

A close-up, high-angle portrait of Tony Rickardsson, a Swedish racing driver. He has light blue eyes and a light beard. The background is a bright blue color.

☆☆☆  
**SWEDISH MATCH**

**inside**  
NO. 4 | NOVEMBER 2007

TONY RICKARDSSON AND SWEDISH MATCH:

# A perfect match

**The lighter fantastic**

**Market segmentation  
boost for snuff and snus**



PHOTO: MAGNUS FOND

**WELCOME TO A NEW ISSUE OF *Swedish Match Inside*.** Let me begin by stating that a number of important events occurred during the third quarter of 2007, as presented on October 25 in our interim report. We can note that the volume trend for snuff products in the US remained positive, with total third-quarter growth of 34 percent. Our existing brands remained strong and the launch of Red Man as a new product in the snuff category received a warm reception. In Scandinavia, snus volumes are now at the same level as in the year-earlier period, which means that the hoarding effects that arose following the tax increase have ceased, at the same time as we are noting a strong trend in Norway and within duty-free sales.

Growth in the cigar product area remained unchanged during the quarter, although profitability decreased, due to such factors as changes in the mix and increased marketing costs. The newly acquired Bogaert in Belgium and Cigars International in US are developing well within Swedish Match and made a positive contribution to earnings. The acquisition of Cigars International is particularly interesting because this company bases its concept on catalog and Internet sales, thus providing us with new distribution channels for cigars in the US. Other product areas showed stability in terms of sales and margins, although sales of chewing tobacco declined during the quarter.

Elsewhere, we can note that the Swedish government has announced new increases in the tax on snus, effective January 2008. In addition, the proposed tax on snus will be higher than that on cigarettes, which is surprising from the viewpoint of public health. Utilizing the experiences we have gained from the most recent tax hike, we intend to do what is required to retain and improve our profitability in the Swedish market.

In this issue of *Inside*, you will also be given an in-depth view of the lighters area, which reveals a healthy development in the shape of improved margins. Read why the design and product development of lighters is so important, and about our quality lighter Cricket.

Sven Hindrikes, President and CEO

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## TONY RICKARDSSON AND SWEDISH MATCH

Racing driver Tony Rickardsson, with Swedish Match as principal sponsor, is one of Sweden's most famous users of snus. He gladly pops in a portion of snus on a straight section of road.



## LIGHTERS

Last in the series on our product categories is Lighters. Read about how design, safety and quality made Swedish Match a leading player in the global market for lighters.



## TAX HIKE AFFECTS PUBLIC HEALTH

The Swedish government's proposal for a significantly higher tax increase on snus than on cigarettes is sending the wrong message regarding the harmfulness of various tobacco products.



## SNUS AND SNUFF MARKETS GROW

The exploding interest in snus in recent years has resulted in several new segments being added to the Swedish market. Swedish Match is conducting test sales of Swedish snus in the US.



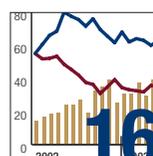
## NEW CIGARS TO ENJOY

Swedish Match maintains a high pace of product launches in the cigar category. In this issue, several new varieties of popular brands and an entirely new cigar product are presented.



## SWEDISH MATCH IN FIGURES

Each issue of *Swedish Match Inside* contains a summary of the most recent interim report, an extract of analysts' questions on the report and a brief comment on share performance.



## PORTRAIT: MEET THE BOARD OF DIRECTORS

Kersti Strandqvist regards growth as the principal issue for Swedish Match. She believes that to achieve this, it is important to understand what makes consumers purchase a certain product.



## inside

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PHOTO: PEPE NILSSON

## US spotlight on Swedish snus

THE US MEDIA IS INCREASING ITS FOCUS ON SWEDISH SNUS, most recently in the *International Herald Tribune* and *The New York Times*. The articles were about major US tobacco companies conducting test sales of Swedish varieties of snus, since they have realized the potential that snus offers as a less harmful alternative to cigarettes. Swedish Match's test sales of Swedish snus in metropolitan areas of the US were also reported.

The articles described the Swedish experience, which shows increasing numbers of Swedish smokers switching from cigarettes to snus resulting in a significantly lower rate of smoke-related illnesses, including lung cancer. Lars-Erik Rutqvist, Vice President Scientific Affairs at Swedish Match, was also interviewed about how snus can help smokers to quit smoking, and Lennart Freeman, President of Swedish Match North America Division, was quoted as saying that he recognizes the major potential of the US snus market.

Read the articles in their entirety at:  
<http://www.iht.com/articles/2007/10/02/business/tobacco.php>  
<http://www.nytimes.com/2007/10/03/business/03tobacco.html>

## Premium cigars on the internet

SWEDISH MATCH HAS ACQUIRED CIGARS INTERNATIONAL INC., a privately owned US company that specializes in direct marketing and sales of hand-made and machine-manufactured premium cigars and cigar accessories. The company has annual sales of approximately SEK 400 million.

"We're delighted about the growth possibilities provided by this acquisition," says Sven Hindrikes, President and CEO of Swedish Match. "Cigars International Inc. adds a new and growing distribution channel in the US, with access to an exclusive customer base enabling Swedish Match to have close consumer contact."

*Innovative lighter design is an increasingly important tool in reaching consumers.*

READ MORE ON PAGE 8

## We are the favorite in consumer retail



PHOTO: VICTOR BROTT

SWEDISH MATCH IS THE FAVORITE SUPPLIER among retailers in Sweden. In a survey performed by Sales Partner Group, Swedish Match was the hands-down winner in competition with such companies as Coca Cola, Procter & Gamble and Carlsberg.

In the survey, 170 key people within retail chains in Sweden assessed 100 companies among their suppliers. Robert Neiås, Manager of Key Account Management at Swedish Match North Europe Division, is extremely proud of the top ranking.

"The award is an excellent testimonial to our work, in which we assume long-term responsibility for the entire category, by adopting a comprehensive approach that not only takes our own product portfolio into account. It is also an excellent stamp of approval for our entire organization, and a confirmation that our brands, launches and activities function well."

**Robert Neiås, Manager of Key Account Management  
at Swedish Match North Europe Division.**

# Speedway hero helps build brands

Tony Rickardsson is one of Sweden's most famous and best-liked sportsmen. After six world championship titles in speedway and numerous prizes and awards, he has switched this year to car racing in the Porsche Carrera Cup Scandinavia. The cooperation with Swedish Match as principal sponsor will continue and as Rickardsson himself phrased it, they are "a perfect match." He is also one of Sweden's most well-known users of snus and his favorite is General Onyx by Swedish Match.

There are hardly any Swedes who do not know Tony Rickardsson. He has won nearly everything that can be won in speedway and has become so popular that both he himself and the Rickardsson Racing team are currently very strong brands. The celebrity status has also resulted in him being impersonated by one of Sweden's best comedians, a gratifying assignment considering Rickardsson's characteristic dialect and the fact that he has always been gifted in terms of relationships with the media.

In addition to being a great sportsman, his strengths appear to lie in his strong personality. Swedish people see him as a secure and thoroughly likable person, who works hard and has both feet firmly on the ground. That picture was confirmed when we met Tony Rickardsson at the Rickardsson Racing workshop, located in a beautiful old mill in his hometown of Avesta.

## Official driver for Porsche Sweden

The past year has been something of a new start for Tony Rickardsson. From a life revolving almost entirely around speedway since his early teens, he competed in his final race in October 2006 and moved on to car racing in the Porsche Carrera Cup Scandinavia and is now the official driver for Porsche Sweden.

"From six-time world champion in speedway to something of a beginner in car racing may sound like a major step, but I like new starts, so the venture into the Porsche Carrera Cup Scandinavia series suits me perfectly. The route and the struggle to the goal are what I enjoy the most. It took me 15 years to build a perfect speedway team and I am now about to build my car racing team. Teamwork is extremely important; without my team I am nothing. I am also happy that I was able to leave speedway on my own initiative; that I was not forced to quit due to injuries," explains Rickardsson.

## Mutual trust

Tony Rickardsson was able to take the cooperation with Swedish Match to car racing. The first contact between them was in 2000, when he was active in speedway. That cooperation was successful and Swedish Match is now one of the principal sponsors of Rickardsson Racing in the Porsche Carrera Cup Scandinavia series. The Swedish Match logo is visible on the metallic blue car and on Tony Rickardsson's racing suit.

"Our cooperation is a perfect match", says Rickardsson. "Car sports are enjoyed



PHOTO: GISELA SVEDBERG

Tony Rickardsson finished third after the final race for the season in the Porsche Carrera Cup Scandinavia.



PHOTO: RICKARDSSON RACING

by a multitude of spectators and I have also been using Swedish Match's products for a number of years. The cooperation is based on mutual trust aimed at improving the image and strengthening the brands."

Kerstin Brandt, who is responsible for sponsoring and events at Swedish Match, agrees.

"Tony is incredibly professional in terms of preserving the Swedish Match brand and his own brand. He is also very committed to customer-related activities. Tony Rickardsson represents a vast amount of added value for Swedish Match," explains Kerstin Brandt.

*The cooperation is based on mutual trust aimed at improving the image and strengthening the brands.*

#### General Onyx is his favorite

Rickardsson's favorite snus is General Onyx. In the past, he used only Ettan loose snus, but since he discovered General Onyx in its attractive can, the black and beautifully packaged portion snus is all he uses now.

"General Onyx is classy. I like order, so I appreciate the fact that the portion packages are laid out in the form of a star," he emphasizes.

Since the Rickardsson Racing workshop is a marvel of neatness, order, well-polished cars and tools, there is no doubt as to what Rickardsson means. He shows the snus can



The snus can holder, which is mounted on the inside of the Porsche's driver's door, is designed for a General Onyx can.

holder, which is mounted on the inside of the Porsche's driver's door, designed for a General Onyx can.

"There was no room for my snus can in the racing car since all unnecessary equipment is removed to make the car as light as possible. So I came up with the idea to design a snus

can holder. We

manufactured it using carbon fiber, which is known as 'the black gold of racing', since the material is both

light and strong. I

am now able to pop in a portion of snus on a straight stretch if I want," says Rickardsson, with a laugh.

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#### Driver talent is crucial

The Porsche Carrera Cup started in Germany and France in 1990. In May 2004, the series had its premiere in Scandinavia and, today, the Carrera Cup is also held in Asia, Japan, Australia and the UK.

All participants compete on equal terms, since engines and transmissions are sealed in the factory and it is the driver's talent and the team's professionalism that determine the winner.

The Porsche Carrera Cup Scandinavia series received a significant lift when he decided to quit speedway and invest fully in the series for 2007.

"My goal is to build the series as much as possible. It is not only about me but also about generating publicity around the series, increasing its status and ensuring that interest increases in coming years. For example, the fact that my name is well-known has contributed to more people making financial investments in the series. I hope that more and more people will discover the immense entertainment provided by car racing."

#### Driving is an adrenalin kick

Rickardsson had tried out motor rallies in the past "but there was too little glamour in the sport," he jokes. "But, he adds, there is also very little glamour in racing and it requires

a considerable amount of physical training. Nevertheless, it is something of a boyhood dream come true.

"Driving is extremely enjoyable. It is an incredible adrenalin kick pushing the car to its limits and then adjusting its precision to be able to drive even faster. But the race itself is only a small part of the whole and there is a great deal of work between races," Rickardsson explains.

He believes that the team has come a long way in its efforts, although he himself has his sights set several years ahead with numerous plans for Rickardsson Racing.

"I can't do anything half-heartedly. I always invest 100 percent," he says in conclusion.

LOTTA ÖRTNÄS

#### TONY RICKARDSSON

**BORN:** In Avesta, Sweden, 1970.

**FAMILY:** Daughters Michelle and Nathalie, 11 and 7 years, respectively.

**LIVES:** In Avesta, Sweden.

**WHERE ARE YOUR ROOTS?** In Avesta, Sweden.

#### DO YOU USE TOBACCO PRODUCTS?

Yes, I have used snus for many years and my favorite is General Onyx. I often enjoy a cigar after a good dinner, or after a victory.

#### WHAT DO YOU DO IN YOUR LEISURE TIME?

Spend time with my family. When I have time, I also like to play ball games.

#### WHICH IS YOUR FAVORITE PLACE?

My summer house outside Avesta.

#### WHAT IS YOUR ADVICE FOR A BALANCED LIFE?

I feel that I have balance when my children are happy, the bills are paid and I have a little time to myself.

#### SOME PERSONALITY TRAITS YOU APPRECIATE:

I like open-hearted people who appreciate the good things in life. When I meet new people, I know, intuitively, whether or not we will get along and work well together.



PHOTO: STIG-GÖRAN NILSSON

# The lighter fantastic

## – quality, safety and design

In this issue of Swedish Match Inside, we focus on lighters, the final part of our series on Swedish Match's product categories. Read about the successful strategy, including investments in quality and safety, to protect the position against the increasingly intense competition in global markets. Read also about Cricket, the third largest disposable lighter brand in the world, and one of Swedish Match's most widely distributed brands.

### Competition creates demands for design and development



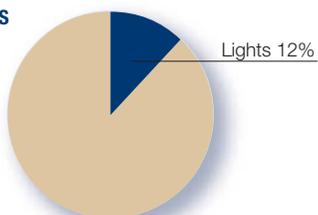
Last year, Swedish Match sold approximately 350 million lighters in more than 100 countries worldwide. Swedish Match is one of the major players in the global market for lighters, despite increasing competition in the category.

Swedish Match's primary markets for lighters are Russia, the EU and parts of Asia. Global sales are generally stable, even if they are declining in Europe and the US. Consumers typically buy lighters on impulse and are not particularly loyal to any brand, which necessitates constant product development and innovative marketing in order to reach the consumers.

Swedish Match's largest and most widespread brand of lighters is Cricket, which is positioned in the premium segment of disposable lighters. The competitive advantages of Cricket include such quality aspects as ISO certification, a fixed flame, a nylon casing and child safety features, combined with attractive design. Read more about Cricket on pages 8-9.

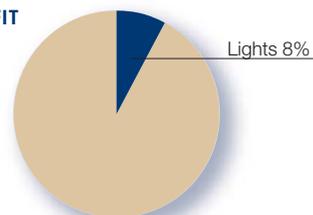
Lighters are manufactured in Swedish Match's production units in Assen in the Netherlands, Manila in the Philippines and Manaus in Brazil. The largest competitors are Bic and Tokai, as well as a number of manufacturers in China and the rest of Asia.

NET SALES



Of the Group's net sales of SEK 12,911 million in 2006, lights (matches and lighters) accounted for 12%.

OPERATING PROFIT



Of the Group's operating profit of SEK 3,137 million\* in 2006, lights (matches and lighters) accounted for 8%.

\* Excluding larger one time items.

# Strategy strengthens global stance

Although the world market for lighters is becoming increasingly competitive, Swedish Match is maintaining a stable level of profitability in the product category. Production efficiency, close cooperation with important sub-suppliers and an emphasis on quality, in addition to product development and innovative marketing, are some of the reasons behind the Group's ability to defend its position as a major player in the lighter market.

Swedish Match's strategy in the lighters product category has produced results. The number of lighters sold is on the rise and profitability has been stable in recent years.

"Considering the increased competition, primarily from large manufacturers in Asian countries such as China, the profitability of lighters was favorable during 2006," says Lennart Carlsson, Vice President Lights Operations for Swedish Match. "I believe the situation will remain stable in the foreseeable future, despite the competitive environment."

Carlsson also explains that lighters are an important product for the Swedish Match sales teams around the world. Lighters are sold in large volumes to businesses and, together with matches, form a solid foundation to support sales of Swedish Match's other products.

"Our strategy is to produce high-quality lighters, to be innovative in design and marketing, and to constantly strive to increase efficiency in our production units," he explains.

## New legislation in the EU

Swedish Match's competitive advantages when it comes to quality are that its lighters are ISO certified and have a heat-resistant nylon casing and a fixed flame, among other features. They are also child resistant, meaning they are equipped with a mechanism that makes them difficult for children to operate, in accordance with the requirements put into effect in the EU this year. In the US, Canada, Australia and New Zealand, child resistant mechanisms have been mandatory for more than 10 years.

"It is too early to see the effects that the legislation on child resistant lighters will have in the EU, but we believe that it will prove to be an advantage for Swedish Match. Because we have been active in the American lighter market for quite a long time, we have solid experience of manufacturing child resistant lighters. As a preparation for the introduction

in Europe, we have developed a new solution that is very user-friendly. We believe that we have the best child resistant solution and a number of Asian manufacturers will probably not be able to meet the demands."

## Production around the world

Lighters are manufactured in Swedish Match's production units in Assen in the Netherlands, Manila in the Philippines and Manaus in Brazil. For all units, the goal is to increase the number of lighters produced per employee.

In the Netherlands, Swedish Match has long worked to increase efficiency through "lean manufacturing," a project that, according to Lennart Carlsson, has led to improved productivity and better control over such matters as tied-up capital.

In the Philippines, preparations are under way to move the manufacturing of lighters from one area of central Manila to a modern industrial park outside Manila, which will lead to improved cost effectiveness, among other results. One advantage of production in the Philippines is the proximity to sub-suppliers of components that are primarily located in Asia.

"We were forced to move within Manila because the authorities will no longer allow industrial manufacturing in the area in which the old production unit is located. But this suited us just fine since we were already beginning to outgrow the premises. Now we get the opportunity to further improve the production flow at the same time. It will be a modern production unit, prepared for the future," Carlsson explains.

## Bright future

"As mentioned, the competition is getting tougher, but our profitability is strong at the moment. Despite rising raw material prices, which affect all manufacturers of lighters, our plants have succeeded in reducing production costs in recent years. We have strengthened

*Lighters, together with matches, form a solid foundation to support sales of our other products.*

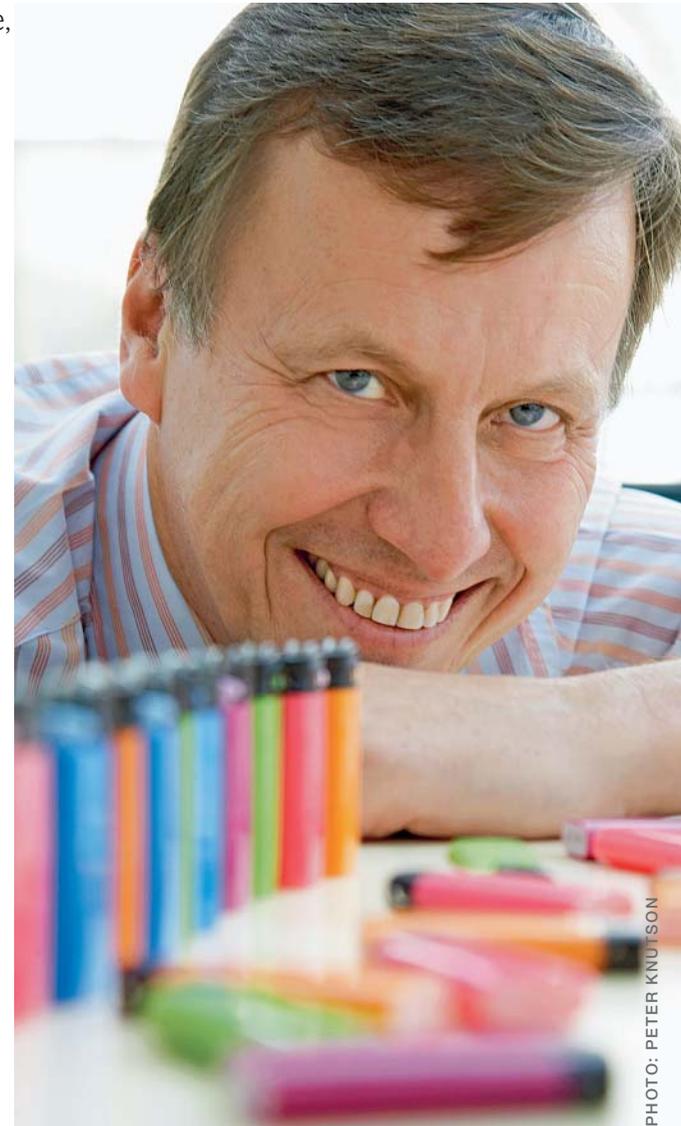


PHOTO: PETER KINDTSON

**Lennart Carlsson, Vice President Lights Operations for Swedish Match.**

our competitive ability, expect further volume increases and will continue working to improve productivity. As of the beginning of next year, we will also have a modern, cost-effective plant in Manila. We are also continuing our work on product development. An exciting area that we are looking at right now is how to apply our unique technology for lighters to other products in the future. The future looks bright for Swedish Match's lighter operations, but it will take continuous hard work to further strengthen our position in the world market."

LOTTA ÖRTNÄS



# Cricket

## – in a class of its own

Every day, Cricket lighters are used by approximately 200 million people in more than 100 different countries. Cricket is one of Swedish Match's most widely-spread brands characterized by quality, safety and design.

Cricket has a history dating back to the 1960s in France. When launched in 1961, it was the world's first disposable lighter. Today, Cricket is still a lighter at the forefront of product development and is the world's third-largest disposable lighter brand.

Cricket's principal competitive advantages are quality, safety and design. At Swedish Match International Division, Bart van Geenen has been responsible for the Cricket brand for the past five years, and knows what is required to defend the top position in the premium segment of the disposable lighter market.

"Since consumers who purchase lighters are not particularly loyal to any brand and frequently make impulsive purchases, continuous product development and innovation are mandatory. We can never relax, and must continuously produce new ideas to get consumers to choose Cricket," says van Geenen.

Because consumers of lighters make their purchases on impulse, it is also important that the products are clearly displayed and accessible at retailers. Through attractive and volume-efficient multi-tiered stands, Cricket often occupies a premium position at the counter, for example at the tobacconist.

### Safety and quality

Cricket's continuous product development has resulted in it becoming one of the world's

safest disposable lighters today. The product has several safety functions:

- A patented valve construction that prevents dust and dirt from obstructing fuel supply.
- "Fixed flame technology," a proprietary patented system, which signifies that the flame is fixed and cannot be regulated. This makes the lighter safer since users are spared unpleasant surprises in the form of high flames.
- For a long time, Cricket was the only disposable lighter in the world that was manufactured in self-extinguishing nylon, which stops burning once the ignition source is removed.
- Cricket was the first in the world to introduce child-resistant lighters in 1993.

Fusion has rapidly become very popular.

**Bart van Geenen at Swedish Match International Division.**

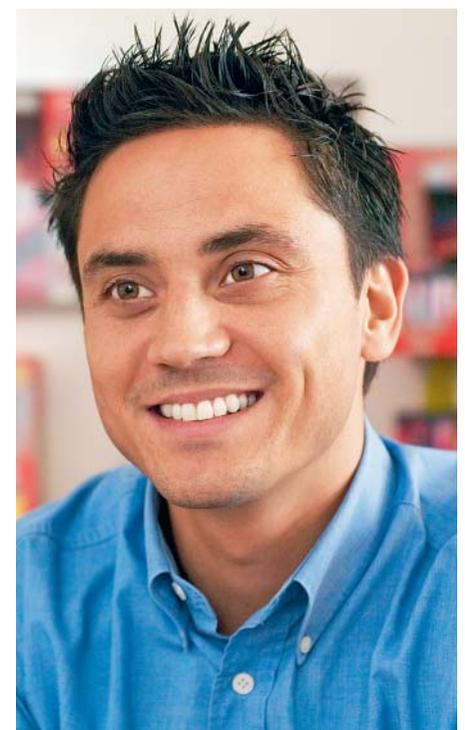
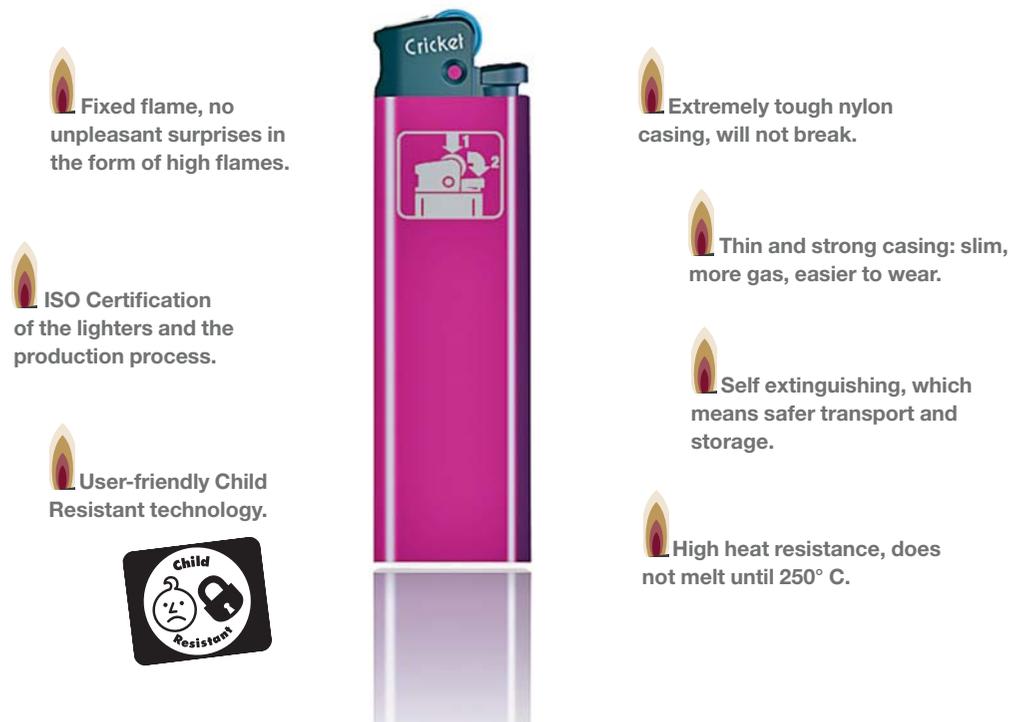


PHOTO: STIG-GÖRAN NILSSON

# Seven reasons to choose Cricket



Furthermore, both Cricket lighters and the production process are quality certified by ISO. For example, the lighters undergo more than 100 tests before they are released to the market.

## Innovative design

Cricket is available in different varieties and sizes: Original, Mini, Maxi, Electronic, Pocket and Pico. Cricket is one of few disposable lighters in the world to be manufactured in nylon, which makes it possible to manufacture a thinner casing. This results in the lighter weighing very little and holding more gas.

Most lighters are still sold in single colors. Swedish Match estimates that approximately 80 percent of the Group's sales comprise single-colored lighters and approximately 20 percent are designed lighters. Yet, innovative design is an increasingly important tool in reaching consumers. Cricket regularly launches new design series, designs that also focus on different target groups.

Design is also very important to Bart van Geenen. He was closely involved in the production of one of Cricket's most successful design concepts, Fusion.

"Fusion is based on a technique in which two colors are mixed in the nylon casing, resulting in each lighter having a unique appearance. Cricket Fusion has rapidly become popular. In the past, consumers in our largest market, Russia, wanted only single-colored lighters, but today Fusion already accounts for approximately 7 percent of sales in Russia," says van Geenen.

## Sponsors the Le Mans 24 Hour Race

Cricket sponsors certain events that are compatible with the brand. One example is the Le Mans 24 Hour Race, probably the world's best-known car race from an endurance point of view.

"It is an event that is very compatible with Cricket," he explains. "Le Mans represents

such qualities as an international lifestyle, advanced technology and endurance. These are the same elements that characterize the Cricket brand, and cooperation with Le Mans has resulted in the manufacture of a limited edition of Cricket lighters with motifs from Le Mans."

## Cricket Firepower

A relatively new product within the Cricket family is Cricket Firepower, a utility lighter that was launched in 2003. This year, it was supplemented by an elegant holder, which comes with the Firepower. The purpose is to create consumer loyalty and brand recognition. Cricket Firepower is sold primarily in superstores and home products stores. Expanding the Cricket brand to include another lighter product was a successful move.

"Sales volumes for Cricket Firepower are increasing in North and West European markets and we sold approximately one million utility lighters during the first five months of this year. This is a very satisfactory result, and we have expanded the distribution to Eastern Europe. Cricket Firepower will also gradually be launched in the US and Canada, where we believe the product has major potential," states van Geenen.

LOTTA ÖRTNÄS

- Cricket is marketed and sold in 140 countries.
- A Cricket lighter can be ignited approximately 2,000 times.
- Cricket was the world's first disposable lighter when launched in 1961.
- Swedish Match acquired the Cricket brand from Gillette in 1985.
- Cricket was the first in the world to introduce child-resistant lighters in 1993.
- Cricket is one of few disposable lighters manufactured of self-extinguishing nylon.
- The principal markets for Cricket are Russia, Malaysia, Ukraine, Brazil and France.

Read more at [www.cricketlighters.com](http://www.cricketlighters.com)

Cricket Firepower, a utility lighter that was launched in 2003.



Hakan Tuna, Managing Director for Swedish Match International Division in Turkey.

# Turkish delight

Swedish Match has succeeded in increasing sales of lighters in Turkey by over 140 percent in just two years, based on an effective sales strategy that involves balancing several distribution channels against each other. Where Cricket lighters are displayed at store counters, they practically sell themselves, according to Hakan Tuna, Managing Director for Swedish Match International Division in Turkey.

Turkey has a comparatively young population of over 70 million and the country's application for EU membership has made it increasingly attractive to foreign investors. The country is undergoing a period of rapid, dynamic development, which has contributed to Swedish Match's impressive success with regard to lighter sales.

"The increased purchasing power of the people of Turkey has helped us, but our success has primarily been due to our analysis of the market, the sales strategy we have designed and our dedicated work in accordance with it," according to Hakan Tuna, Managing Director for Swedish Match International Division in Turkey.

When Tuna and his sales team analyzed market conditions in 2004, it was discovered

that lighter distribution was a decisive issue. At that time, Cricket lighters were only sold through wholesalers, but there was a clear need in the fragmented and rapidly changing market to supplement this approach with direct distribution to stores. Tuna built up a Swedish Match sales organization in Turkey and two years later, in 2006, sales of lighters had increased by more than 140 percent.

"Through our sales organization, we familiarized ourselves with the market and built up our own distribution network", says Tuna. "But we retained the wholesaler channel and balancing the two distribution channels, our own sales network, on the one hand, and the wholesalers', on the other, has been the key to increasing sales.

"Another advantage of the Cricket line,

besides quality, is that we are very active in producing new designs, which is important for attracting customers at the moment of sale. For example, Cricket lighters specially designed for the Turkish market are popular, accounting for a full 25 percent of sales here.

"Our goal is to maintain our position as the leading supplier of quality lighters in Turkey. We will succeed because Cricket is such a great product and because of the dedication of our sales team," Tuna concludes.

LOTTA ÖRTNÄS



## New lighter designs

Cricket regularly introduces new lighters series. Here are three examples of new designs.

**Solstickan** and Cricket are two strong brands, now combined into one product. A certain sum from each purchased lighter and box of matches with the Solstickan logo will be donated to the Solstickan Foundation for the benefit of sick children and the elderly.

**Le Mans Vintage** is a design series presented in cooperation with the Le Mans 24 Hour Race, probably the world's most famous car race. This is the second Le Mans series to be launched this year, this time featuring classic old racing cars and posters.

**CCCP** is a local design series for Russia featuring symbols and images from the former Soviet Union. Russia is Cricket's largest market and this design series marks the first time that the lighter casing with its own design has been presented to the Russian market.

# Snus tax hike a blow to public health

There is increasing awareness that snus is better for public health than cigarette smoking. Nevertheless, the Swedish government, in its budget bill this autumn, has announced an additional high tax increase for snus from the beginning of next year.

“When the government unilaterally attacks snus and in such a disproportionate manner, the wrong signals are being sent in terms of the harmfulness of different tobacco products. There is also the risk of removing the incentive for smokers to quit by switching to a product that we know has helped many smokers become free from cigarette addiction,” says Lars-Erik Rutqvist, VP Scientific Affairs at Swedish Match.

If the increase is approved, tax on snus will have increased by 173 percent from December 2006 to January 2008. The tax on cigarettes will have only increased by 24 percent during the same period.

“This wrongly implies that all tobacco is equally harmful, while medical research and experience indicates the opposite. Today, comprehensive scientific documentation indicates the relative health benefits of snus and also indicates that snus is very effective in antidotal smoking treatment”.

In the international scientific community, “the Swedish experience” has become an established concept. An increasing number of symposiums, conferences, studies and scientific reviews have dealt precisely with this. In Sweden, snus has been well-established for some time and it has therefore been possible to support health gains with respect to, for example, cardiovascular diseases and various forms of cancer.

The scientific committee that this summer, on assignment from the EU, presented a report on smokeless tobacco may not have excluded the possibility of health risks being associated with snus. However, it indicated that Swedish snus has a unique position among smokeless tobacco products, that it is significantly less unhealthy than cigarettes and that there are large health benefits for smokers who switch from cigarettes to snus.

Last spring, a number of researchers arrived

at the same conclusion in the well-respected magazine, *The Lancet*, and recommended that Swedish snus be allowed in countries in which it is forbidden today.

“Item after item, the relative gains of snus are being moved forward in the public health debate and in the medical world. At the same time, the socio-economic cost of cigarette smoking is astronomical. Smoking is particularly the cause of major suffering for many people, resulting in serious illnesses and premature death,” says Lars-Erik Rutqvist.

It is difficult to understand the government’s policies, according to Rutqvist. In Sweden, despite the popularity of snus, there are still more people who smoke compared with the number using snus.

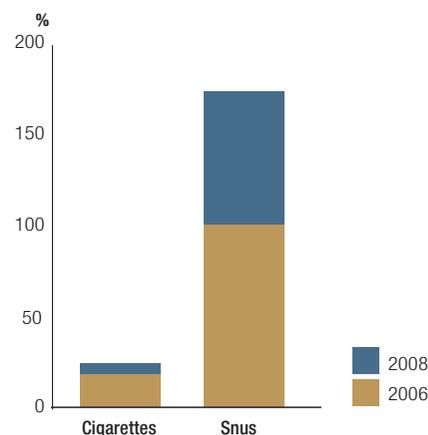
“Introducing a high tax increase for snus, while cigarettes get off lightly, sends completely wrong signals,” he concludes.

*Introducing a high tax increase for snus, while cigarettes get off lightly, sends completely wrong signals.*

BIRGITTA GUNNARSSON

TAX INCREASES FOR CIGARETTES AND SNUS IN SWEDEN

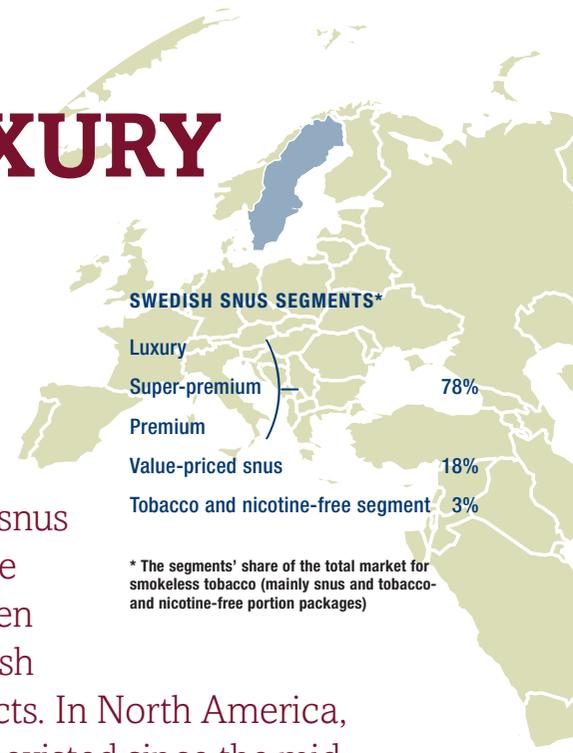
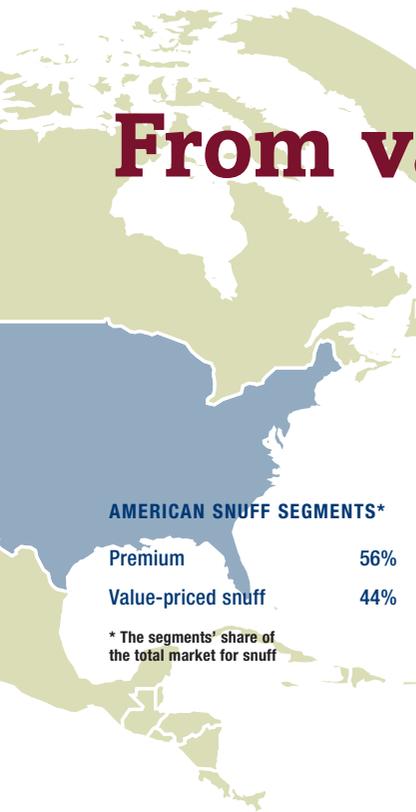
December 2006-January 2008



Lars-Erik Rutqvist, VP Scientific Affairs at Swedish Match.

# From value-priced to LUXURY

## – market segmentation boost for snuff and snus



In less than two years, the Scandinavian snus market has changed and moved from one to several segments. This change has been caused by an increased interest in Swedish snus and greater demand for new products. In North America, different American snuff segments have existed since the mid-1990s and a new segment in the US could be Swedish snus.

ONLY A COUPLE OF YEARS AGO, the Scandinavian snus market essentially comprised only one segment – the premium segment. Prices were roughly the same regardless of brand and consumer choice was primarily guided by flavor and tradition.

Since then, the market has expanded to include several new segments. Now, in addition to the premium segment, value-priced snus, luxury snus and nicotine- and tobacco-free portion packages are also available for purchase in Scandinavia. Interest in snus has

positively exploded in recent years, according to Anna Lekander, PR Manager, Brands, at Swedish Match.

### New consumers and new needs

“Today, there are more than one million snus users in Sweden, due to the increasing number of people seeking a better alternative to cigarettes. And with more new consumers come new needs. For this reason, segments have been developed within luxury and value-priced snus as well as tobacco- and nicotine-free portion packages, in addition to the more traditional premium segment,” says Lekander.

Value-priced snus was the first of the new segments and it was one of Swedish Match’s competitors that led the initiative. The market for Swedish snus began to attract an increasing number of players, but it proved to be more difficult than expected to break into a market that was dominated by Swedish Match’s strong brands. For this reason, the new players chose to focus on the relatively unexplored value-priced segment.

“When the value-priced breakthrough occurred, we chose to wait and see how it would develop without actively conducting operations ourselves,” explains Lekander.

However, the counter-move was essentially already in place and when the market responded positively, Swedish Match launched its first Swedish value-priced snus under the brand Kronan. Today, Kronan represents 60 percent of the value-priced segment.

### Growth in value-priced and premium

Value-priced products arrived in the US, which is dominated by traditional American snuff, much earlier than in Scandinavia. Swedish Match was behind this breakthrough.

“We pushed the development of the value-priced segment as early as 1994 with the launch of Timber Wolf. Today, the value-priced segment drives the entire snuff category in the US, which represents almost half the market. In addition, our other major brand, Longhorn, is the fastest growing brand in the value-priced segment,” explains Patrik Hildingsson, Vice President of New Business Development at Swedish Match North America Division.

The other major snuff segment in the US is the premium segment and between these two segments is a small medium-priced segment. He further explains that the price differentiation is increasing, meaning that the medium-priced segment is decreasing in favor of the more expensive and the more value-priced segments.

Sweden has also experienced this price-differentiation trend and Swedish Match has expanded its portfolio accordingly to include the categories super-premium and luxury snus. In super-premium, we have General Onyx, which comes in a black can with black portion packages arranged in a pattern, and in the luxury segment, we have Kardus, the most expensive and exclusive Swedish snus in the world.

*In the past two years, Swedish Match has launched no fewer than 14 Swedish snus products and a number of new designs in Scandinavia.*



Patrik Hildingsson, Vice President of New Business Development at Swedish Match North America Division.

PHOTO: PETER KNUTSON

“Just as there are consumers who want a cheaper alternative, there are also those who really enjoy the good things in life. And connoisseurs feel it is worth paying a little extra. Some simply prefer the luxury snus Kardus to a fine cigar after a nice meal,” says Anna Lekander.

#### Consumer influence

For users of Swedish snus who want to reduce their nicotine intake, nicotine- and tobacco-free portion packages are now available as well. Swedish Match's product in this segment, Onico, has quickly become the leading product, with more than 91 percent of the tobacco and nicotine-free segment.

Involving consumers in the development of new products is a natural part of Swedish Match's market operations. This starts with quantitative market research and ends with qualitative focus groups in which consumers provide their personal opinions.

“Onico is a good example of the influence of consumers. When we were developing Onico, the consumers were very clear about their demands. It should be a product that closely resembled Swedish snus. It should be moist and have the same feeling as regular snus.”

In the past two years, Swedish Match has launched no fewer than 14 Swedish snus products and a number of new designs in Scandinavia. Swedish Match also offers a large selection of product varieties within its brand families. Most snus varieties are available in both loose and portion-packed varieties. Portion-packed snus is often available in several sizes and in white or regular portions packages. Moreover, different flavor varieties are often available within a single brand. In total, there are 39 different types and varieties of snus in Swedish Match's brand portfolio in Scandinavia.

#### Swedish snus in the US

While Swedes have traditionally used pasteurized snus under their upper lips, Americans have tended to use traditional American snuff, which is fine-cut and fermented, under their lower lips. But the winds of change are blowing in the US and Swedish Match is selling the Swedish snus General on a trial basis in 100 stores in metropolitan areas.

“Right now, the introduction is being evaluated through discussions with consumers,” Hildingsson explains.

But Swedish Match is not the only company that has understood the potential of Swedish portion-packed snus. Several major, international tobacco players are now launching Swedish varieties of snus under brands that are famous in the world of tobacco, such as Marlboro and Camel.

“There is a strong hope that Swedish snus will find a foothold here in North America and form an entirely new snuff segment,” concludes Patrik Hildingsson.

BIRGITTA SJÖBERG

**Anna Lekander, PR Manager,  
Brands, at Swedish Match.**



## Snuff and snus markets in the US and Scandinavia

The US, the world's largest snuff market, has recorded annual growth of about 10 percent in recent years. US consumption exceeds one billion cans of snuff per year. Swedish Match's share of the US market amounts to 10.9 percent in terms of volume (through October 6, 2007).\*

Consumption of snus in Scandinavia totals approximately 250 million cans per year. Swedish Match estimates that the Swedish snus market grew by just over 3 percent in 2006. In Sweden, Swedish Match accounts for 89.8 percent\* of the total snus market in terms of volume (August-September 2007), and the market share in Norway amounts to 82.6 (through October 14, 2007).\*

\* Source: ACNielsen

CURRENT PRODUCT LAUNCHES:

# Cigars, cigars,

Development of new products is a continuous process within Swedish Match and we fully implemented 12 new launches in the cigar category during the past quarter. Seven of the cigars were launched in conjunction with the largest and most important trade show for premium cigars in the US: RTDA, Retail Tobacco Dealers of America, in Houston, Texas. In addition to these, Swedish Match has introduced five cigars for the European markets.

**Global brands**

Included in the introductions of premium cigars is Stradivarius, a completely new product, while new varieties have been added to several of our popular brands.



**Don Tomas Sun Grown\***



**Macanudo Vintage Cabinet 2000 (5/3 packs)**



**Stradivarius\***



**Macanudo Reserva Annual**



**Hoyo de Tradicion\***



**Macanudo Club and Cigarillos**



**Don Tomas Clasico Corona Tube**

\* Sold only in the US.

# cigars

## European brands

Five of our largest cigar brands in European markets have been expanded and now have new family members. One of the main innovations is Willem II Moments, which is available in three varieties: Original, Blue and Aroma.



### Willem II Moments

Launched in France first and then expanded to other countries, such as Spain, Portugal and export markets.



### Oud Kampen Brasil Cum Laude

Sold in the Netherlands, Belgium and Germany.



### La Paz Poker Cigars

Sold in the Netherlands, Belgium and Luxembourg.



### Heeren van Ruysdael Cuba

Sold in the Netherlands and Belgium.



### Hajenius Tuitknak

Sold in the Netherlands, Belgium and Travel Retail.

## Analysts' questions

Swedish Match's interim report for the third quarter of 2007 was presented on October 25. At the following telephone conference, representatives from company management answered questions from analysts from banks and brokerages that regularly monitor the company.

### ERIK BLOOMQUIST, JP MORGAN:

When will the dividend reach the level stated in your dividend policy, meaning in the interval from 40 to 50 percent of earnings per share? I also wonder how you view the decline in cigar sales.

### SVEN HINDRIKES, PRESIDENT AND CEO:

It is the Board of Directors that submits a proposal to the Annual General Meeting with respect to the level of the dividend. I cannot predict what it will be for 2007. For 2006, the dividend was 31 percent of earnings per share, but there is a clear ambition to raise that level.

With respect to cigars, we must remember that the third quarter of 2006 was the best in history. It is thus hard to beat such a record. We were also affected by the decline of the USD, as well as a shift in demand to smaller and less expensive cigars. It is difficult to predict how the demand pattern will be in the fourth quarter.

### ELISE BADOY, GOLDMAN SACHS:

How should we interpret the change in demand for cigars? Flavored cigars are going down and small cigars are growing. What pattern do you see going forward?

### EMMETT HARRISON, VICE PRESIDENT, INVESTOR RELATIONS:

I believe that we need to be very cautious about making predictions here. ACNielsen sees continued growth for small cigars and a downturn for flavored cigars. However, we see this happening all the time. Different segments suddenly become modern or non-modern as trends come and go.

### CHAS MANSO, DRESDNER KLEINWORTH:

Your share of the US snuff market continues to show strong growth. What underlies this growth?

### EMMETT HARRISON:

Timber Wolf and Longhorn jointly increased their sales by 28 percent during the third quarter. Red Man also contributed to improving our market share. That launch was enthusiastically received, although the introduction has thus far been on a small scale. You also have to see the growing market share in the light of it presupposing increased deliveries to ensure constant product availability in the stores.

### MIKAEL HOLM, SWEDBANK:

At year-end, Sweden will once again increase tax on tobacco. Last year, this led to substantial hoarding. What actions will you take to maintain margins this time?

### LARS DAHLGREN, CFO:

Hoarding is never good. Extreme production peaks are expensive. At the same time, it is too early to say if consumers will hoard as much as last year. In the coming months, we as a company must naturally adapt to the new market situation. We will take a number of measures that are intended to increase profitability in the snus segment.

JULY - SEPTEMBER

# Interim Report

**NET SALES AND RESULTS FOR THE THIRD QUARTER**  
In local currencies, sales increased by 3 percent. Reported sales for the third quarter increased to SEK 3,272 million (3,261) with currency translation negatively affecting the sales comparison by SEK 75 million.

For snuff, reported sales increased by 8 percent during the third quarter to SEK 852 million (785) and operating profit declined by less than 1 percent to SEK 383 million (385). Operating margin was 45.0 percent (49.1). North European Division snus sales increased by 7 percent. North American snuff sales increased by 24 percent in local currency.

Sales of cigars in the third quarter were SEK 902 million (903), while operating profit was SEK 185 million (231). In local currencies sales increased by 4 percent, while operating

profit declined in both the US and in Europe. Operating margin for cigars was 20.5 percent (25.6).

Group operating profit for the third quarter amounted to SEK 759 million (808). Currency translation has affected the operating profit comparison negatively by SEK 27 million.

Operating margin for the third quarter continued to recover and amounted to 23.2 percent compared to 24.8 percent for the third quarter 2006.

EPS (basic) for the third quarter was SEK 1.89 (2.23). EPS (diluted) for the third quarter was SEK 1.88 (2.22). The decline is mainly attributable to the reversal of a tax provision for withholding tax on unremitted earnings from the US subsidiaries in 2006.

Read more at [www.swedishmatch.com/financialreports](http://www.swedishmatch.com/financialreports)

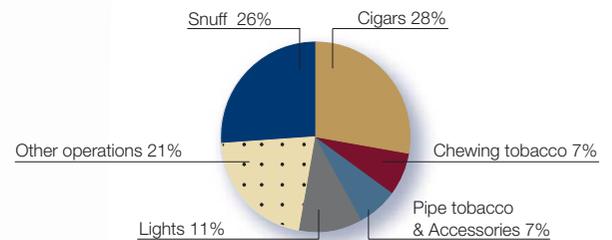


PHOTO: MAGNUS FOND

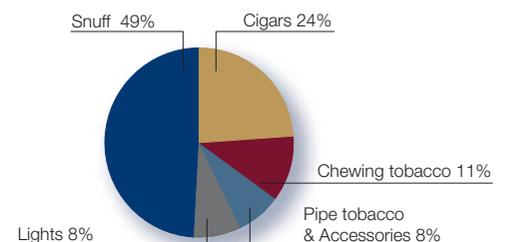
Lars Dahlgren, CFO

SEK million	Jul-Sep 2007	Jul-Sep 2006	Full-year 2006
Net sales	3,272	3,261	12,911
Operating profit	759	808	3,285
Income before tax	655	741	3,173
Net income	491	627	2,335
Earnings per share, SEK	1.89	2.23	8.13

### NET SALES BY PRODUCT AREA JUL-SEP 2007



### OPERATING PROFIT BY PRODUCT AREA\* JUL-SEP 2007



\* excluding Other operations

## SHARE COMMENTS

# Favorable trend for Swedish Match share

SHARES IN THE CONSUMABLES CATEGORY got off to a slow start in 2007. From January 1 until October 25, shares in the industry as a whole declined by 2.3 percent. During the same period, the Swedish Match share increased by 8.6 percent. The broad OMX Stockholm index, which reflects the trend for Sweden-based companies listed on the OMX Nordic Exchange, has been virtually unchanged

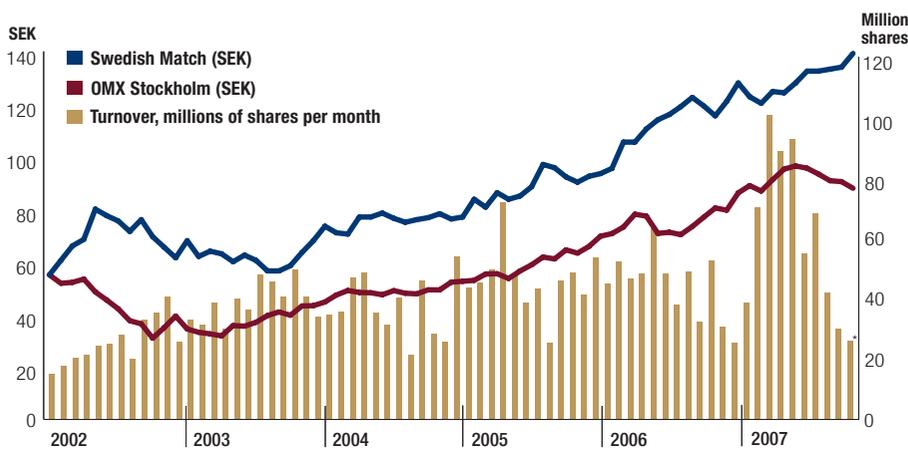
since January 1. The index has risen by 1.7 percent.

Swedish Match, with a market value of about SEK 36 billion, also belongs to the Large Cap category on the Stockholm Stock Exchange. This category includes all companies with a market value exceeding EUR 1 billion (approximately SEK 9.3 billion). The 30 largest companies in this

category are included in the OMX Stockholm 30 index, which has risen by 2.2 percent since January 1.

Turnover of the Swedish Match share remained high, while the number of shareholders continued to decline during the year. At December 31, 2006, there were 58,287 shareholders. By September 30, 2007, the number had declined to 55,076.

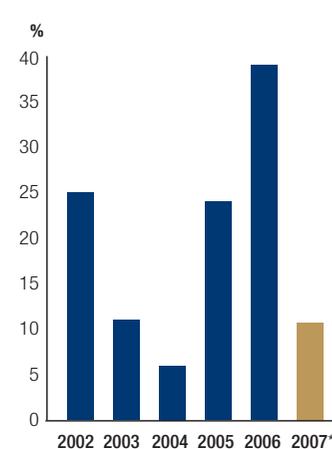
### SHARE PRICE AND TURNOVER



During January-September 2007, the turnover rate for the Swedish Match share was 206 (131) percent, while the turnover rate for the OMX Stockholm index was 92 percent (107).

\* Through October 25, 2007

### TOTAL RETURN



\* Through October 25, 2007

## New members of Group management



PHOTO: PETER KNUTSON

### Patrik Andersson, new President North Europe Division

PATRIK ANDERSSON HAS BEEN APPOINTED PRESIDENT NORTH EUROPE DIVISION, effective October 1, 2007. He joins us from a position as President of Wasabröd AB within the Barilla Group. Prior to this, he worked for 12 years at Unilever, where he held various managerial positions within marketing and sales in Sweden and Germany.

"I look forward to further strengthening Swedish Match's position as an innovative and dynamic consumer goods company," says Patrik Andersson, commenting on his new role as President of the North Europe Division.

### Henrik Brehmer, new Senior Vice President Corporate Communications

SINCE AUGUST 1, HENRIK BREHMER HAS BEEN THE NEW SENIOR VICE PRESIDENT Corporate Communications at Swedish Match AB. He joins us from Securitas AB in London, where he has been Senior Vice President, Investor Relations and Group External Communications since 2001. Prior to this, he held various management positions within the Ericsson Group in Sweden and the UK.

"Communication is a very important function in a listed company and its primary objective is to support the company's business. I recognize major opportunities to support our efforts in terms of organic growth within smokeless products and cigars in a global perspective. Another important area is capital market information, where we have a well-functioning process, which we will continue to develop jointly with our other communication activities," says Henrik Brehmer.



“The most important issue for Swedish Match is ensuring growth,” says Board member Kersti Strandqvist. “In order to succeed, Swedish Match needs to identify what generates major growth long term, and become even better at understanding what makes consumers buy and test new products.”

Since Kersti Strandqvist was elected to the Board of Directors in 2005, many changes have taken place in the Board’s composition. New members from the United States, the UK and Sweden have been elected and, this spring, Conny Karlsson became the new Chairman after Bernt Magnusson. Strandqvist thinks these changes are exciting and positive for Swedish Match.

“The Board’s work in Swedish Match is characterized by a broad range of expertise and different ways of thinking. By having members with considerable international experience and different cultural backgrounds, we gain a rich dialog, which among other benefits leads to different ways of addressing problems and solving them. This results in sound decisions and, at the same time, being able to work with such competent people is stimulating.

“Both Bernt Magnusson and Conny Karlsson are knowledgeable, skilled leaders. Even if I will miss Bernt with his in-depth experience, it will be exciting to see what new influences Conny will bring as the Chairman of the Board, particularly with regards to brands and markets.

“The Nominating committee has done a good job and the Board’s diversity will be important in our efforts to carry out our mission in the best way.”

#### **Impressive qualifications**

Strandqvist has an impressive range of qualifications herself, from technology to marketing and brands. She is a trained chemical engineer and also has a Master’s degree in marketing. Her professional experience includes roles in technical sales and product development at Neste Chemicals, marketing at Elf Atochem, as R&D Director for Incontinence Care SCA Hygiene Products and Business Area Manager for Baby Care SCA Personal Care. In her various positions over the years, she has been stationed in Belgium, Finland and France.

She is now Business Area Manager for Feminine Care SCA Personal Care in the global consumer goods and paper group SCA, based in Gothenburg, Sweden.

Strandqvist is very enthusiastic when she speaks of working on the Board of Swedish Match. She feels that it contains many of the things that give her energy and motivation: innovative thinking, an international focus, and exciting people and products.

PHOTO: PETER KNUTSON

# Consumer insight essential for future growth

In terms of work on the Board, she feels that she contributes with her entire breadth, and specifically with her experience of acquisitions. She finds evaluating acquisitions and seeing how they fit in with Swedish Match's operations exciting. Other specialties that she masters are consumer marketing and the new development of products for different markets.

"SCA and Swedish Match are global consumer product companies and there is an interesting parallel in that several of the products address the same consumers. In both of the companies, product development and brand building also go in the same direction, towards increasingly faster product launches with new designs, new tastes and new variations. All of this is intended to keep the consumers' interest and get them to try the products."

## Understanding consumer behavior

Strandqvist believes that consumer insight, understanding what makes consumers buy a certain product, is an important success factor for Swedish Match.

If the company is to ensure its long term growth, the factors that will provide major growth in ten years for instance, must be identified. A deep understanding of the consumers' behavior and what the various brands represent to them is then needed.

"Today, Swedish Match already has a great deal of knowledge of product development and brands. But because of the restrictions on

marketing tobacco products, more thought and creativity is required than for other consumer products, which can be marketed with traditional advertising. More has to be

done here and I know that we on the Board can also contribute a great deal of strategic knowledge in this area."

One area that she feels Swedish Match should become better at is operating strategic product groups globally, across

the organization. She explains that this work has already begun through the establishment of a global function for the growth area of smoke-free products, and adds that probably no other company is as competent in smoke-free products as Swedish Match. The company also has unique competencies and strong brands in the segment for premium cigars.

*Marketing of tobacco products requires more thought and creativity than consumer products which are marketed with traditional advertising.*

## Focus and resources are needed

Strandqvist looks positively on Swedish Match's future. With the right focus and resources, she is convinced that the company will grow, and she wants to stay on and contribute to this growth.

"It is inspiring to see the desire to develop and grow. Not many organizations have employees as knowledgeable as those in Swedish Match and they are really committed to the company. Personally, being able to contribute to Swedish Match's continued development energizes me. I would like to stay on the Board as long as the shareholders feel that I am doing a good job."

She is one of the youngest members of the Board and one of two elected female Board members. What is the significance of this?

"Just that I represent my own experience and ways of thinking. Diversity on the Board is important to efforts to shed light on decisions and issues from multiple angles."

LOTTA ÖRTNÄS



## KERSTI STRANDQVIST

**BORN:** In Halmstad, Sweden, 1963.

**FAMILY:** Two children.

**LIVES:** In Gothenburg, Sweden.

### WHERE ARE YOUR ROOTS?

On the west coast of Sweden.

### DO YOU USE TOBACCO PRODUCTS?

A cigar is nice at a party.

### WHAT DO YOU DO IN YOUR FREE TIME?

Spend time with friends, play golf, work out at the gym, go to yoga and enjoy downhill and cross-country skiing. Wine tasting is also a major interest.

### WHAT IS YOUR FAVORITE PLACE?

Malaysia, it must be paradise on Earth. It is a fantastically beautiful country with an exciting culture and friendly people.

### WHAT IS YOUR ADVICE FOR BALANCE IN LIFE?

Time for reflection makes one more effective in other contexts. Physical activity is also important in order to rest the mind.

### SOME PERSONAL TRAITS YOU ADMIRE

Above all, openness to other people's thoughts and ideas. Generosity and respect, as well as drive, spontaneity and curiosity.

# Red Man

## – from chewing tobacco to snuff

Red Man is one of the most recognized brands in the US and has been on the market longer than iconic American brands such as Coca Cola and Chevrolet. As the best-known brand of chewing tobacco, Red Man represents quality, heritage and tradition. These are the values that Red Man will now apply as the brand is launched as a traditional American moist snuff product in the growing American snuff market.

“EXPANDING RED MAN’S BRAND to include the snuff category will provide snuff with immediate access to the values that Red Man represents – quality and tradition. These are characteristics that American snuff users appreciate,” explains David Price, Vice President Marketing at Swedish Match North America Division.

Swedish Match already has two strong traditional American moist snuff brands – Longhorn and Timber Wolf. Adding Red Man to the portfolio is a deliberate step in the company’s growth strategy. While the American snuff market is growing steadily, the market for chewing tobacco is declining.

Red Man moist snuff, which was launched in test markets in ten US states at the beginning of September, is available in three varieties – Long Cut Straight, Long Cut Wintergreen and Fine Cut Natural. The cans have metal lids that are stamped with the distinctive Red Man Indian-head logo.

“It’s too early to comment on consumer acceptance, considering that the product has hardly reached the shelves. However, we are exceeding all distribution targets in the test

market as retailers are embracing the new product. From a consumer perspective, we anticipate a strong trial due to the equity of the brand name, which means distribution is a key first step. We are confident that this brand proposition will be a strong addition to our portfolio” says David Price.

LOTTA ÖRTNÄS



PHOTO: HÅKAN MOBERG

Read more at [www.redman.com](http://www.redman.com)

### ☆☆☆ SWEDISH MATCH

Swedish Match is a global Group of companies with a broad assortment of market-leading brands in snuff/snus, cigars, pipe tobacco and chewing tobacco – tobacco’s niche products – as well as matches and lighters. The Group’s operations generated sales of SEK 12,911 million in 2006. The average number of employees during 2006 was 12,465. The Swedish Match share is listed on OMX Nordic Exchange in Stockholm.

[www.swedishmatch.com](http://www.swedishmatch.com)

