigar, explains that skilled personnel became a key competitive factor during the cigar boom. »We have made substantial investments in the training of our 3,500 employees, who handle the process from plant leaf to finished cigar. Their training takes around six months and focuses a great deal on training the senses – tobacco must be experienced and assessed by a person's nose, eyes, ears and hands. It is an incredibly sensual type of work!«

We soon find out what she means. Wherever we look in the processing area, men and women are engaged in smelling

and feeling the leaves. They bury their faces in the big bouquets of leaves almost as if they were kissing them, listen to the rustle of the leaves and carefully check their color and shape – all with the aim of sorting out the very best leaves.

Using a few simple tools – a cutter, various shaping molds and vegetable glue – the hand-rollers fashion some 20 different models of premium cigars. The rollers are predominantly women, the best of whom produce more than 300 cigars a day.

The packing room is an impressive sight. Tens of thousands of prestige cigars, arranged in neat stacks of 50 cigars and worth millions, are being carefully packed, one by one, in beautiful cedarwood boxes from General Cigar's own plant. »The cedar comes from Mexico and provides yet another complementary aroma. We have stressed the tobacco during the process, so it is now important to allow the cigars to rest in storage for a few months before we ship them out.«

TODAY, THINGS ARE somewhat less hectic in Santiago. During the wild days of the cigar boom in the 1990s, speculators came here in droves to establish makeshift cigar plants. Around 100 of them have been eliminated during the past three years. »This has benefited both the country and the industry in general,« comments Edgar Cullman Jr. »since it confirms that a long-term quality approach pays off. □



Using a few simple tools the hand-rollers fashion some 20 different models of premium cigars.



## Crafting a premium cigar

THE HIGH-QUALITY craftsmanship underlying the production of General Cigar's cigar range in the Dominican Republic can mean that a tobacco leaf is handled up to 40 times in various manual processes before a cigar is complete. Briefly, the process stages are as follows:

### CULTIVATION AND MATURING PROCESS

It takes six weeks to cultivate tobacco seedlings before they are planted out, a further six weeks to grow the plants on to maturity, and yet another six weeks before the harvest is completed. Then follow two months of storage, to raise the moisture content from around 10

percent to 25–30 percent.

Then comes the important fermentation process, during which the leaves are stored in large bales, with temperatures reaching up to 45–50°C. The fermented tobacco is subsequently packed in bales and

matured for two to three years. Certain types are matured for even longer periods for special production.

Before the actual cigar production process is started, the leaves are sorted into four different sizes and three different main colors. Then they are bound into bunches, aired and packed in boxes in a number of batches during a six-week period.

### PRODUCTION PROCESS

The cigar itself consists of a mix of tobacco leaves. First, there is the actual filler, then the binder that keeps the filler in place, and finally the wrapper, which provides the cigar with an elegant, smooth surface. It is this combination of leaves of various ages and origins that makes up the »secret recipe« through which a producer competes in the areas of quality and flavor.

The roller takes the filler leaves, presses them together by hand and rolls them into a cigar shape before binding them with a wrapper leaf. The elliptical bundle of leaves is then placed in a shaping mold and pressed together for approximately one hour. Thereafter, it is time for the cigar to receive its final elegant wrapper leaf, which is sealed with a tiny amount of vegetable glue at the tip where the cigar will be clipped before smoking.

The quality of each individual cigar is checked by hand. The cigars are then stored in another maturing process, for between 25 and 180 days, depending on grade. A final quality check involves selecting and matching individual cigars for color and appearance before packing them in cedarwood boxes.

We intend to create a broader international market for his unique quality cigars together with other top brands. Moreover, we are currently launching his new cigar series called 'R,' which will be positioned at the apex of the segment's quality pyramid.«

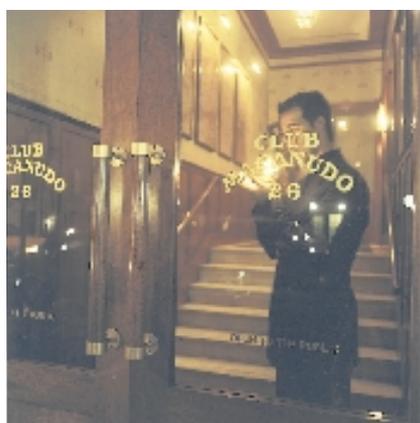
FINALLY, WHAT DOES Edgar Cullman Jr. think about all this – can a cigar like the Macanudo, produced in the Dominican Republic, really gain a following among Havana-loving European smokers?

»Yes, I believe it can. One of the reasons for the huge cigar boom in the US in the 1990s was the greater variety of cigars on offer in that market. The Caribbean producers enriched the market and provided consumers with greater opportunities to enjoy and learn more about cigars. It is an established fact that for many years cigars from the Dominican Republic have shown the greatest quality development and, even more importantly, have been able to maintain their quality at a consistently high level while still retaining the soul of the old Cuban craftsmanship, which is rarely found these days. □

### A FAMILY WITH TRADITIONS

Built up by the well-known Cullman family, General Cigar is deeply rooted in the US cigar tradition. Following Castro's takeover of Cuba, General Cigar has been one of the leading players behind the »Caribbean cigar revolution,« with an important base in the Dominican Republic. The company's original portfolio of brands has been complemented by such prestigious names as Punch, Partagas, Hoyo de Monterrey and Cohiba. Macanudo, which was purchased in 1969, has developed from modest beginnings to become the most-sold prestige brand in the US and is currently the largest brand in the world.

Swedish Match acquired General Cigar's machine-produced cigar operations in 1999. Subsequently, a 64-percent ownership stake was acquired in General Cigar, which produces several of the world's largest prestige brands. One of the main driving forces behind the partnership was the opportunity to use the distribution synergies generated for an international expansion program.



Distribution will be handled via exclusive restaurants and bars, such as Club Macanudo in New York.

»But we should not forget the El Credito brands, such as La Gloria Cubana, La Gloria Dominicana and La Hoja Selecta,« says Vogels.

»We are very pleased that Ernesto Perez-Carillo, the living cigar legend who founded El Credito, is on our team. He is a unique creator of great cigars and one of the most respected names in our industry.

## Cigar news plentiful in 2000...

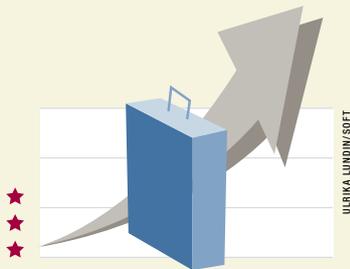
The year 2000 was an intensive one for the cigar operations of Swedish Match's Continental Europe division. Several new products were launched, including: Corona Superior and Gran Panatella from La Paz, the Group's largest brand name in Europe for machine-made cigars. Corona Superior is the largest cigar in the range, which has also been extended with the new Diablo cigarillo.

Tropical Delights (with a pipe-tobacco flavor) and Cool Breeze (menthol-flavored) are two new products under the Wings brand name.

Clubmaster and l independence from Arnold André have launched new filter cigars in several markets.

## ...and a new cigar room on the Internet

Cigarroom.net is the name of the virtual cigar room that Swedish Match launched in December 2000. On display are various types of cigars, a cigar school and tips on cigar literature. Initially, cigarroom.net is in Swedish, but an English version is also scheduled to appear during spring 2001.



## Swedish Match has secure potential

The Swedish Match share received a clear »Buy« recommendation in an analysis published in the Swedish *Finansstidningen* newspaper in mid-January.

»There are many indications that the Swedish Match share will continue to rise,« says the newspaper, which believes the share may appreciate a further 15 to 25 percent above SEK 36, its price at the time when the analysis was made.

## Captain of the Industry

Lennart Freeman, President of Swedish Match North America, has received the prestigious »Captain of the Industry« award. The prize is awarded annually by the Pennsylvania Distributors' Association. The Association explained its choice of Lennart Freeman by referring to the Swedish Match focus on being a service-oriented partner to the retail sector. In addition to a broad range, the company supplies retailers with the market information necessary to enable them to offer appropriate selections in their stores.



Lennart Freeman.

## No acquisition in the US

Swedish Match has withdrawn its bid for National Tobacco's chewing-tobacco operations in the US after a federal district court in Washington D.C. ruled in favor of the decision of the FTC competition authority not to approve the transaction.

# The man who likes mikes

»I enjoy representing the company in tobacco issues.

I am not envied by many, but I like it. It's an intellectual challenge.«

**B**o Aulin explains his enjoyment of his role as defense counsel for Swedish Match.

»Many people perceive an outstretched microphone as a threat. I see it as an opportunity – a chance to explain our side of the issue. I always speak the truth, have nothing to hide, and therefore nothing to fear. An interview is like a game of tennis. I know how I want to play the game. The big question then is whether my opponent will let me.« The opponent in question is, of course, a journalist. And journalists, according to Bo Aulin, are usually just as well-prepared as he is.

»Most journalists have a thesis they want to prove. Therefore, they rarely listen, unfortunately. I have great respect for the media, and the role of media in society, but I am surprised by the uncritical attitude of Swedish journalists toward the public health establishment. It's remarkable,« says Bo Aulin, whose preferred medium is television, even though he does not believe that viewers remember what he says.

»But it's an opportunity to make an impression, hopefully a good impression.«

BEING GENERAL COUNSEL and responsible for corporate communications is an unusual combination. But given Bo Aulin's background, it was a natural development. Before he joined Swedish Match, he was chief legal counsel for the Federation of Swedish Commerce and Trade, where his duties included representing member companies – such as tobacco companies – in issues related to commercial policy. The step from there to his current position was a logical one.

Bo Aulin's father was a lawyer. There were four children in the family and Bo was the youngest.

Actually, he never wanted to study law. Following in the footsteps of his father and two older brothers seemed unimaginative and predictable. But things turned out that way. The prospect of reusing his brothers' textbooks rather than having to spend his student grant money on course materials was financially attractive. And he



Bo Aulin.

managed to successfully defend a friend who was charged with drunkenness while doing military service.

»It gave me a kick – »Maybe I have a talent in this area after all,« I thought.« And so he continued to study law, and was able to invest his study funds in the student-union pubs instead of in course books.

HIS INTERNAL WORK at Swedish Match has in fact been concerned with the creation of identity. The Global Challenge team-building program was launched in 1997 with the Whitbread round-the-world sailing competition at its core. The plan was to quickly fuse some thirty international companies, with different names and history, and separate operations,

into one entity. And all of them were to be called Swedish Match.

BO AULIN HAS AN OUTGOING, enthusiastic personality. He would rather try out a new proposal than reject it. Even so, he has often been perceived internally as obstructive and negative, particularly during the period when the company was still involved with cigarettes. It is part of his role to reject marketing and sales ideas that may be fun and creative, but are not sufficiently responsible.

»Selling tobacco is different from any other trade. It demands a strictly ethical approach. The most important thing is that we hold fast to our policy that tobacco is a product for adults – Under 18, No Tobacco. But it also requires a high degree of sensitivity and intuition in everything we do.« And according to Bo Aulin's colleagues, these are exactly the characteristics he possesses:

»He's a generalist. He can see the whole picture and understand what is practicable in a frequently hostile world.« □

### ABOUT BO AULIN:

**Name:** Bo Aulin.

**Age:** 52 år.

**Job:** Senior vice president, Corporate Affairs, Secretary and General Counsel.

**Family:** Wife and two children.

**Residence:** Stockholm.

**Hobbies:** Family, golf, skiing.

## WHO considers the status of moist snuff

»IF ONE BELIEVES THAT all types of tobacco usage in the world can be eradicated within a few years, perhaps moist snuff is less attractive as a substitute for smoking. On the other hand, if one acknowledges that a tobacco-free world is not a realistic goal within the foreseeable future, the need for an alternative strategy to minimize tobacco-related injury becomes clear. Moist snuff can play an important and constructive role in such a strategy.«

The quotation is from a presentation given last autumn to the World Health Organization by Swedish Match Senior Vice President and General Counsel, Bo Aulin. On this occasion, the WHO had arranged a hearing in connection with

the Framework Convention on Tobacco Control (FCTC). Swedish Match has also supplied the WHO with a substantial dossier of studies showing that moist snuff plays a key role in reducing smoking and that the health hazards of moist snuff are considerably less than those associated with cigarettes.

»We do not go so far as to claim that moist snuff cannot adversely affect users' health. Our point is that it is a much less risky alternative for people who have difficulty abstaining from tobacco and nicotine,« says Bo Aulin.

The WHO has yet to show whether it was influenced by the arguments presented. □

## New acquisition in South Africa

**S**wedish Match has purchased British American Tobacco's South African pipe-tobacco operations, with annual net sales of approximately 200 MSEK. The purchase, which was carried out at the beginning of the year, is expected to already have a positive effect on Group net earnings in the first year following the purchase.

For Swedish Match, the acquisition

fits in well with the previously announced plans for international expansion, involving a continued focus on brown tobacco (cigars and pipe tobacco) and smokeless tobacco products.

The BAT purchase is Swedish Match's third South African acquisition in less than one-and-a-half years. In late 1999, the Group acquired 80 percent of Leonard Dingler Ltd, with net sales of

360 MSEK and a market-leading position in the South African pipe-tobacco and moist-snuff markets. In May 2000, Swedish Match acquired the country's leading tobacco distributor, Brasant Enterprises Ltd, with annual sales of approximately 60 MSEK.

For Swedish Match, the three operations can generate clear synergistic benefits regarding sales and distribution. □

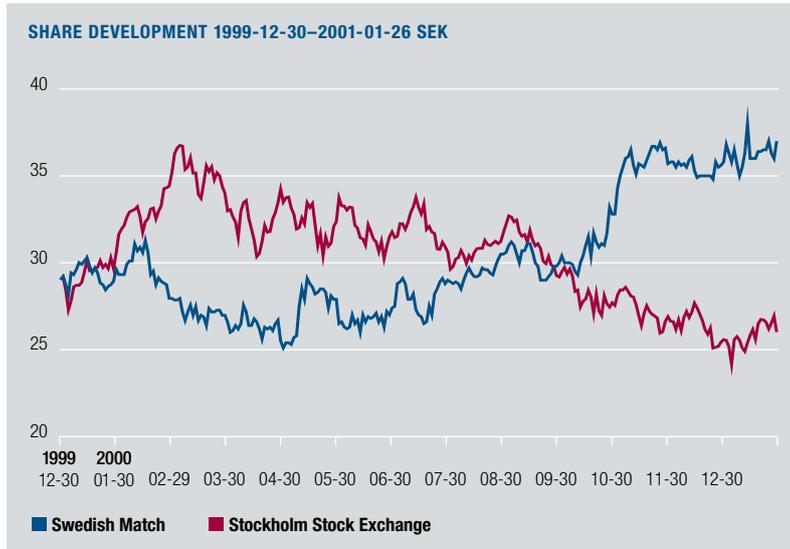
# Record year for Swedish Match share

The year 2000 was a good one for the Swedish Match share, which defied the downward trend of the world's stock exchanges. In Stockholm, the Swedish Match share rose 25 percent during 2000, from SEK 29.70 to SEK 36.50. During the same period, the OM Stockholm Exchange general index declined by more than 13 percent. The American NASDAQ exchange, on which Swedish Match is also listed, fell a full 40 percent during the year.

While this made the year 2000 one of the worst of the decade for the OM Stockholm Exchange and for NASDAQ, it was one of the best for the Swedish Match share since the company was listed in May 1996.

The stock-market slump is largely due to weakened confidence in technology shares. Compared with many IT companies, Swedish Match is considered a stable company with strong earnings, positive cash flow and a high dividend-paying capacity.

A heightened interest in Swedish Match shares was noted last year among banks and brokerage houses, which rec-



ommended the share in their analyses. Particularly after the six-month report and the strong nine-month interim report that followed it, many analysts reinforced their 'Buy' recommendations.

The value of the redemption right – approximately SEK 0.50 per share – received by shareholders in 2000 (the

tax consequences of which are described in more detail in another article) also played a role in the share price upswing. Including the proposed dividend of SEK 1.35 per share, the Swedish Match share achieved a total return of approximately 29 percent during 2000. □

## New on the job

**RICH FLAHERTY** is the new vice president business control and chief financial officer for Swedish Match North America division. Before joining Swedish Match, Flaherty worked for Bumble Bee Seafoods, Inc. where he served as senior vice president and CFO. Prior to Bumble Bee, Flaherty worked for Lipton and Unilever.



**KRISHNA GHAG** is the new legal, and company secretary at WIMCO Ltd. in Mumbai, India. Ghag has previously served as legal company secretary with Cyanamid Agro, Knoll Pharmaceuticals, FDC and Voltas. WIMCO, a public company listed on the Bombay exchange, is 74-percent-owned by Swedish Match.

**MAIHE OOMEN** Continental Europe division, has been appointed marketing director for cigars. Oomen reports to Roland Schmid, marketing manager in the Continental Europe division.



**PATRIK HILDINGSSON** and **CHES-TER ANDERSON** have taken up duties as project managers/developers at the New Business Development unit within the North Europe division. Their duties will include developing a platform for Svenskt Snus (Swedish moist snuff) that will serve as a basis for expansion into new markets.



# Declaring redemption rights in tax returns

It will soon be income-tax returns time once again, and no doubt many Swedish Match shareholders will be wondering how to declare the redemption rights received during 2000.

Inside explains what to do:

During May 2000, Swedish Match implemented a redemption program. Every 14 Swedish Match shares held entitled the holder to redeem one share at a price of SEK 35. Each share in Swedish Match carried one redemption right, which meant that 14 shares were required in order to redeem one share. The redemption rights could either be sold in the open market or used in conjunction with the company's redemption of shares.

In both cases, the shareholder incurred either a capital gain or a capital loss, depending on the opening value of the shareholding. The lower the opening value, the higher the capital gain – and hence the amount of tax payable.

The National Tax Board of Sweden has issued a recommendation\* explaining how these redemption transactions will be taxed. The recommendation, based on a percentage split of the total share value between the shares and the spun-off redemption rights, states that 3 percent of the original acquisition value, calculated using the average method, will be assigned to the redemption right, while the remaining 97 percent is the acquisition value of the share excluding the redemption right.

It is a simple matter to calculate your tax basis by following Inside's own model, below. Note that the calculation shown is only one possible example: □

CALCULATE YOUR OWN TAX	Own figures	Example
Acquisition value for one Swedish Match share (in this example, SEK 20) .....		SEK 20.00
New acquisition value (97% of old value): 0.97 x SEK 20 .....		SEK 19:40
Acquisition value for one redemption right (3% of previous acquisition value: 0.03 x SEK 20) .....		SEK 0.60
<b>Alternative 1: Sale of redemption right</b>		
Selling price per right (in this example, SEK 0.65) ① .....		SEK 0.65
Less acquisition value (see above) ② .....	–	SEK 0.60
Less any overheads incurred (brokerage) For taxation ③ .....		SEK 0.05
<b>Alternative 2: Redemption of one Swedish Match share</b>		
Redemption amount .....		SEK 35.00
Acquisition value, one share ④ .....	–	SEK 19.40
Fourteen (14) redemption rights (14 x SEK .60) ⑤ .....	–	SEK 8.40
For taxation ⑥ .....		SEK 7.20

### COMMENTS

#### Alternative 1: Sale of redemption rights

- ① The payment per redemption right will vary depending on when it was sold.
- ② The acquisition value of each redemption right is given as 3% of the share's opening value. In the above example: 3% of SEK 20 = SEK 0.60.

③ The difference between the acquisition value and the selling price is a gain that is taxed in accordance with the normal rules for capital gains. In the above example, the taxable gain was SEK 0.05 per redemption right. A higher opening value (more than SEK 20) would have resulted in a correspondingly smaller capital gain, or a capital loss.

#### Alternative 2: Redemption of shares

- ④ The acquisition value of each share is given as 97% of the share's opening value. In the above example: 97% of SEK 20 = SEK 19.40.
- ⑤ Add to this figure the value of the fourteen redemption rights required for each redeemed share – in the above example: 14 x SEK 0.60 = SEK 8.40. In the above example, these two amounts together give an acquisition value, for tax purposes, of 19.40 + 8.40 = SEK 27.80.

⑥ The selling price is the price Swedish Match paid for the redeemed shares: SEK 35. The difference between these amounts is treated as a gain (or a loss) for tax purposes. In the above example the gain amounted to SEK 7.20 per share (35 – 27.80 = 7.20).

After redemption, the remaining shares have an acquisition value corresponding to 97% of the previous average acquisition value.

## Websites for moist snuff too

New websites devoted to the General and Ettan moist snuff brands will appear on the Internet early in the year. The sites are aimed primarily at consumers, the media and the general public. »There is a great demand for information,« explains Anna Neiås, marketing manager for moist snuff within the North Europe division. »Many people have questions about cigar history and manufacture, for example, and such questions are easily answered via the Internet,« she says.

## Moist snuff helps smokers who want to quit

Personal motivation and will-power are the strongest success factors for someone who has quit smoking. Next comes moist snuff – according to a survey carried out by the Temo market research company for the North Europe division of Swedish Match. Of people who have quit smoking for a sustained period (more than one year), 17 percent quit with the help of moist snuff, 4 percent with nicotine chewing gum, 2 percent with nicotine patches and 3 percent with other aids (acupuncture, chewing tobacco, etc.) Seventy-four percent, however, claim to have quit smoking without any aids at all.



\*RSV S 2000:64

PURVEYORS TO KINGS AND CELEBRITIES

# KING of the cigar merchants

It has traded at the same address since 1787 and aspires to the title the worlds oldest cigar merchant. However, demands have changed with the years. Today the customers are asking for the really exclusive brands.

**L**ondon 1963: »I am writing to confirm my telephoned order for a box of 25 cigars for my Grandson's birthday on October 10, 1963. They must be cigars of a good quality but not necessarily as good as those that I usually purchase for myself.«

Winston Churchill's love of cigars is a main feature of the marketing conducted for the cigar retailing establishment of James J. Fox & Robert Lewis at 19, St. James Street in London's West End. This is the store where Winston's mother opened his first cigar account – in her own name – in 1888. He was to take over the account in his own name two years later, in 1900. Thousands of cigars a year were purchased through this account, the last delivery being made on December 23, 1964. Lady Randolph Churchill also smoked, but preferred cigarettes of the Alexandra Balkan brand.

THE STORE HAS TRADED at the same address since 1787 and aspires to the title, »the world's oldest cigar merchant.« Kings and other celebrities are included among the major customers of the past. It is the only



A special room houses a small cigar museum.

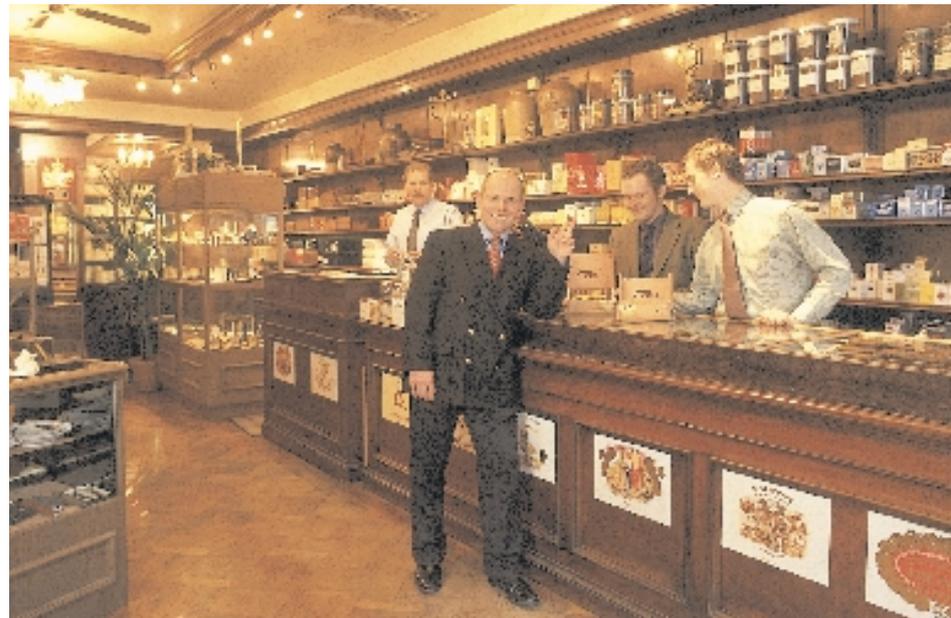
cigar store to hold a royal world warrant. Other famous customers included the tragic Oscar Wilde. This latter ordered and smoked his own, specially made cigarettes, »Gold Tip AA«. He left an unpaid debt amounting to 37 pounds.

»That was a shame, but on the other hand it must have been a pleasure to do business with such a genius,« says Tim Cox, who manages the store and who readily ushers customers into a special room at the back, which houses a small cigar museum.

HERE YOU CAN FIND CIGARS, boxes, labels, production tools, accessories and other tobacco-related items, some dating back 200 years or more, all affectionately arranged and displayed. And, if you are really nice, Tim can sometimes be persuaded to show visitors the basement, a 100 square-meter storage area for cigars belonging to the firm's 3,000 customers, many of them expensive pre-Castro specials from Cuba's golden era. The aroma is intoxicatingly good!

The firm is the result of a merger between two of the industry's elite players, Fox and Lewis. Today, the firm is also responsible for operating the well-stocked and managed cigar departments at both Harrods and Selfridges in London, a specialist store in Dublin and the agency for all cigar distribution on Jersey in the Channel Islands.

The range is not restricted to cigars. Here, you can also find proprietary brands of pipe tobacco and cigarettes and, interestingly, snuff. Around 150 kg of dry snuff are delivered to many of London's old-established gentlemen's clubs each year. James J. Fox & Robert Lewis also works



»Customers generally prefer to enjoy a moderate, medium-sized cigar. They are also asking for the really exclusive brands«, says Tim Cox who manages the store.

creatively with its snuff products, producing proprietary blends and flavors. Orange and mint are currently popular.

BUSINESS IS BOOMING, he reports. »The hysteria from the middle and end of the 1990s has settled down. The really serious buyers remain, however. We have noted a big difference in the pattern of demand. There is less demand for the really large cigars – the long and fat models. It seems as if customers generally prefer to enjoy a moderate, medium-sized cigar with a milder and somewhat softer flavor. They are also asking for the really exclusive brands. Our own cigar brands, made from Dominican tobacco and rolled in the plant in Santiago, have a dedicated following.«

And, finally, what was Churchill's favorite cigar?

»A 17-cm long Romeo y Julieta«, says Tim Cox. □



The same address since 1787, but the firm is also responsible for operating the cigar departments at Harrods and Selfridge's.

## SWEDISH MATCH IN BRIEF

Swedish Match is an international group specializing in niche tobacco products, OTP (Other Tobacco Products), as well as matches and lighters. The Group's products are manufactured in 26 plants located in 15 countries and are sold in 180 countries. During 1999, the average number of employees was 11,797. The Swedish Match share is listed on the OM Stockholm Exchange (SWMA) and on NASDAQ (SWMAY) in the form of American Depositary Receipts.

### KEY FIGURES

MSEK	2000	1999
Net sales	11 533	9 420
Operating income	1 886	1 689
Operating income before depreciation	2 429	5 777*
Net income	1 153	4 656
Income per share after tax, SEK	2:78	2:26
Dividend per share, SEK	1:35**	1:25
Return on shareholder's equity, %	21,8	115,0

\* Includes 3,707 MSEK in capital gain etc.

\*\* Proposed dividend

### Smokeless tobacco

Smokeless tobacco operations include snuff and chewing tobacco and account for 31 percent of Group sales.



#### MARKET POSITION

**Snuff:** Leader in the Nordic region and South Africa. Third largest player in North America.  
**Chewing tobacco:** Leader in North America

### Brown tobacco

Brown tobacco operations include cigars and pipe tobacco and account for 22 percent of Group Sales.



#### MARKET POSITION

**Cigars:** The world's second largest cigar company.  
**Pipe tobacco:** One of the world's major players in the pipe tobacco area.

### Matches and Lighters

Operations relating to matches and lighters account for 27 percent of Group sales.



#### MARKET POSITION

**Matches:** The world's only global match company.  
**Lighters:** One of the world's three largest producers.

☆☆☆  
**SWEDISH MATCH**