



☆☆☆
SWEDISH MATCH

inside
NO. 3 | NOVEMBER 2006

Lars Erik Rutqvist,
Vice President,
Scientific Affairs:

Quit now!

Theme:

Our matches are still
burning strong

Inga Junhem on conveying
a cultural heritage

Meet our new
Board member
Andrew Cripps



PHOTO: MAGNUS FOND

New winds in international public health debate

WELCOME TO A NEW issue of Swedish Match *Inside*, filled with information about what is happening in our company.

In this issue, Lars Erik Rutqvist, Vice President, Scientific Affairs within the Swedish Match Group, relates which way the wind is blowing in the current public-health debate. Although the debate is characterized by many strong views, Lars Erik discerns an increased realization that cigarette smoking, and not tobacco in general, is the serious threat to public health, and that the use of snus has had positive effects on public health in Sweden. This debate is also in full swing internationally. Therefore, it is extra unfortunate with the new tax imposed in Sweden on snus, an action that is in direct opposition to the trend in public-health circles.

The theme in this issue is our matches, a product category with a long tradition that has been part of the company's history for a century. Matches are a product that has great significance for many of us.

We also have the chance to visit the Tobacco & Match Museum in Stockholm, where we meet museum curator Inga Junhem, who is the driving force behind the museum and dedicated to preserving our Swedish cultural heritage.

I wish you an enjoyable read to take your mind off the autumn gloom!

Sven Hindrikes
President and CEO

Contents

NEWS: INTERNATIONAL INTEREST FOR SNUS

The international public-health sphere is becoming increasingly interested in identifying ways to reduce the negative effects of smoking, according to cancer specialist Lars Erik Rutqvist.



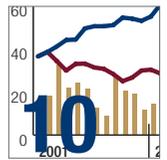
THEME: MATCHES

A match is a match, nevertheless, they are extremely strong local brands worldwide. Read about how Swedish Match deals with a market with declining consumption.



SWEDISH MATCH IN FIGURES

Each issue of *Inside* will contain a summary of the most recent interim report, a selection of analysts questions regarding the report and a brief share commentary.



TOBACCO AND MATCH MUSEUM IN STOCKHOLM

Inga Junhem, Museum Curator, wants to teach Swedes about the country's tobacco and match. Historically, they have been among Sweden's most important industries.



PORTRAIT: MEET THE BOARD OF DIRECTORS

Andrew Cripps, a new member of the Swedish Match Board since this spring, enjoys testing new ideas and finding new and smarter ways to do things.



KARDUS PREMIUM BLEND

The new Kardus Premium Blend snus is aimed at Swedish users willing to spend a little extra for their snus. A product for everyday connoisseurs.



inside

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The name of the Game

CONSUMERS WANT Slow, Smooth, and Sweet - and that's what we deliver! The high-quality cigar Game by Garcia y Vega, that was launched in the US in June this year, has been a true success story. Swedish Match sales targets for 2006 were reached already in October.

Behind the success lies extensive consumer studies of preferred flavors, sizes and packaging. The result is presented in the Game cigar in two sizes and five different flavors. Game Palma, the larger cigar, was launched in Vanilla, Green and Honey. Game Cigarillos, the smaller cigar, was launched in Peach, Sweet and Honey.



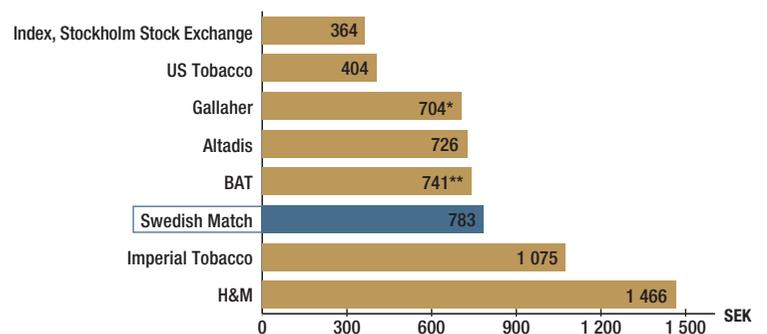
How 100 SEK grew to 800 SEK

SLIGHTLY MORE THAN A DECADE LATER, those who purchased shares for 100 SEK when Swedish Match was introduced on the Stockholm Stock Exchange in May 1996 can be pleased that the value of the holding has increased eight-fold. Taking into account price performance and the dividends allocated since introduction, the 100 SEK has risen to 783 SEK (September 13, 2006).

An investment of 100 SEK in all companies listed on the Stockholm Stock Exchange, with dividends reinvested (SIX-RX index), would have grown to 364 SEK during the same period. At the same time, the consumer price index, which is normally used as an inflation measurement, rose by a mere 10.6 percent.

VALUE GROWTH

What SEK 100 invested on May 15, 1996 is worth on September 13, 2006



* (from May 30, 1997)
 ** (from August 28, 1998)

EXTRAORDINARY GENERAL MEETING

Swedish Match is holding an Extraordinary General Meeting on December 4, 2006, at 2:00 p.m.

More detailed information about registration and the issues to be addressed is available at the Swedish Match website, www.swedishmatch.com

Nick & Johnny – a Norwegian snus with kick

SWEDISH MATCH IS NOW LAUNCHING an entirely new snus brand for the Norwegian market. Nick & Johnny is available as portion-packed and loose-weight snus.

“Our most important target group for snus is cigarette smokers. The consumer surveys we have carried out indicate that many want a stronger snus if they are to view it as an alternative to cigarettes. Nick & Johnny fulfills this wish,” says Erik Steffenrud, President, Swedish March Norge.

As in Sweden, smoking is declining in Norway and many smokers choose to switch to snus. More than half of those who use snus daily are former smokers.

This new product has a strong and full tobacco taste and the nicotine content is about 40 percent higher than traditional products.

Nick & Johnny has an original, modern design with stylized illustrations. The colors are brown metallic and silver white.



Cigarette smoking

– public health enemy number one

Increasingly, more people in the public-health sector are beginning to realize that Swedish snus is a possible means to reduce harmful cigarette smoking. Although the issue remains controversial, the trend is clear, according to Lars Erik Rutqvist, Vice President, Scientific Affairs within the Swedish Match Group. Accordingly, it is highly disappointing that the new Swedish government announced in its budget proposal a significantly sharper increase in the tobacco tax on snus than cigarettes.



Lars Erik Rutqvist aims to help make the full picture regarding what we know today about snus and smoking better understood. Based on his experience, Lars Erik Rutqvist is convinced that a pragmatic rather than dogmatic approach to reducing the risks from cigarette smoking would lead to significant gains for public health.

LARS ERIK RUTQVIST, whose previous work experience includes a period as a professor of oncology, has himself been involved in a number of major epidemiological studies relating to the health effects of Swedish snus.

“In this area, the current research situation is fairly unequivocal,” he says. “It is well documented that as far as the substantial health risks associated with smoking are concerned, particularly different forms of cancer and cardiovascular diseases, there is no correspondingly elevated risk for users of Swedish snus.”

Despite these findings, it has been a tough uphill task to inculcate this knowledge among people working with public-health issues. The prevailing attitude is to lump all tobacco products together. This is the approach taken by the World Health Organization, for example, and within the EU the ban on the sale of snus in all the member countries except Sweden remains in effect.

Tax is off the target

Another example of this view occurred recently when the newly elected Swedish government proposed a 100-percent increase in the

tax on snus in its budget bill, while the tax increase on cigarettes was 40 percent.

“It is deeply unfortunate from a public health standpoint to send the wrong signals to consumers, namely that all tobacco products are as harmful as cigarettes. This is not the case,” says Lars-Erik Rutqvist.

Lars Erik Rutqvist believes that ideological and political objections are the main reason why it has been so difficult to gain a hearing for the harm-reduction philosophy – that is, substituting less harmful tobacco products for cigarettes – among public authorities and decision-makers. Once people have adopted an entrenched position, it is difficult for them to admit that perhaps they could be wrong.

Right focus in the debate

Nevertheless, Rutqvist believes he can discern an opinion shift. One example is the major conference on tobacco controls, the World Conference on Tobacco OR Health, which was held in Washington, DC, in June. The conference brought together representatives of public-health occupations and the research community from throughout the world. One of the main conference themes was public-health issues in the developing world.

“It was an extremely interesting conference, with many speakers in a number of symposia displaying a highly positive attitude toward the idea of harm reduction. The organizers had invited both skeptical and supportive speakers, but overall it was a very good discussion that highlighted the current research situation, which does after all show that the risks from using snus are significantly lower than those from smoking,” relates Lars Erik Rutqvist.

In response to the introductory question as to what was the overall objective for the participants in the symposium – to fight the tobacco companies, to combat all addictive substances, or to discuss health-related effects – the vast majority of participants stated that their most important objective was to find ways of reducing the negative health effects of smoking, which was very pleasing to hear.”

Increasing attention is being paid to data showing that as more and more Swedes switch from cigarettes to snus, the incidence of serious

“The tax increase on snus sends an entirely wrong signal to consumers.”

THIS IS TOBACCO HARM REDUCTION

Minimizing health risks through switching from harmful products, such as cigarettes, to products with dramatically lower risk, for example snus.

smoking-related illnesses has declined. Today, Sweden has the lowest incidence of cancer of the oral cavity and pancreas in the whole of Europe, and Swedish men have the lowest frequency of lung cancer. This trend is often referred to internationally as “the Swedish experience.”

Task is to spread knowledge

Today, the number of scientifically based objections to snus on health grounds is constantly decreasing. While Lars Erik Rutqvist does not rule out the possibility that future studies could reveal new, hitherto unknown risks, he still feels that in the overall public-health perspective the message given by the studies conducted to date is clear: there are significant public-health gains to be realized by adopting an approach that includes harm reduction.

Based on his long experience as a physician and researcher, Lars Erik Rutqvist is convinced that a pragmatic rather than dogmatic approach to harm reduction would lead to significant gains for public health.

“We know after all that half of smoking-related deaths occur in middle age. The victims lose perhaps as much as 20 years of their life expectancy,” he says. “In the light of these statistics, it is both counterproductive and irresponsible to adopt a moralizing tone. Dogmatic public-health representatives keep both the public and many doctors believing that it is as dangerous to use snus as to smoke. If that is what people believe, how are you supposed to motivate smokers to quit?”

In view of this situation, he sees one of his own main tasks as being to help make the full picture regarding what we know today about snus and smoking better understood among decision-makers, researchers, physicians and the general public. People must be given a better opportunity to make a well-informed decision, based on facts rather than ideology. When asked what is his own most important health advice, he does not hesitate for a second:

“Give up smoking entirely!”

TEXT: BIRGITTA GUNNARSSON
PHOTO: PETER KNUTSON

“The Swedish Experience” reported in the *Wall Street Journal* ...

IN A LENGTHY ARTICLE PUBLISHED in the September 16-17 weekend issue, the renowned *Wall Street Journal* newspaper highlighted the roll of smokeless tobacco as an alternative to cigarette smoking.

Under the headline “Should Snuff Be Used as a Tool to Quit Smoking? The Lure of Swedish ‘Snus,’” the newspaper notes that public health authorities have been warning for decades about the risks with smokeless tobacco but now there is a shift under way in the debate. The discussion is now focusing on whether smokers should be informed that smokeless tobacco products could be a tool to quit smoking.

The newspaper relates that a growing body of research that unanimously points to smokeless tobacco being much less harmful than cigarettes and that the reduced risk is most dramatic for varieties of products that are low on nitrosamines, such as Swedish snus. The *Wall Street Journal* refers to a panel of medical experts funded by the National Cancer Institute that concluded that snus and similar products posed a 90-percent reduction in health risks compared with smoking.

Sweden is highlighted as an example of how the switch from cigarettes to snus resulted in considerable health gains in the forms of a reduced frequency of lung and mouth cancer.

“Use of snus in Sweden is associated with a reduced risk of becoming a daily smoker and an increased likelihood of stopping smoking,” write two nicotine experts, Jonathan Foulds and Lars Ramström in *Tobacco Control* magazine, which the *Wall Street Journal* also cites.



... and the *Financial Times*

IN AN ARTICLE PUBLISHED ON SEPTEMBER 29, the *Financial Times* writes with reference to a possible class-action lawsuit in the US against producers of light cigarettes, that the debate is again topical about smokeless tobacco as an alternative to cigarettes. One such product is Swedish snus.

The newspaper states that five million people die annually worldwide due to smoking-related diseases and cites many experts who point to snus as considerably less risky than cigarettes.

“A mortality rate of five million annually is unreasonable when some of these deaths could have been prevented through offering safer alternatives to smoking, which we know is highly dangerous,” says, for example, Philip Alcabes, Associate Professor at the School of Health Sciences, Hunter College of the City University of New York.

The *Financial Times* also cites experiences in Sweden. Swedish men, who to a great extent switched from cigarettes to snus, have the lowest incidence of lung cancer in Europe. In contrast, Swedish women, who have not been as inclined to switch, have about the same lung cancer frequency as other women in Europe.

TEXT: BIRGITTA GUNNARSSON

Matches are still

Dealing with the weakening demand in the match market has been a challenge for all match producers. As a result of a comprehensive restructuring program, successful product development of the traditional matches and capitalizing on popular brands in the launch of new products, Swedish Match has bucked the trend and succeeded in sharply increasing profitability within the matches product area, and is well-positioned for the future.



Lennart Carlsson, Vice President Lights Operations

“Utilizing our strong brands as a base for other successful product launches is a major success factor for all of our match operations.”

SWEDISH MATCH PRODUCES and markets matches. With its strong brands, the Group is among the leaders in a number of markets. The consumption of matches is declining in most of the developed countries, particularly in Europe. Imported matches from low-cost countries have captured market shares and disposable lighters are replacing matches among many smokers in Europe. In addition, smoking bans have adversely affected demand. Although Africa, Asia and Latin America remain stable match markets, in total there is an over-production of matches in world markets.

Restructuring for improved profitability

In response to the new situation, Swedish Match’s match operations have undergone an extensive restructuring program during the past two years. The strategy has focused on creating profitability and dealing with weakening demand through a combination of restructuring operations and an attractive product range.

The restructuring has resulted in streamlined match operations strongly equipped for the future. Match production has been consolidated to plants with modern equipment and high capacity in Brazil and Sweden. Other lights products are produced in Bulgaria. Following closure of the plants in Spain and Turkey, production was moved to Tidaholm in Sweden. During the past six months, it has proved possible to raise the prices for the products from Tidaholm in many traditional export markets. This is a result of the concentration of exports to markets with high prices and the discontinuation of low-price exports.

RESTRUCTURING IN BRIEF

2005

- Closure of match plant in Valencia, Spain.

YEAR-END 2005

- Sale of Swedish Match’s Arenco subsidiary, with production units in Sweden and China.
- Divestment of distribution operation in Ireland.

2006

- Sale and restructuring of operations for advertising matches and advertising lighters in Hungary and Sweden.
- Sale of entire shareholding in jointly owned Jamafac match company in Indonesia.
- Sale of majority interest in Indian match company Wimco.
- Closure of match plant in Turkey. This closure concluded the restructuring program.

The combining of production also resulted in a much-needed volume increase at the plant in Tidaholm.

“Today, Tidaholm is a stable and modern operation that will be viable for many years to come. The restructuring is the main reason, but we have also succeeded in increasing the volumes of our other lights products,” says Lennart Carlsson, Vice President Lights Operations at Swedish Match.

Project completed with successful results

The restructuring of the match operations has

COMPANY HISTORY

Swedish Match has played an important part in the industrial and commercial sector in Sweden since the early years of the 20th Century. Tobacco operations commenced in Svenska Tobaks AB, the former Swedish Tobacco Monopoly, which was founded in 1915. The origins of the Group’s match and disposable lighter operations can be traced back to Svenska Tändsticks AB, which was founded in 1917.

1915 Svenska Tobaks AB

1992

1917 Svenska Tändsticks AB

☆☆☆
SWEDISH MATCH

burning

Swedish Match manufactures and markets matches under strong, local brands. The company's production units are located in Sweden, Bulgaria and Brazil. Two percent of production is allocated to Sweden and the remainder is exported. The most important markets are Europe and Latin America.



been completed with highly successful results.

"We have achieved our objectives and established a situation in which production is better adapted to sales, which has been borne out immediately in the figures," says Lennart Carlsson.

Since 2006, matches and lighters are a single product category – Lights. Operating income for Lights for the third quarter of 2006 was 63 MSEK, compared with 47 MSEK for the corresponding period of 2005. The operating margin for the third quarter of 2006 was 17.5 percent, compared with 10.5 percent for the year-earlier period. Profitability for the

first nine months of 2006 rise to 17.6 percent, from 6.2 percent in the year-earlier period. Swedish Match now has strong and profitable match operations that can be expected to remain sustainably profitable for the foreseeable future.

"We have now achieved a situation where our structural measures have outpaced the declining trend of match consumption," says Lennart Carlsson.

"We have full capacity utilization, have outsourced production of certain products to partners, and have also achieved the freedom

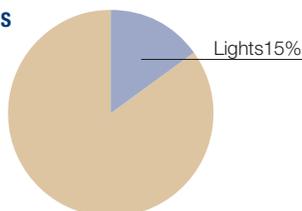
of action to be able to turn down export orders with low margins. Thanks to these measures, we are well prepared for the future."

Strong brands underpin successful product launches

In addition to the restructuring measures undertaken during the past two years, a large and key part of Swedish Match's strategy is to develop its product range and adapt it to demand and trends. The largest and strongest brand in the Swedish match market is Solstickan. Solstickan is present in most



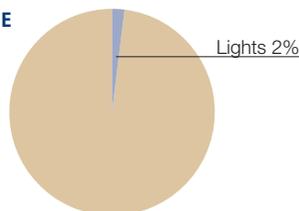
SALES



The lights products* share of the Group sales in 2005 of 13,311 MSEK was 15 percent.

*matches and lighters

OPERATING INCOME



The lights products* share of the Group operating income in 2005 of 2,825 MSEK was 2 percent

*matches and lighters

Match brands – much stronger than you would think!

MATCH BRANDS have an extremely strong brand loyalty among consumers, arouse emotions and great commitment. Several events testify to this.

The strongest brand in Australia is Redheads. A large percentage of the population became absorbed in the brand in a televised beauty pageant about 15 years ago. Australians participated by voting for the person they wanted to win the title of Miss Redheads.

Swedish Match's decidedly strongest brand in the Norwegian market, Nitedals hjelpestikker, ranked among the top ten in a survey on the most well-known brands in Norway that was carried out ten years ago. Nitedals was in fine company alongside one of the greatest brands of all: Coca-Cola.

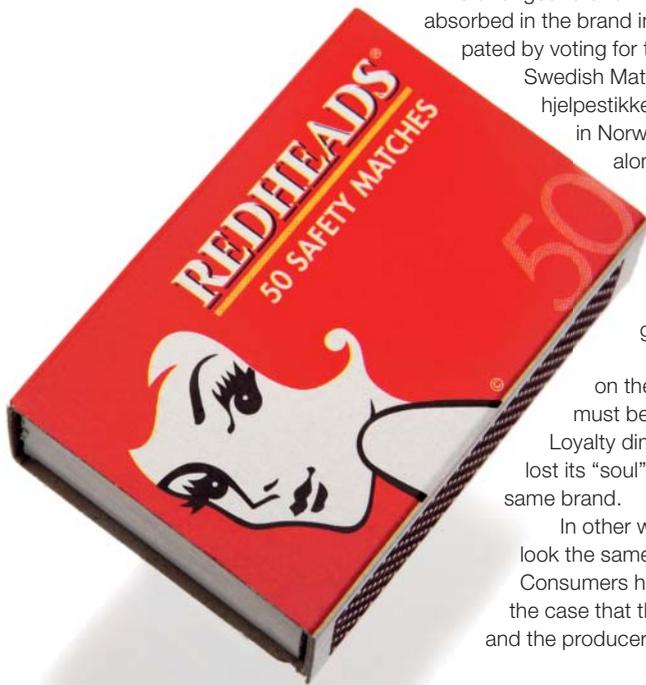
In Sweden, Solstickan is the most well-known brand and made emotions run high when Einar Nerman's original was to be modernized, which resulted in Solstickan eventually resuming most of its original shape from the 1930s. The same thing happened when Svalan, our most well-known brand in the Dutch market, was to undergo modernization. A large part of the original design was also retained.

However, brand loyalty is not self-evident but imposes high demands on the owner. A strong brand has a high recognition value and any changes must be accepted and perceived to be positive.

Loyalty diminishes if the product is perceived to have lost its "soul" and is no longer considered to be the same brand.

In other words, it is no coincidence that the brands look the same today as they have done for decades. Consumers have decided this. So perhaps it is actually the case that the brands are owned by the consumers, and the producers merely administer them?

TEXT: ANNETTE KAUNITZ



Swedish homes and is a brand characterized by tradition and strong customer loyalty. These are key success factors for the launch of other products in the Solsticke family.

"Consumers are extremely loyal to Solstickan, which enables us to develop more products in the same family," notes Lennart Carlsson. "Declining demand for the traditional match is offset by increased demand for other types of lights products within the Solsticke family."

As demand for the traditional utility match has declined, the popularity of another

Solsticke product – the 10-centimeter match – has grown. Swedish Match views this as a well-coming demand and a profitable adaptation.

Brand extensions

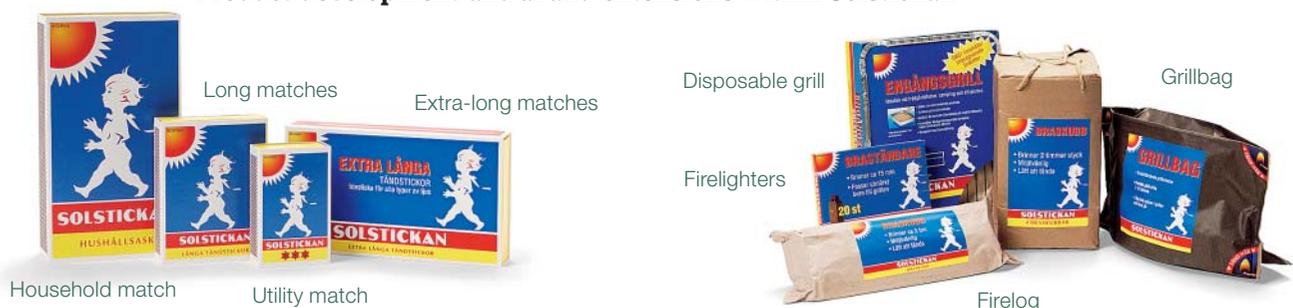
The strong consumer loyalty to Solstickan enables Swedish Match to capitalize on the brand by offering several different lights products, known as "brand extensions." The first of these, the Braskubben firelog, was launched about seven years ago. The product was well received in the market, and Solstickan gained a new family member. Over the years, the family

has grown with the addition of firelighters, grillbags and disposable grills – all under the Solstickan brand.

"Through the development of brand extensions, we further increase brand exposure and develop the portfolio with attractive new products. Utilizing our strong brands as a base for other successful product launches is a major success factor for all of our lights operations," concludes Lennart Carlsson.

TEXT: JILL BERGSTRÖM
PHOTO: MAGNUS FOND

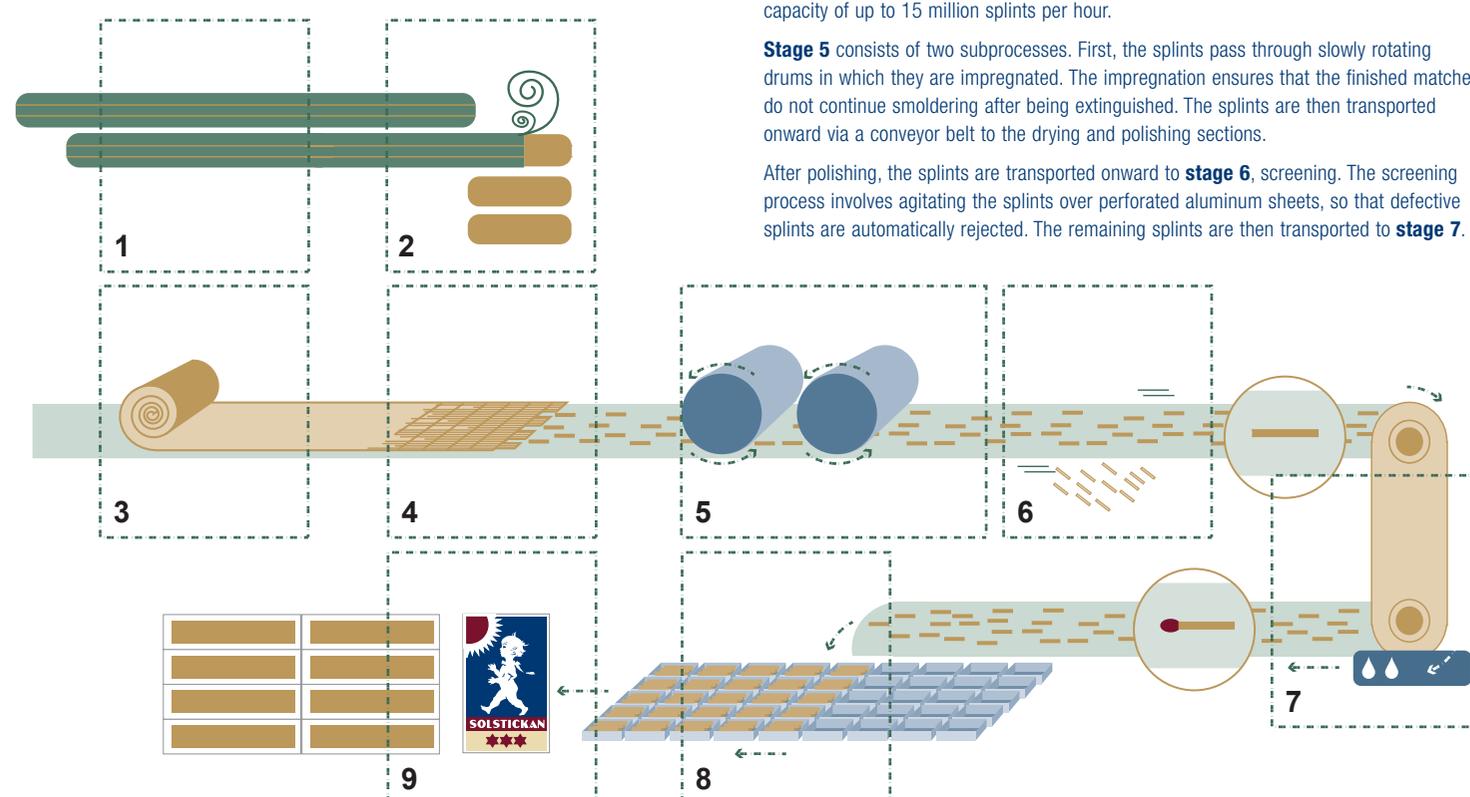
Product development and brand extensions within Solstickan



From aspen to ashes

Matches have been produced in Sweden for more than 150 years. Today, Swedish Match in Tidaholm is the only match producer in Sweden. Thanks to today's modern machines, some 250 million matches per day are produced in Sweden alone. Swedish matches are made exclusively from aspen wood. The production process includes nine stages, from the arrival of the wood at the plant until the ready-packaged boxes of matches leave the plant for distribution.

In **stage 1**, logs 3.1 meters long arrive at the plant. The logs are debarked in an automated plant, then cut down to blocks 0.6 meters long in **stage 2**. The plant has a capacity of up to 2,500 logs per day. One log produces approximately 370,000 matches, which corresponds to what an average consumer would use in 1,000 years.



In **stage 3**, the blocks of aspen are peeled to produce veneer with the thickness of a matchstick. Then in **stage 4**, the veneer is transported to a machine called a splint chopper that cuts the veneer into splints – in other words, matchsticks. The splint cutter has a capacity of up to 15 million splints per hour.

Stage 5 consists of two subprocesses. First, the splints pass through slowly rotating drums in which they are impregnated. The impregnation ensures that the finished matches do not continue smoldering after being extinguished. The splints are then transported onward via a conveyor belt to the drying and polishing sections.

After polishing, the splints are transported onward to **stage 6**, screening. The screening process involves agitating the splints over perforated aluminum sheets, so that defective splints are automatically rejected. The remaining splints are then transported to **stage 7**.

Now it is time for the automated match machine that dips the splints in paraffin and match head compound. This is where the splint also receives its striking tip and becomes a finished match.

The machine has the unique capacity to produce some 2 million splints per hour. Previously, about six workers were needed for this stage of the process. Today, two persons are sufficient, despite the fact that capacity is far higher.

In **stage 8**, the matches and matchboxes are brought together. Here the boxes are automatically filled with the correct portions of matches, closed and transported onward.

In this final **stage 9**, the boxes of matches are first packaged in eight-packs or ten-packs, then in larger units. The boxes of matches are now ready for distribution.

TEXT: JILL BERGSTRÖM
ILLUSTRATION: ELINA NILSSON

Did you know that...

... Swedish Match produces more than ten million matches per day in Sweden and Brazil, which corresponds to about 500 million matches. The matches total length would reach from Sweden to Australia – and back.

... one of the most recognized labels is "Three Stars" that came in 1887. It was called the Mona Lisa of labels and was marketed throughout the entire British Empire. The "Three Stars" is probably the world's most widely distributed match brand.

... every year, a total of six quintillion matches are used. If they were put next to each other, the row of matches would reach the sun and almost the entire way back.

Questions from analysts

Earnings for the first nine months of 2006 for Swedish Match were presented on October 25. At a subsequent telephone conference, Group Management answered questions from analysts from banks and brokerage firms who are monitoring the company. Below follows a selection of these questions.

ROLF KARP, ÖHMAN SECURITIES:

“Congratulations on the positive third quarter. What non-recurring costs may we expect in the fourth quarter?”

SVEN HINDRIKES, PRESIDENT AND CEO:

“We are unable to give that information in advance. But a cornerstone of our strategy is to continually improve productivity, for example, by restructuring and this often generates nonrecurring costs.”

MICHAEL SMITH, JP MORGAN:

“I am curious about the dynamics in the Swedish snus market. What is the flow like from cigarette smoking to snus and what is the significance of future tax increases?”

LARS DAHLGREN, FINANCIAL DIRECTOR:

“There are more than one million people using snus in Sweden and a portion of them smoke as well, but the trend indicates that an increasing number are completely going over to snus. Although we do not have any exact figures, the trend is clear.”

SVEN HINDRIKES:

“With regard to volume growth, we have the same view as the beginning of the year. If the new Swedish government is successful in getting approval for its proposal for tax increases, the effects would be evident in the first quarter next year. Nevertheless, we believe that sales will recover during 2007.”

CHAS MANSO, DRESDNER KLEINWORT WASSERSTEIN:

“What are you basing your assumption on?”

SVEN HINDRIKES:

“We believe that consumers will choose to continue to reduce their cigarette consumption and replace this with snus. In addition, the tax increase is part of the new government’s budget, which in itself is very growth oriented and will probably increase households’ disposable income. The price of cigarettes will also increase.”

HENRIK FRÖJD, KAUPTHING BANK:

“Sales volume for snuff was weaker than expected in the third quarter in the US. What was the reason for that?”

SVEN HINDRIKES:

“One should not attach too much significance to developments during one individual quarter. Fluctuations can be controlled by large stocks at distributors, for example. During the first nine months, total sales volume increased by 14 percent and Longhorn and Timber Wolf moved forward. We believe in more volume improvements in the fourth quarter.”

CHAS MANSO

“Why did you form a joint venture with Lorillard Tobacco in the US?”

SVEN HINDRIKES:

“The newly formed company will develop and market new, smokeless products in the US market. We regard the cooperation as an opportunity to add further offerings to our product portfolio.”

JULY - SEPTEMBER

Interim report

SALES AND RESULTS FOR THE THIRD QUARTER

In local currencies and excluding divested businesses sales increased during the third quarter 2006 by 1 percent compared with the third quarter in the prior year. Reported sales for the third quarter decreased by 6 percent to 3,261 MSEK (3,461). Currency translation has affected the sales comparison negatively by 100 MSEK.

For snuff, sales declined by 3 percent during the third quarter, to 785 MSEK (809) while operating income declined by 4 percent to 383 MSEK (401). However Swedish Match volumes increased in both the US and Scandinavian markets and the operating margin reached 48.8 percent (49.5).

Sales of cigars in the third quarter increased to 903 MSEK (874) and operating income grew by 19 percent, to 225 MSEK (188). Sales and operating income for cigars grew both in Europe and the United States. Operating margin for cigars increased to 24.9 percent (21.5), driven by strong results for US premium and mass market cigars.

Excluding the one time income from the sale of the General Cigars headquarters building in 2005 of 206 MSEK, Group operating income for the third quarter increased by 5 percent to 796 MSEK (756). Currency translation impacts have affected the operating income comparison negatively by 26 MSEK.

Operating margin for the third quarter amounted to 24.4 percent compared to 21.9 percent for the third quarter 2005 excluding the income from the sale of real estate. The improvement is primarily due to higher operating margins in the cigars and lights product areas.

Income tax expense in the third quarter was favorably affected by the release of a provision for withholding tax on unrepatriated earnings from US subsidiaries following the ratification of a new double taxation treaty between Sweden and the United States.

EPS (basic and diluted) for the third quarter was 2.22 SEK (1.81).

www.swedishmatch.com/financialreports

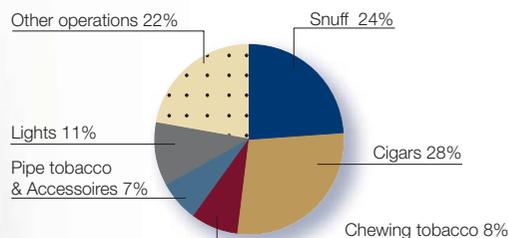
MSEK	July-Sep 2006	July-Sep 2005	Full-year 2005
Sales	3,261	3,461	13,311
Operating income	796	962	2,825
Income before tax	739	922	2,696
Net income incl. minority interest	626	569	1,777
Earnings per share (SEK)	2.22	1.81	5.61



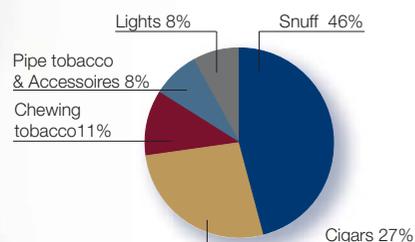
PHOTO: MAGNUS FONDB

Lars Dahlgren, CFO

SALES BY PRODUCT AREA JULY-SEP 2006



OPERATING INCOME BY PRODUCT AREA* JULY-SEP 2006



* excluding larger one time items

SHARE COMMENTS

Stable increase for Swedish Match 2006

THE SWEDISH MATCH SHARE PRICE has performed positively to date this year. Through October 25, the increase was 26 percent.

The Stockholm Stock Exchange's total index, OMX Stockholm All Share, also rose, but not as much. From year-end to October 25, the increase for the index was 17 percent.

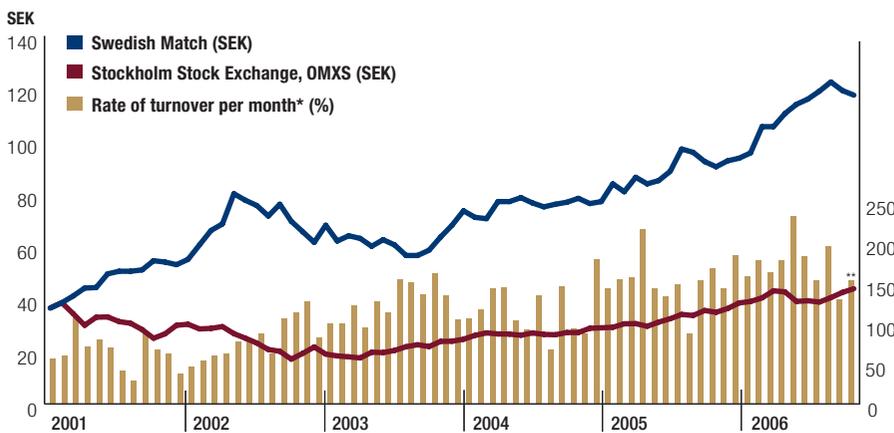
Swedish Match also developed strongly

compared with its sector - business index OMX Stockholm consumer staples – which to date this year (through October 25) is up 19 percent. Only three sectors performed stronger, material (comprising forest industry) is up 41 percent, healthcare increased by 29 percent and manufacturing industry by 22 percent.

KEY FIGURES

Earnings per share, SEK	
2005	5.61
2004	6.18
Equity per share, SEK	
Dec. 31, 2005	16.60
Dec. 31, 2006	14.24

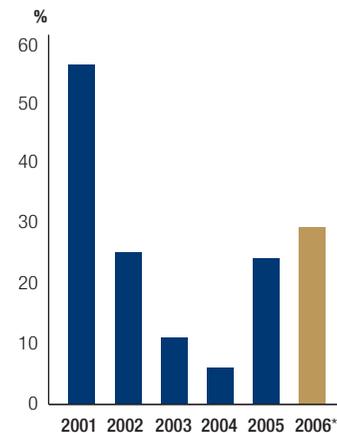
SHARE PRICE AND TURNOVER



The Swedish Match share price rose by 26 percent and the OMXS by 17 percent between January 1 and October 25, 2006.

* The annual turnover rate is based on turnover value in relation to the average market capitalization each month.
 ** Through October 25, 2006

TOTAL RETURN



* Through October 25, 2006

Follow the company on the best website in Sweden



PHOTO: PETER KNUTSON

Djuli Ruzeskovic, Project Manager of Swedish Match's website

Swedish Match has the best website in Sweden and the fourth best in the Nordic region, according to Webranking 2006. The survey is based on the opinions of financial analysts and business journalists and demands with regard to the appearance, design and content of a company's website.

Updating the website with quick and reliable information is the highest priority for Swedish Match. Our goal is for the website to become the natural source for gathering information about the company.

Just a few minutes after publication of an interim report, it is available on Swedish Match's website. A few hours later, you are also able to listen to the telephone conference regarding the results broadcasted over the Internet live. The webcast is available for one month following the report date. You can also order company information direct to your mobile telephone or e-mail address at our subscription service.

www.swedishmatch.com/telephoneconference
www.swedishmatch.com/subscribe

www.swedishmatch.com

INGA JUNHEM

FAMILY: Husband Anders and our goddaughter.

LIVES: Södermalm, Stockholm.

WHERE ARE YOUR ROOTS? in Småland (southern Sweden) and in Stockholm, where I grew up and have lived my entire life.

DO YOU USE TOBACCO PRODUCTS? Daily I use Catch Mini snus and at parties with the Gustav V cigar club, Swedish Match's best quality cigars.

HOW DO YOU RELAX? I love to read. Music is important, playing the piano. I walk, bike and socialize with friends.

WHAT IS YOUR FAVORITE PLACE? Anywhere there is a view and a starlit sky.

WHAT IS YOUR ADVICE FOR BALANCE IN YOUR LIFE? "Let your smile be your umbrella."

WHAT PERSONAL TRAITS DO YOU ADMIRE? Humor, fantasy and honesty.

"Nothing can substitute for living people; they are probably the museum's greatest asset."



Museum with

Each year, thousands of visitors from all parts of the world come to the Tobacco and Match Museum in Stockholm. It is the only museum of its kind in Sweden, and one of a handful of such museums in the world where visitors can learn about the fantastic history of tobacco and matches.

"THE COMPANY HAS ALWAYS BEEN PROUD of its industrial cultural heritage and is therefore committed to the important task of taking care of the museum," relates Inga Junhem, Curator of the Tobacco and Match Museum. "As a company with long traditions, Swedish Match has undergone many changes. Here you can follow these developments and gain knowledge, perspective and a better understanding of current issues."

Inga sits on the verandah with a cup of coffee and describes her 17 years as curator of the museum with warmth and insight. The autumn sunshine is still warm, and bees hum among the nearby tobacco plants that have been deceived into flowering again. She has written many books and articles over the years, as well as giving lectures. She has also mounted numerous exhibitions. The most recent, "Magic, Myth and Medicine – the History of Tobacco as a Universal Cure," invites visitors to listen to stories about the magical healing powers of tobacco, delivered in colorful dialects and vividly illustrated on the museum walls.

Gesticulating vivaciously, Inga recalls some of the happenings in which she has been involved, such as when the world's longest cigar nearly broke in half while being carried down to the cellar. Story-telling is a natural part of Inga, as is her warm laugh, and there is no mistaking her dedication and drive.

"We are proud of our industrial cultural heritage and is therefore committed to the important task of taking care of the museum."

"It is stimulating to see new exhibitions taking form and to write. But what really gives me pleasure is passing on knowledge, communicating with people at all levels and awakening interest even in the most disinterested."

Preserve and convey a unique heritage

The museum's history dates back to 1938, when the collections were displayed for the first time in the cellar of what was then AB Svenska Tobaksmonopolet in Stockholm. The unique artifacts, some of them from the early days of the Swedish tobacco industry in the 17th century, came into the company's ownership when the monopoly was formed in 1915 through the dissolution of more than 100 tobacco companies.

"Tobacco and matches have been among Sweden's most important industries over the years. As the owner of this unique historical collection, we have a responsibility to conserve it and provide public access to it," continues Inga, and goes on to relate that the museum is operated with financial support from Swedish Match AB. "Swedish Match's involvement naturally earns goodwill for the company."

Slightly more than 40 years ago, the collections were moved to Skansen, the oldest open-air museum in the world, and a tobacco museum was established – the matches did not arrive until 2000.

Living museum

The museum houses four floors of temporary and permanent exhibits covering Swedish snus, cigars, pipe tobacco,

tobacco cultivation and matches. Two spacious verandahs frame the building, behind which the tobacco grows tall. The building has a relaxing atmosphere, far from the pulse and bustle of the city.

The cellar houses the museum factory, where visitors are greeted by an agreeable aroma of tobacco and cedarwood. During Skansen's Craft Days, the Puck cigarillo is produced and Ettan snus is packaged in tra-



The old, beautiful museum is surrounded by thick greenery at Skansen, an open-air museum in Stockholm.

MUSEUM'S OPENING HOURS:

October-April, 11:00 a.m. to 3:00 p.m., closed on Mondays

May-September, 11:00 a.m. to 5:00 p.m. daily.

Read more at www.tobaccoandmatch.museum

ditional cardboard boxes. In addition, clay pipes are molded and chewing tobacco spun – exactly as in olden times.

"I generally say that we are a living museum, which I believe is one of the secrets behind our high visitor numbers," says Inga. Nearly 100,000 visitors come to the museum each year – a high figure for museums in general and a huge number compared with similar museums.

"Our tobacco factory is staffed by people who have worked with tobacco all their lives. Nothing can substitute for living people; they are probably our greatest asset." Inga tells us about Siri, who has worked with tobacco for more than 75 years and still supervises the quality of Puck with a firm hand, despite her 90 years. Siri urges the "lads" – themselves all over 60 years of age – not to cut corners.

Museum threatened

Slightly more than a year ago, a new law was passed banning tobacco companies from providing sponsorship money. This naturally

industrial heritage saved

threatened the very existence of the Tobacco & Match Museum. A broad spectrum of opinion in the community rushed to the aid of the museum, and in a pragmatic ruling, the consumer ombudsman found no reason to intervene against Swedish Match's sponsorship, thus ensuring the museum's survival – to the pleasure of many people.

"It was gratifying to see the broad and strong support for the museum's continued operation," says Inga. "The museum has never had such strong support and so much media attention."

We inquire what has given Inga the most

enjoyment over the years. She finds it a difficult question to answer, but if she has to choose, it would be when the museum mounted an exhibition on tobacco cultivation in Sweden in 2002.

"That was when we found a bag of the legendary Skåne tobacco grower Mor Alida's tobacco seed in our archive. The seeds had been preserved for 38 years. Despite the opinion of all the experts that the seeds had a minimal chance of being viable, we managed to germinate one of them. The plant flowered and produced fresh seed. Now we grow Mor Alida's tobacco behind the museum and sell seeds and plants."

Mor Alida's story throws further light on a pattern discovered by Inga, namely, that it was mostly women who worked in the tobacco industry.

"They were fascinating, independent pioneers, including growers, factory workers, union activists and members of parliament. Which is why I am currently engaged in a new research project – on my own time – tracing the lives of these women. But the future will show what results from the project," she concludes with an air of secrecy.

TEXT: BIRGITTA SJÖBERG
PHOTO: PETER KNUTSON

A close-up portrait of Andrew Cripps, a middle-aged man with glasses, wearing a dark suit, white shirt, and blue patterned tie. He is smiling slightly and looking towards the camera. The background is a soft, out-of-focus green.

ANDREW CRIPPS, NEW MEMBER OF THE BOARD OF DIRECTORS:

Product development

ANDREW CRIPPS, 49, was not unknown to Swedish Match when he was elected to the Board of Directors at the shareholders' meeting this spring. Having held various strategic positions at British American Tobacco Company and Rothmans, two international giants who have now merged, his name is respected throughout the industry. He was also on the seller's side when Swedish Match bought its pipe tobacco company in South Africa.

"I have always thought that Swedish Match seemed to be a well-run and interesting niche consumer products company with good management. Selling the cigarettes business in 1999 was entirely the right decision as it allows the Group to focus on its core products. Now that I am beginning to learn about the business in detail, my first impressions have been confirmed and the more I get to know and understand the company and its products, the more enthusiastic I become!"

Smokeless products in pace with trend

It is clear that he is a strong believer in snus and the potential that alternative, smokeless products have to offer. "We are facing a significant global trend among consumers, with a change in people's perceptions of smoking. And this is also being backed by governments who are continuously expanding the 'smoke-free zone' in society. Swedish Match is working with this trend, rather than against it, and has products and product development which are world-beating."

He fully shares the view that the effect of snus on health needs to be fully understood and has a high opinion of the Group's research and product development work. "It is important for the Group to continue its research into the various ingredients and substances present in tobacco so that it can lead the way in the development of smokeless products."

R&D is important

The eagerness in his voice grows when the conversation turns to research and development. This might be to do with having a scientist as a father and the fact that he started off studying sciences. "Yes, there might be something in that. I am fascinated by innovation, and I love being able to try new ideas that show there are new, smarter ways of doing things." But that scientific vein was not expressed in his career. "No, the common threads that run through my professional life are finance and strategy."

"Swedish Match is a company for the 21st Century. It has the potential to lead the way in offering consumers alternative products for enjoying tobacco." So says the Group's newly elected Board member, Englishman Andrew Cripps, who has an impressive track record from his 22 years of working for the world's leading tobacco companies. "Swedish Match's strong tradition of product development is a good indicator of a successful future."

secures future success

“Performing arts are one of my passions.”

He began his career as a chartered accountant at KPMG after graduating from Cambridge, and then held a number of operative posts within Rothmans in the UK, the Netherlands and Switzerland. In the mid-1990s, his financial expertise landed him a role in Rothmans expansion strategy as Director of Corporate Finance. From here, he moved on to play a leading role in the massive merger between Rothmans and BAT in 1999, after which he became Head of Acquisitions in the new company. He oversaw many acquisitions globally before moving on to a new position, developing the group strategy which put greater emphasis on new products.

Heart beats for charitable activities

In 2005 he decided it was time to move on to new pastures, and entered a new phase in his life as a consultant and a member of various boards.

“That also freed me up to devote more time to charity work. I believe it is important to take an active interest in something like this, away from work. I chose to get involved in an organization close to home in East London that provides development activities for young people in a deprived area with a high immigrant population and social problems. It is something I feel very strongly about and after some years as a Trustee, I now chair the Board. We also organize and support activities within the areas of visual and performing arts and train artists so as to enhance their career opportunities. The ‘performing arts’ are one of my passions - I enjoy modern theatre and ballet.”

As a member of various boards in England, he sits on audit, nomination and remuneration committees which operate under the British corporate governance standard, which in some ways is more detailed in terms of both scope and application than the new Swedish corporate governance code.

“The Swedish code is helpful; it sets down the things that all good companies must do. Swedish Match has been at the forefront in this area in Sweden and our board of directors

“The code guides the way in which business is transacted and reported, it is not the business itself.”

should continue as they have been doing. But it is important to understand that the code guides the way in which business is transacted and reported, it is not the business itself!”

Focus on good business

The main task of the board of directors is to stimulate the strategic direction of the business, so as to create value for all stakeholders, he believes. “We should not interfere in the day-to-day

business decisions, but ask the right questions which will spur the management on to better and better performance.”

His experience also leads him to support Swedish Match’s policy of giving shareholders value through the regular buy-back of shares. “Swedish Match has a good, steady cash flow. Companies with large cash surpluses are at

significant risk of becoming less careful with money. That’s why it is right to give this money back to the shareholders through buy-backs and to keep up the incentive on management to operate efficiently. At the same time I would like to point out that it is our duty, as board members, to safeguard the financial stability of the company.”

Personally, he believes that this is a very interesting time to be involved on the board of Swedish Match. “The company has great expertise, strong products and a good management team. Consumer and market trends are moving in our favour. This is an excellent platform on which to develop our business concept and strategies for further value creation for all the company’s customers, employees and shareholders.”

TEXT: MATS HALLVARSSON
PHOTO: MAGNUS FOND



ANDREW CRIPPS

BORN: 1957.

FAMILY: Three children (two boys and a girl, aged 18, 20 and 22).

WHAT DO YOU DO IN YOUR SPARE TIME?

I go to the theater and ballet as often as I can. I like to relax by skiing, most recently in Canada with my children.

WHERE IS YOUR FAVORITE PLACE?

I love the seaside, and have a favorite spot on the Dutch North Sea coast where I used to live.

WHAT’S THE BEST WAY TO ACHIEVE BALANCE IN ONE’S LIFE?

Having a stimulating job is important, but it has to be combined with time spent with family and friends.

WHAT PERSONALITY TRAITS DO YOU LIKE?

Openness, creativity and humor; I need a good laugh.



Posh snus is now here!

Kardus [kardu:s] (from the French cartouche, German karduse) has historically been used in Sweden in the context "pack the snus in kardus", that is wrap the snus in paper.

THE CONNOISSEUR SNUS KARDUS SUPERIOR BLEND, which was launched in Sweden at the end of last year, has become a real success. Brobergs in Stockholm – one of Sweden's premier tobacconists – sold out its allotment already on the first day, for others the sell-out took just a few days. Now the follow-up Kardus Premium Blend.

"Kardus Premium Blend targets snus users who are prepared to pay a little extra for their snus and want to savor it, for example, after a fine dinner. Quite simply, this is a snus for everyday connoisseurs," says Mikael Arnebert,

Information Manager, Swedish Match North Europe Division. "The product is designed for a broader but quality conscious target group who enjoy life's amenities in the form of food, drink and tobacco."

KARDUS CONTAINS 40 GRAMS of carefully selected tobacco. The snus is cut and comprises lamina tobacco, that is, tobacco leaves without any stem. It is not flavored, which creates a musty and smoky taste, with a whisky and oak-cask character. Kardus Premium Blend has a distinct,

slightly sweet tobacco aroma, with a touch of fig, dried fruit and a slight hint of tea.

There are six types of tobacco in Kardus Premium Blend, including from Argentina and Brazil. The Argentine tobaccos are grown in the Swedish regions around Oberá, Misiones, in the northeast of the country, and in the broad valleys of the Andes. The Brazilian tobacco is from the rich red plains in Paraná Province in southern Brazil that are highly suited for tobacco growing.

☆☆☆
SWEDISH MATCH

Swedish Match is an international tobacco company with a complete range of market-leading brands in the product areas snuff, cigars, pipe tobacco and chewing tobacco - tobacco's niche products - as well as matches and lighters. The Group's operations generated sales of 13,311 MSEK in 2005. The average number of employees during 2005 was 14,333. The Swedish Match share is listed on the Stockholm Stock Exchange (SWMA).

www.swedishmatch.com

