

inside #1

March 2008

SWEDISH MATCH
☆☆☆☆



CHIEF FINANCIAL
OFFICER KEEPING
CAPITAL IN ORDER

VERTIGO
FOR THE MODERN WOMAN

FOCUS ON STRATEGY

SVEN & CONNY

LEADERS LOOK AHEAD

10

NEW PRODUCTS

TREND MONITORING
THE CONSUMER IS KING

SMART ACQUISITIONS
ENHANCING THE PORTFOLIO

PLUS!
MEET BOARD MEMBER
ARNE JURBRANT

"Solid platform for continued development"

Welcome to a new issue of Swedish Match Inside, which is directed to those interested in following the company and gaining in-depth information about our operations.

This issue focuses particular attention on Swedish Match's strategies and how the company will develop in the future.

Firstly, I would like to highlight a few significant events during 2007. We closed the year on a strong note when consolidated sales reached an all-time high during the fourth quarter. The Scandinavian market for snus developed well, despite a challenging tax increase on snus products in Sweden. The US snuff market continues to grow and Swedish Match captured market share, which means that we are beginning to gain a significant position in the US.

We also launched our strong Red Man brand as a snuff product, which was received positively by the retail sector and consumers.

The cigar operations demonstrated a strong final quarter. The acquisitions of Bogaert and Cigars International were consolidated into the Group and will contribute positively to consolidated



PHOTO: PETER KNUTSON

earnings. Our other operations show continued favorable margins and contributed to a healthy cash flow. Our share price rose during the year by just over 20. All in all, we have a solid platform for our continued development with a focus on organic growth, supplementary acquisitions and an effective return of capital to our shareholders.

This issue of Inside includes articles on how we work on product development through active monitoring of our business environment to capture consumer trends and lifestyle patterns. We also present our new snus products, Triumph, for the US market, and Vertigo, which is directed at women in the Scandinavian market. Chief Financial Officer, Lars Dahlgren, is interviewed about our financial strategy and the significance of having an efficient balance sheet. In addition, you will meet Board Member, Arne Jurbrant, who has many years of experience in consumer marketing.

Once again, welcome to a new issue of Inside and to the continued journey with us at Swedish Match.

Once again, welcome to a new issue of Inside and to the continued journey with us at Swedish Match.

Sven Hindrikes,
President and CEO

NO. 1, 2008

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

PUBLISHER
Swedish Match AB

RESPONSIBLE UNDER LAW
Bo Aulin, Swedish Match AB

EDITOR-IN-CHIEF
Annette Kaunitz, Swedish Match AB

PRODUCTION
Karoline Hammar, Swedish Match AB
Lotta Örtmä, Citat Journalistgruppen AB

ART DIRECTOR
Tom Sörhuus, Citat Journalistgruppen AB

COVER PHOTO
Magnus Fond

REPRODUCTION
Bildrepro

PRINTING
Intellecta Tryckindustri

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

☆☆☆ SWEDISH MATCH

Swedish Match is a global Group with a broad assortment of market-leading brands in smokefree tobacco products, cigars, pipe tobacco and lights products. The Swedish Match share is listed on the OMX Nordic Exchange in Stockholm.



PHOTO: HÅKAN MOBERG

CONTENT

MARCH 2008



PHOTO: HÅKAN MOBERG



PHOTO: BETTY IMAGES



PHOTO: MAGNUS FOND

05 | LEADERS ON THE FUTURE

Sven Hindrikes and Conny Karlsson introduce the year's strategy theme by discussing how Swedish Match will create growth and increase its efficiency.

10 | CONSUMERS LEAD THE WAY

Swedish Match strengthens its hold on consumers through continuous product development and excellent consumer insight. This generates business value and satisfied customers.

18 | SNUS IN THE US MARKET

According to test sales in the US, the Swedish snus General is appreciated by consumers. The new snus Triumph is also being launched.

19 | CIGARS, SNUS AND LIGHTERS

Ten new products were launched during the last quarter 2007. Here are a few examples of the new cigars, snus and lighters.

20 | THE QUARTER IN BRIEF

CFO, Lars Dahlgren, gives his view of the fourth quarter of 2007. Analysts comment on the report and we present an overview of the share performance.

22 | MEET ARNE JURBRANT

Brands and strategies provide a kick in Arne Jurbrant's everyday life. Meet the Board Member who believes that ensuring growth is the Board's principal task.



Lars Erik Rutqvist and Freddi Lewin, Scientific Affairs within Swedish Match

EU confirms health benefits of Swedish snus

PHOTO: PETER KNUTSON

There is no longer a scientific basis for a continued ban of snus within the European Union. That is Swedish Match's conclusion of the final report of the scientific committee SCENIHR, assigned by the European Commission.

“**The committee** confirms the significant health benefits of Swedish snus relative to cigarettes. The report therefore constitutes a reevaluation of Swedish snus within the European Union where the product is currently banned, except in Sweden,” says Lars Erik Rutqvist, Vice President for Scientific Affairs, Swedish Match AB, cancer specialist and Professor of Oncology at the Karolinska Institute in Stockholm.

In its evaluation of the health effects of smokeless tobacco products, SCENIHR unanimously says that Swedish snus has dramatically less adverse health effects than

cigarettes, and that a smoker who switches to snus substantially reduces his or her risk of contracting tobacco-related disease. The availability of snus as a substitute for cigarettes has had positive effects on Swedish public health and Swedish data contradicts the hypothesis that snus is a gateway to smoking.

“The scientific debate about snus within the EU has come to an end, and the politicians must now decide on whether it is reasonable to continue to deny European smokers access to a dramatically less hazardous alternative to cigarettes,” Rutqvist concludes.



PHOTO: STIG-GÖRAN NILSSON

AGM scheduled for April 22, 2008

The Swedish Match Annual General Meeting will be held at 4.30 p.m. on Tuesday, April 22, 2008 at Rival in Stockholm. The notice of participation will be published in daily newspapers and sent to the company's shareholders. Shareholders can register via our website www.swedishmatch.com, or by telephone, mail or fax.

Havana Honeys joins the fold

Swedish Match's subsidiary General Cigar has acquired certain assets of Havana Honeys Holdings LLC, a privately held company based in Las Vegas, USA, that manufactures and markets flavored cigars under the Havana Honeys brand. General Cigar's purchase of Havana Honeys represents an opportunity to strengthen positions within the growing flavored segment of the premium cigar category and complements the existing portfolio.

Have your say!

Swedish Match is eager to make Inside magazine as current and readable as possible. We gratefully accept ideas, tips and comments from readers. E-mail questions and views to: inside@swedishmatch.com

FOCUS. Swedish Match's success during 2007 is confirmation that the Group's long-term strategies work. In four issues, Swedish Match Inside will provide in-depth insight into the strategies for continued growth and profitability. In this issue, they will be highlighted from a Group-wide perspective.

“The future as we see it”



President and CEO, Sven Hindrikes, and Chairman of the Board, Conny Karlsson, discuss the past year and the strategy for the future.

BY: LOTTA ÖRTNÄS PHOTO: MAGNUS FOND



What was most positive during 2007?

Sven Hindrikes: There were quite a number of positive activities during the year. Our shareholders can be pleased with an increase of just over 20 percent in the share price. We made two profitable cigar acquisitions and sales of our US snuff increased substantially during the year. In Scandinavia, we were able to increase our profit level, despite significant tax increases for snus, and we divested our office property in Stockholm at a favorable price.

What is Swedish Match's strategy for the future?

SH: Our goal has been the same for many years and we will continue with the same long-term strategy, which comprises four parts: organic growth, acquisitions/divestments, productivity improvements and financial strategy. Naturally, the importance of, and the investments made in, the various strategic areas have varied over the years. We are currently focusing on organic growth and acquisitions.

What does the strategy imply?

Conny Karlsson: All parts of the strategy are aimed at profitability and growth. With respect to organic growth, it involves building markets and gaining complete control over our own growth. Acquisitions are made to supplement the operations with profitable growth, while the parts of the operations that are no longer important to the business are divested. Productivity improvements mean guaranteeing that deliveries are as efficient as possible and ensuring that the best methods are used at all levels. In short, the financial strategy involves using the balance sheet as efficiently as possible. By minimizing capital costs, we can motivate growth projects and provide the right value to



It was a major strategic decision when we divested the cigarette operations in 1999.

“ We maintain high speed within product development and new launches. ”

shareholders, which will increase our competitiveness.

Within which areas is Swedish Match most successful?

CK: The most successful product areas are snus, snuff and cigars. With its strategy for organic growth, Swedish Match has demonstrated a strong ability to attract new snus consumers by developing the market, primarily in Scandinavia. We now need to utilize our strong

position in the US snuff market to create market growth in the same way. In the cigar field, we have developed our position as global number two by concentrating on profitable acquisitions.

What are the priorities for 2008?

SH: Activities include continuing the effort that commenced in 2007 to strengthen the sales and marketing organization. This is a prerequisite for creating a better basis for long-

term growth. It is also vital that we maintain a high speed of product development and new product launches. In this area, we will focus on certain selected, strong brands. High on the priority list is also a successful launch of the new Red Man snuff.

What generates growth?

CK: Growth begins here and now, every day, through product development, consumer insight and by defining test markets. In the short term, Swedish Match's greatest potential for growth is to focus on the market for US snuff. In the medium term, it involves creating new markets for snus and developing the market for premium cigars. And, long term, it is about creating new products and new markets.

Are we a tobacco company or a consumer products company?

SH: What distinguishes us from other

consumer products companies is that we face entirely different regulations and tax issues that other consumer products do not have to contend with. But we have things to learn from companies within fast-moving consumer products: innovativeness, investment in product development, focus on global brands, significant investments in marketing, niche approach, price segmentation and so forth. We must select the best parts and apply them to our tobacco categories.

CK: We decide ourselves how to define Swedish Match as a company. We do have products that are not tobacco products, and I believe that it can be positive to start thinking along different lines, should we decide that Swedish Match is a consumer products company. Swedish Match shares many conditions with other

consumer products companies; for example, our consumers and competitors never stand still. Consequently, we must continuously strive to build and develop our markets, be best in class in terms of product development, understand our consumers better than others and continuously exceed consumer expectations, precisely as with other consumer products companies.

What are Swedish Match's primary strengths?

CK: Swedish Match has unique knowledge in the field of snus, snuff and cigars. I would also like to emphasize our strong sales culture and excellent ability to understand customers and consumers.

SH: By far our greatest asset is all our competent, focused and loyal employees in all countries. We have a well-defined and planned strategy

SVEN HINDRIKES ON:

ORGANIC GROWTH

Organic growth entails increasing our sales, primarily in our core areas of snus, snuff and cigars. We must also utilize all opportunities to increase sales in other product areas in various markets. Since we have declining volumes in certain markets for some of our tobacco products, organic growth is a key part of the strategy.

ACQUISITION/DIVESTMENT

Acquisition/divestment is the part of the strategy that has generated the most value for our shareholders. It was a major strategic decision when we divested the cigarette operations in 1999. They no longer fitted into the Group structure, considering the demands we placed on profitable growth, and the sale also released capital that was used to acquire cigar operations in the US, in both the premium cigars and the machine-made cigars segments. Our entire US cigar operation is currently based on acquisitions, and the same applies to the pipe tobacco operation in South Africa. During 2007, we acquired two companies, Cigars International in the US and Bogaert Cigars in Belgium, both with operations in product segments that are demonstrating strong growth.

PRODUCTIVITY IMPROVEMENTS

Productivity means that each employee, over the years, must produce more and more. To achieve that goal, the number of employees can be reduced or sales can be increased, or a combination of both. An example of a productivity-enhancing activity was when we closed the cigar plant in Overpelt, Belgium. We have also closed plants for hand-rolled cigars in Florida and Jamaica. Within the match operations, we have closed plants in Spain and Turkey. We have also relocated production units; for example, the production of pipe tobacco in South Africa, where the unit in Rustenburg was integrated into the modern plant in Boksburg.

FINANCIAL STRATEGY

The financial strategy is based on the principle of not utilizing more capital than necessary, and to always optimize the balance sheet. We continuously distribute surplus funds to shareholders in the form of dividends and the repurchase of own shares. Between the years 1998-2007, we repurchased approximately 45 percent of the number of shares outstanding in Swedish Match. The share buyback program is long-term and will continue in the years ahead. In parallel with this, we will reinvest in our operations to create the conditions for continued expansion and organic growth.



We must be best in class in our core areas.

The greatest challenge is to create new markets for snus and cigars.

for each product area. Everyone in the organization is focused on implementing the action plans that are connected to the strategy. We can maintain a high speed, due to our employees' skills and their willingness to change and drive development.

What does Swedish Match need to improve?

CK: We need to continuously take major steps forward and there is always potential to do more, do better and set new goals. To capitalize on

the Group's size, we need to improve on documenting, quantifying and analyzing our work so that we can learn from our successes and failures.

SH: It is important to realize that everything we do can be done more efficiently, that we can improve in all areas. I do not want to highlight any particular area that has more improvement potential than others.

What is Swedish Match's greatest challenge for the coming years?

SH: We must utilize all business

opportunities in all product areas. The biggest potential for growth is in the US snuff market and we expect to continue capturing market shares there. We are not aware of any major threats to our operations other than political intervention in the form of regulations, bans and tax increases that can impact negatively on the operations, but this is a factor in our business environment that we have learned to handle.

CK: In addition to continuing working in current markets, the greatest challenge is creating new markets for snus and cigars. We must also be best in class in our core areas and succeed through our own efforts and skills. ✪

Acquisitions firing up the portfolio

Over the years, Swedish Match has made a number of company acquisitions that have contributed to increasing the profitability and the attainment of a leading position in several markets. Acquisition remains an important part of the growth strategy, primarily in cigars in the US and Europe.



ACQUISITION STRATEGY

The objective is to strengthen Swedish Match's presence and position in selected markets. The strategy also provides opportunities to supplement product and brand portfolios and to generate production, sales and distribution synergies.

The consumer is KING

Consumer-driven product development and strategic branding are the routes to organic growth. For this reason, Swedish Match focuses intently on the consumer. BY: LOTTA ÖRTNÄS

Competition for consumers is increasing. To introduce new products and retain consumer interest in existing products, continuous product development is required. Accordingly, active product development is an important part of Swedish Match's strategy for organic growth.

Kenneth Arnström, Vice President International Marketing Smokefree at Swedish Match, works on global strategies for the Group's smokefree products. He believes that consumer insight is becoming increasingly important, in part because consumers are becoming more international than national in the wake of globalization.

"Today, a consumer in New York has more in common with consumers in such cities as Paris, Stockholm or Bangkok than with people living in the provinces of the same country. This facilitates communication with new consumers in an international market for our local strong brands, such as General and Red Man. In this work, consumer insight is key," says Arnström.

The path to sound consumer insight is through consumer data, trend data, surveys, analyses of sales trends and, possibly most important of all, the long and extensive experience of employees.

"In order to grow organically, we have to listen to the consumers," says Anna Neiås, Marketing Director at Swedish Match North Europe Division.

"The combination of extensive knowledge, long experience and systematic work provides us with an opportunity to anticipate the future needs of consumers. We work proactively and must be the first to develop new offerings for new consumer categories."

Consumers have become increasingly complex and there is an enormous range of products and brands for them to choose from. For Swedish Match, having distinct offerings and the most attractive brands in each segment is crucial.

Being able to predict trends, also called trend monitoring, is a useful tool for working on consumer insight. Trend monitoring provides concrete business value by enabling



Swedish Match to develop products that optimally satisfy consumers' needs.

"Our Trend Management System will assist us in defining a number of trends and dividing them into various categories depending on the timelines for the trends. Based on the trends that we consider relevant, we will develop concepts, which will then be put into practice," says Maria Nicholl, Manager Market Research & Analysis at Swedish Match North Europe Division.

Trend monitoring provides preparedness for future developments in the market. When the premium and luxury trends in the Scandinavian snus market broke through, meaning when consumers started demanding more refined and exclusive snus, Swedish Match already had such products as General Onyx, premium, and Kardus, luxury, ready for launching.

In response to the global upswing in poker, Swedish Match launched the La Paz Poker cigar in the European market last autumn. The cigar has become so successful that distribution has been expanded, and the previously limited edition of the La Paz Poker cigars is now on its way

In the wake of globalization, consumers are becoming more international than national.

to becoming a permanent variety in the range. The newly launched snus product, Vertigo, is another example of how Swedish Match translated consumer needs into an entirely new product for a growing target group.

“Vertigo is Swedish Match’s first snus product for women, developed by women,” says Maria Nicholl.

Consumer research showed that increasing numbers of women were using snus, but interaction with consumers indicated that none of the offerings were suitable for them. They like snus but were not completely satisfied with the products on the market because of the male image.

“From the start, female consumers were involved in designing the concept for Vertigo. They have participated in the entire process up to the launching. We also made sure that we would capitalize on the experience of our female

employees in this project,” says Maria Nicholl.

Vertigo and Triumph are examples of how Swedish Match has translated consumer needs into new products.

All product development is conducted on a cross-functional basis. This means that employees from different parts of the organization work together on projects: research, product development,

marketing, production and sales. A cross-functional forum also exists for monitoring the business environment.

“This enables us to rapidly adapt to our business environment, for example, if a trend reaches the market

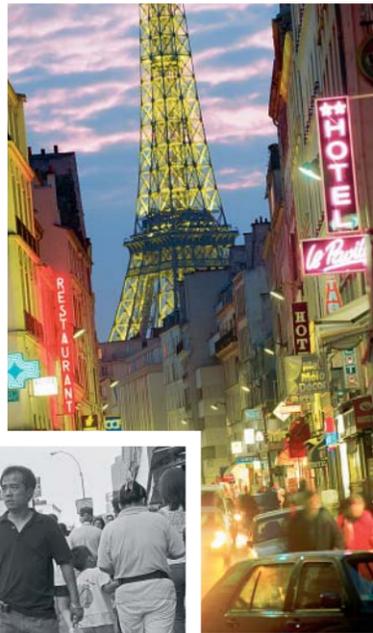


PHOTO: GETTY IMAGES

PHOTO: GETTY IMAGES

earlier than we anticipated. Within the Group, we also assist each other and share our insights between the various markets. This helps us to predict what is about to happen globally,” says Anna Neiås.

In the US, Swedish Match is now launching the new snus Triumph, another product in which consumer insight has guided and contributed at all stages of the development process.

Research indicated that smokers in the US were adopting smokefree usage in large numbers, even though smokefree tobacco in North America has a rather negative image among smokers. A major driver of this dynamic was smokers using smokefree products on an occasional basis, due to extended bans on smoking in public places.

“These smokers had no optimal smokefree alternative. Triumph was designed to fill a gap, where existing products either gave insufficient satisfaction or were extremely heavy on negative image attributes,” says Ed Gee, Director Marketing Research at Swedish Match North America Division.

“The development of Triumph was guided by a fundamental understanding of who the potential consumer was, what that consumer wanted, and what proposition would best fill those needs. Initial feedback from the trade is that Triumph is exceeding expectations in its test market.”

Trend monitoring provides product ideas

Keeping abreast of trends has become increasingly important for consumer products companies. BY: LOTTA ÖRTNÄS

Trends in our business environment are important sources of information, providing inspiration for new product ideas,” says Pernilla Jonsson, Director for Consumer, Marketing & Innovation at Kairos Future.

The international research and consulting company, Kairos Future, assists companies in understanding and shaping the future through future-oriented analyses. Pernilla Jonsson has a background as a researcher in consumer science and was involved in developing the Trend Management System, which is used by Swedish Match North Europe Division as a tool for trend monitoring.

“Trends change continuously and we must monitor them to adapt our offerings to consumer preferences. But it is relatively new for companies to develop their products and services based on consumer preferences, instead of technology.”

In trend monitoring, Kairos Future uses several different skills and various approaches. Usually, the company looks for major trends arising in three to five years.

However, longer-term surveys are also conducted to identify major structural changes in the business environment. Certain trends are very long-term and radical, for example, globalization.

“This trend is so major and groundbreaking that it is defined as a megatrend. It has been under way for at least 100 years and will undoubtedly continue for 100 more, but it is continuously gaining new expressions, which we have to keep our eyes on,” explains Pernilla Jonsson.

Today, various regions rather than entire nations set the trends for the rest of the world. In the US market, California, for example, is a trend center for health, while New York sets trends within art and fashion. An interesting example in Europe is the restaurant El Bulli in Spain that is currently

influencing food trends in the entire western world.

“Regions that are considered extra trend-sensitive are frequently used as test markets for new products. But the key factor is the mind of the consumer; today, consumers’ identify trends regardless of where in the world they live.”



Pernilla Jonsson, Kairos Future

PHOTO: KAIROS FUTURE

5 trends

Five exciting consumer trends, according to Pernilla Jonsson at Kairos Future:



INNOVATIVE PACKAGING AND DESIGNS

The greatest innovation no longer occurs in the raw material used for the product but in its design and packaging, with solutions that are developed to suit the new consumer culture.



ENVIRONMENT

Consumers in the western world are becoming increasingly environmentally aware and are gravitating towards products that are ecological or organic. In the third world, the products that will be consumed in the western world are based largely on environment-friendly cultivation/production.



TRUST MARKS

A trend that involves consumers choosing products and brands in which they trust. This trust is built largely on own experience and the recommendations of other consumers, not on messages or advertising from the companies.



FEMALE DIVERSITY

Companies are beginning to realize that women comprise several target groups. Products must be developed on the basis of different preferences and consumption patterns.



DEATH OF MASS MARKETING

Traditional mass marketing does not attract consumers that are fed up with advertising. Companies are becoming more innovative in finding new channels and new ways to market their products, and consumers are starting to track down advertisements themselves.



PHOTO: GETTY IMAGES

An efficient balance sheet is one of the core elements of Swedish Match's financial strategy. Lars Dahlgren, Chief Financial Officer of Swedish Match, is pleased with the initiatives taken during 2007, although considerable work remains. BY: LOTTA ÖRTNÄS

Our financial strategy is value enhancing in itself. The company's value depends on the future cash flows generated by the business. Particularly during a growth phase, it's important to manage capital invested in the business properly in order for the owners to benefit from increased cash flows. With an efficient balance sheet and the right mix between liabilities and equity, the cost of capital is lowered and the value of the company is maximized," says Chief Financial Officer, Lars Dahlgren.

Swedish Match's financial strategy is a prerequisite and catalyst that enables us to implement the other parts of the company's strategy, Dahlgren explains.

"Strong cash flows make capital available for new profitable investments that drive growth. In addition, with a lower cost of capital, more investments become attractive and the number of opportunities for transactions and profitable acquisitions increases."

INITIATIVES CARRIED OUT

Dahlgren explains that efficient capital management and a well-defined financial strategy are of vital importance to the credit market's confidence in Swedish Match. This, in turn, enables the company to borrow money for acquisitions or other investments on favorable terms.

During 2007, hard and structured work was carried out on a number of initiatives within the financial strategy.

"Throughout the year, we improved routines for the follow-up and development of investments. We worked actively on increasing transparency for the stock market as well as the credit markets. We also reviewed our financial strategy, which led to a new

SWEDISH MATCH'S FINANCIAL STRATEGY COMPRISES THREE MAIN AREAS:

- ★ To minimize operating capital tied up in the business and maximize cash flow over time.
- ★ To optimize the balance sheet and thereby reduce the cost of capital.
- ★ Not to utilize more capital than necessary and to return surplus funds to the shareholders.

dividend and finance policy," Dahlgren explains.

The new dividend policy states that the dividend as a proportion of earnings per share will be increased and should be within 40 to 60 percent of earnings per share adjusted for major nonrecurring items. The revised finance policy states that the company will aim to maintain a level of net indebtedness that does not exceed three times EBITA*, thus minimizing the cost of capital.

WELL-EQUIPPED FOR THE FUTURE

Another financial initiative taken in 2007 was the continued rationalization of working capital. An example of an initiative within this area is Cash Race Relay, which aims to continuously develop work methods for minimizing tied-up working capital. The Group also sold its office property in Stockholm and continued repurchasing shares during the year.

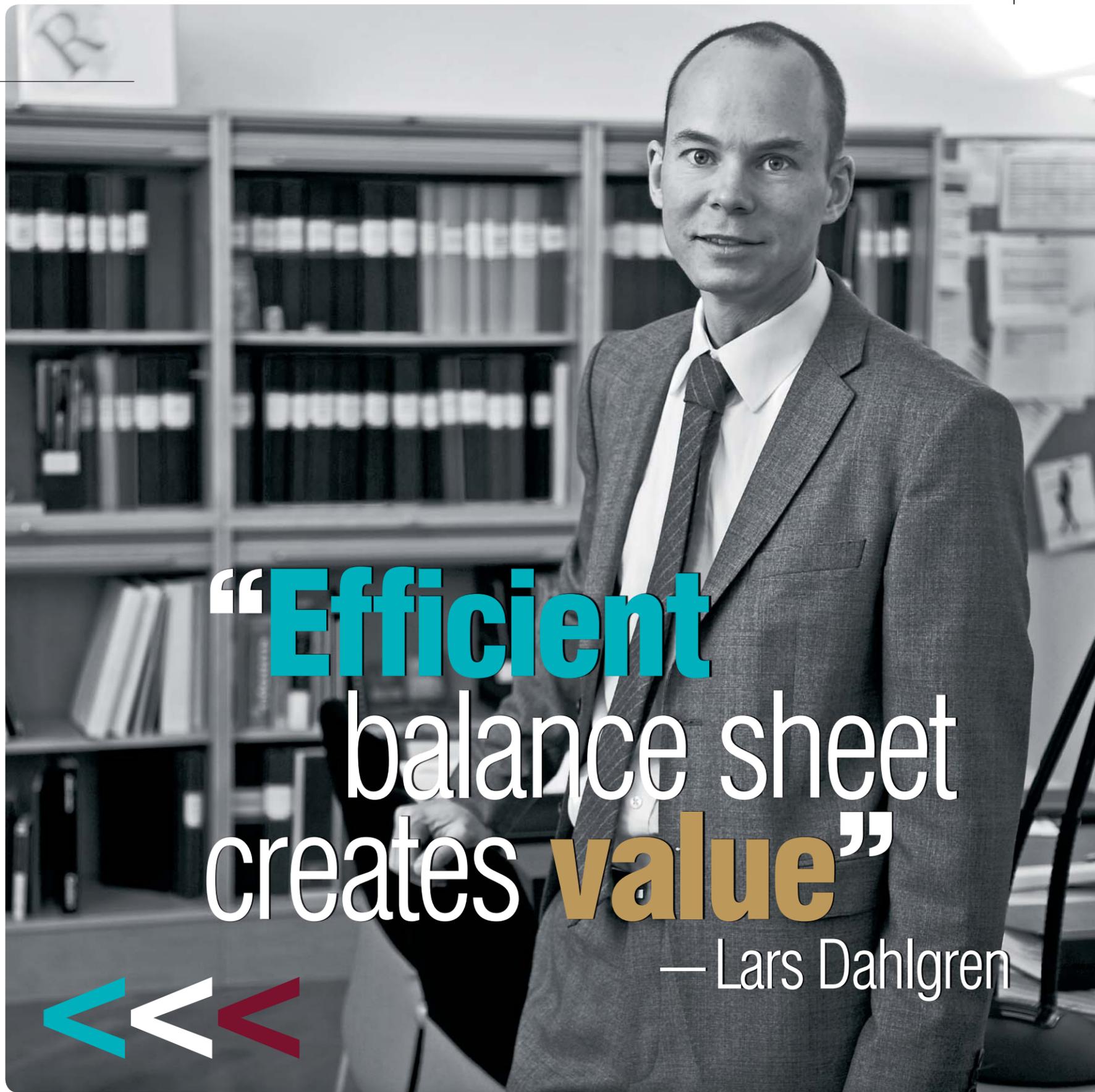
"We have worked actively on our loan portfolio and the maturity profile of our loans. One example of this was our issuing of bonds with attractive maturities in the Eurobond market. This bond issue was a success despite the prevailing turbulent situation in the credit market."

Lars Dahlgren believes that Swedish Match's financial strategy is strong and well defined, which makes the company well prepared for the future. If a company has its capital in order, it usually has its earnings capacity in order as well and these two characteristics strengthen one another.

"Our financial strategy for 2008 stands firm; at the same time, we are prepared for changes that may occur in the business environment. Although we are competent in many areas, there is always room for improvement in everything we do. Our goal is to constantly raise the bar." ★

* EBITA: earnings excluding major nonrecurring items, financial items, tax and amortization and impairment of intangible assets.

PHOTO: PETER KNUTSON



“Efficient balance sheet creates value”
— Lars Dahlgren



Profitable payment process that **benefits everyone**

Swedish Match North America regarded its payment procedures as inefficient and costly. The Cash Race Relay financial project accelerated and simplified tasks, while increasing customer satisfaction and releasing capital.

BY: KAROLINE HAMMAR



PHOTO: STEVE RITTER

The Cash Race Relay is part of one of the three main areas of Swedish Match's overall financial strategy whose aims include releasing operating capital. Cash Race Relay supports this strategy by creating more efficient and faster processes.

Rick Hayden, Director Factory Strategic Development within North America Division, describes the intensive work devoted to Cash Race Relay.

"In our business, we focus continuously on optimizing the balance sheet and Cash Race Relay has helped us achieve our single largest improvement in past-due accounts receivable. We developed the new routines to create an effective payment and transaction process," he explains.

NEW CUSTOMER BENEFITS

Hayden and his team developed a completely new sales program that offers customers discounts and various benefits in order to facilitate a change in order behavior and payment patterns.

"The financial results are surprisingly good. Swedish Match reduces its working capital at the same time as our customers experience improved procedures. We also see a reduction in the number of orders and, in return, an

increased order volume, which leads to considerable savings in terms of freight and distribution costs."

ENHANCED RELATIONS

To ensure the success of Cash Race Relay, modern technology and a new computer system were implemented. This in turn reduced the amount of paper work and simplified administration. The freed-up time could be spent on other tasks instead. Moreover, the new easy-to-use systems have significantly increased customer satisfaction.

"We have launched an external website that customers can log onto to check the status of their accounts in terms of total discounts and benefits accrued to the customer, and a history of previous payments. Now that we have the results, we can see that the average order size has risen about 20 percent, while the number of orders has dropped by more than 23 percent. In the US tobacco industry, this is a new initiative and one that provides new ways of enhancing relations with our customers.

"All in all, we are reducing costs both for Swedish Match and our customers. We have succeeded in removing unnecessary steps from the supply chain and have instead created an efficient and favorable payment environment that benefits everyone." *

Modern **production** gives us an edge

In recent years, Swedish Match has implemented several restructuring measures to create a more efficient production structure. The changes have increased profitability and improved resource management, while demonstrating that the strategy for productivity improvements was spot on. In coming issues of Inside, we will visit some of our production units and describe efficiency enhancement activities and the results that have been achieved within different product areas.



Cigar production in Indonesia has increased and productivity has improved in Belgium and Alabama, USA. The changes have resulted in improved profitability and resource management.



PHOTO: STIG-GÖRAN NILSSON

Lighters, for example, are manufactured in the Philippines. At the beginning of 2008, production is being relocated to a new unit, which will improve the production flow and increase cost-effectiveness. The production of matches has also improved through a concentration of product resources.



In 2003, a modern plant was opened in Kungälv, Sweden. This high-tech production facility specializes in the manufacture of both portion-packed snus and white-portion snus.

PHOTO: BEPPO ARVIDSSON



PHOTO: PETER KNUTSSON

General a hit in the US

Consumers and merchants in the US are positive toward Swedish snus, according to the evaluation of the test sales. BY: LOTTA ÖRTNÄS

Swedish Match began test sales of Swedish snus in the US in early 2007 and, since then, just over 100 stores in 13 states have been selling Swedish snus, primarily the brand General.

"Sales results and reactions from consumers and merchants have exceeded our expectations," says Camilla Kuylenstierna, Strategic Brand Manager at Swedish Match North Europe and acting Senior Project Leader for Swedish snus at the North America Division.

Swedish snus is a new product category for US consumers. The test launch was performed on a small scale and considerable work remains to be done before the product category can be established long term. For that reason, the Division does not want to make excessive conclusions based on the results, despite positive signs. One of the principal factors for success is creating demand through, for example, interaction with consumers and merchants.

"We have chosen to conduct the test

sales via our network of stores that carry premium cigars. The cigar merchants are excellent and knowledgeable ambassadors for Swedish snus, and cigar stores also correspond well with the brand's position as a sophisticated premium product. From the consumer survey, we can see that the consumers perceive Swedish snus from Swedish Match as a sophisticated, elegant and credible quality product."

Several major international tobacco companies, including Philip Morris and R.J. Reynolds, launched Swedish style snus in 2007. Compared with these companies, Swedish Match is a relatively small player in the US. However, Camilla Kuylenstierna believes it is an advantage that competitors are helping to drive the market for Swedish snus.

"Due to the positive results of the survey and the substantial interest in Swedish snus, we are planning a gradual expansion during 2008. It will be conducted in close cooperation with our consumers and merchants."

Triumph, snus on cigarette shelf

Triumph snus, which is now being launched in the US, is the result of a partnership between Swedish Match and Lorillard Tobacco Company.

"Our main target group for this new snus is cigarette smokers and Triumph is available in the places where cigarette smokers feel at home – that is, on cigarette shelves," explains Patrik Hildingsson, Vice President for New Business Development within Swedish Match North America Division.

Lorillard, the third largest tobacco company in the US, manufactures and sells Newport brand cigarettes and, as a result, has access to attractive retail space. The snus Triumph can be purchased from cigarette shelves, which makes the product more visible and accessible for consumers.

"In our partnership, we benefit from Swedish Match's solid knowledge about developing and manufacturing smokefree products and Lorillard's strong position in the US cigarette market," Hildingsson explains.

Triumph is a Swedish-style snus, but is also uniquely developed for the US market with its white portion packages arranged in an attractive star-shaped pattern.

Uniquely developed for the US market

The can has a combi-lid for used pouches and the packaging is designed for extended shelf life.



PHOTO: HÅKAN MOBERG



FINAL CHAPTER IN ACCLAIMED CIGAR SERIES

Serie R Limitada Retrospectivo is the final chapter in the critically acclaimed cigar series under the brand La Gloria Cubana. It offers cigar connoisseurs exclusive cigars from each of the brand's vintage years, 2002 through 2006, and is presented in a custom-designed, handcrafted humidor, sold through select tobacconists in the US.



CRICKET IN SOCCER COLORS

Ahead of the 2008 European Soccer Championships, Cricket is launching a new design series based on a soccer theme. The European Soccer Championship lighters, which will be sold throughout Europe, will feature images of soccer players and the flag of the qualifying nations.



NICK & JOHNNY

The snus Nick & Johnny is now being launched in a new packaging and two new flavors, East and West, for the Norwegian market.

New products



PHOTO: HÅKAN MOBERG

GENERAL STERK – POWERFUL NEWCOMER

The leading snus brand in Norway, General, is now being complemented by a new family member, General Sterk. General Sterk is a completely new variety, with the white portion packages laid out in the form of a star. The snus has a strong taste of tobacco with elements of pepper and citrus.

THE WORLD'S FINEST SNUS

Kardus Superior Blend is the right choice for the connoisseur who wants exceptionally exclusive snus. Kardus is produced in a very limited edition for the Swedish market and is presented in a handmade box of polished walnut.



HELIX, WITH A DASH OF COFFEE LIQUEUR

Helix Remix Café Royale is the latest addition to the Helix cigar brand.



HAJENIUS DE DAM

Hajenius De Dam is an exclusive new member of the Hajenius cigar brand. It is a large corona type cigar, sold in a limited edition in the Netherlands and Belgium.



VIVE LA PAZ!

La Paz Mini Wilde 5, a new variety of this classical cigar brand, has been developed for the French market. The new product, which has the characteristic uncut lighting end, is packaged in a metal box containing five mini cigarillos.



The quarter in brief

“We are strengthening the platform for **growth**”

Last year was successful for Swedish Match. Strategically focus has been on strengthening the platform for growth through investments in brands, new products and category leadership to develop and defend our market positions. The fourth quarter showed an all time high in Group sales supported by the strong development in product areas snuff/snus and cigars.

In local currencies, sales increased by 5 percent compared to the same period previous year. Reported sales for the fourth quarter increased to

The fourth quarter showed an all-time high in Group sales.

3,527 MSEK (3,457) with currency translation negatively affecting the sales comparison by 92 MSEK.

Operating margin for the fourth quarter amounted to 30.1 percent compared to 23.5 percent for the

PHOTO: PETER KNUTSSON



Lars Dahlgren

fourth quarter 2006. Excluding the gain on the sale of the Stockholm office buildings, operating margin in the fourth quarter amounted to 22.5 percent.

Sales for the full year amounted to 12,551 MSEK (12,911). In local currencies sales increased by 1 percent. Operating profit*, excluding larger one time items, amounted to 2,730 MSEK (3,137). The lower operating profit is mainly due to

lower Scandinavian snuff volumes in the beginning of the year, higher marketing investments as well as currency translation effects. Currency translation has affected the operating profit comparison negatively by 117 MSEK. Group operating margin for the full year was 23.9 percent (25.4). Group operating margin excluding larger one time items* was 21.8 percent (24.3).

EPS (basic) for the full year was 7.82 SEK (8.13). Diluted EPS amounted to 7.80 SEK (8.10).

* Excluding a gain of 267 MSEK from the sale of head office buildings in Stockholm in 2007 and a pension plan curtailment gain of 148 MSEK in 2006.

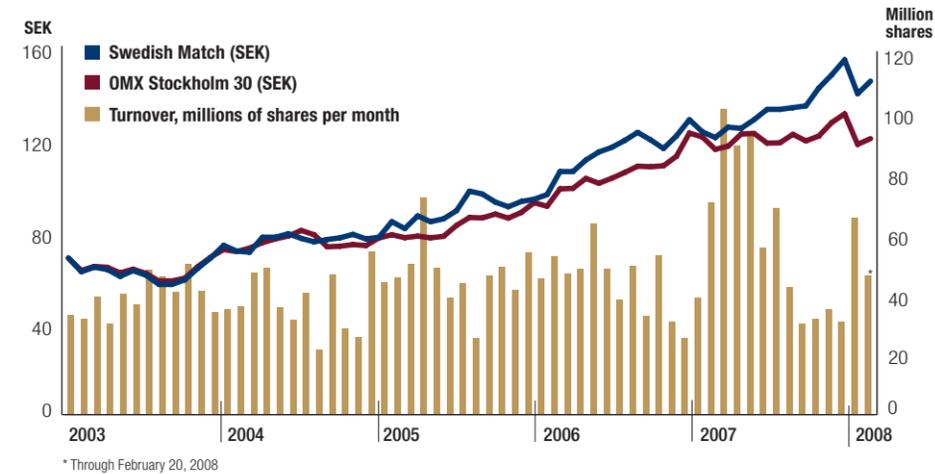
Continued stable performance

The 2007 trend for the Swedish Match share was strong, including a 15-percent price increase from SEK 134.00 to SEK 154.50 during the fourth quarter. For the full year, the share increased a total of 20.7 percent, compared with a decrease of 5.7 percent in the OMXS 30 Index for 2007.

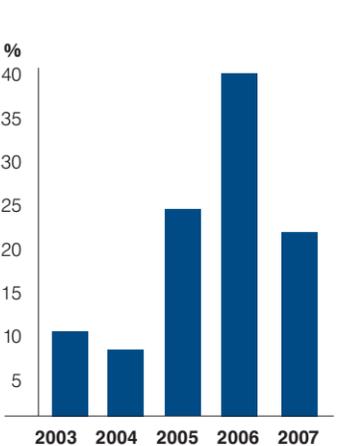
In a very difficult start of the year for most stock indices, Swedish Match has demonstrated its defensive characteristics. The Swedish Match share has declined by 6.3 percent for the year to date through February 20th, while the OMXS 30 Index has declined by approximately 10 percent.

In the year-end report presented on February 20, the Board announced its proposal to increase the dividend for the 2007 fiscal year to SEK 3.50 per share. The dividend proposal will be voted upon at the Swedish Match Annual General Meeting on April 22.

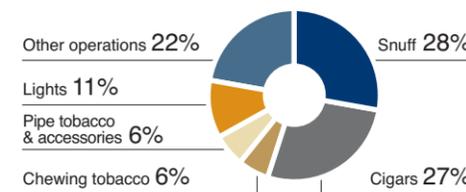
Share price and turnover



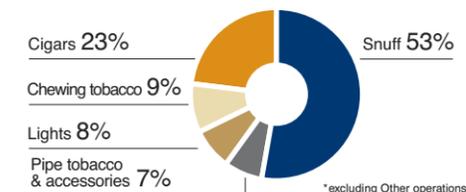
Total return



NET SALES OCT-DEC 2007



OPERATING PROFIT OCT-DEC 2007*



MSEK	Oct-Dec 2007	Oct-Dec 2006	Full-year 2007
Net sales	3 527	3 457	12 551
Operation profit	1 062	811	2 997
Income before tax	976	854	2 662
Net income	791	603	2 056
Earnings per share, SEK	3.04	2.19	7.82

Analyst comments

Anders Hansson, analyst Danske Bank: “It’s a good report, pretty much matching expectations. At division level, there are both positive and negative deviations. The trend for cigars, which has been weak in the previous three to four quarters, is now positive, with a margin

that is exceeding expectations. However, the margin on snus was slightly weaker, although I see no drama in this, since there are good reasons for the deviations. Looking a couple of years into the future, it is essential that positions in the US are managed well and strengthened, showing that the

company is not competing only on the basis of lowest price. Regarding Swedish snus, an increasing low-price segment represents a risk. Swedish Match must achieve the right balance between maintaining a strong position in the market for low-price products and not driving growth of

the entire segment more than is necessary.” **Henrik Fröjd, analyst Kaupthing Bank:** “The report gave a stable impression in general. The things that stick out are one-off occurrences that are due to already known causes, such as price increases and the effects of

hoarding. The margin on cigars was higher than expected, but cigars will also be faced with stronger comparative figures at the beginning of this year. What is now necessary is for Swedish Match to carry on with its work of building volume and increasing awareness among American consumers of brands

in the relatively young portfolio for that market. I believe that the company would also be wise to build upon its established brands in other areas. The launch of Red Man as a snuff is a good example of such efforts.” **Jonathan Fell, analyst Deutsche Bank:** “The report showed good

numbers, in line with what the market expected. I think Swedish Match has dealt well with the challenges of 2007, produced particularly good results in US snuff, and overall delivered what was promised. The message for 2008 is pretty reassuring and I believe the price increases in Sweden will

offset the expected decline in volume related to the tax increase. The plan for launching Red Man in the US is looking good and the market share growth, after such a short period of time, shows strong development. I also think that matches and lighters delivered a very creditable result.”

Portrait

“Brands help us to grow”

Consumer products and brands are key concerns for Board member Arne Jurbrant who can look back upon a long career in the food industry. BY: LOTTA ÖRTNÄS

My particular contribution to the Board of Directors of Swedish Match is my expertise within consumer products and marketing. It suits me perfectly because the Group has many exciting brands and products,” Jurbrant explains.

Arne Jurbrant's experience in international groups spans his entire working life. Seven years ago, he ended a long and successful career in the food industry, during which he spent more than 20 years as president within General Foods and Kraft Foods. The assignment on Swedish Match's Board is a directorship he is retaining because it is still enjoyable and motivating.

He believes that two of Swedish Match's chief strengths are its ability to achieve the goals that have been set and the self-confident character of the Group.

“It can't be easy competing with a player as professional as Swedish Match,” he says.

Jurbrant also believes that Swedish Match has a strong brand portfolio, but still sees much work to be done within brand building and brand

strategies to ensure that the Group continues to grow. For example, the company's portfolio does not yet include any global brands.

“The new Smokefree Group function is the beginning of an investment that will eventually offer opportunities for global brand strategies. This will require many years of work, although Swedish Match is already making excellent progress with its strategy for smokefree products. One of the Group's smartest strategic decisions was the sale of its cigarette operations in 1999, which made the successful concentration on smokefree products and cigars possible.

“During my time at Swedish

Match, the company has become increasingly international, which is a major achievement and something that characterizes everything we do. A tangible example of this is that the Board comprises several nationalities,” Jurbrant explains.

He believes that the work of the Swedish Match Board displays several features that characterize a strong board: tolerance, respect for one another's knowledge, expertise that covers all operating areas and last, but not least, that the Board adheres to its role of setting and following up strategies.

“The work of the Board is an ongoing process with constantly changing goals. It may not be as euphorically satisfying as scoring a goal in a soccer game, but planning strategies and ensuring that they are carried out and produce results can also give you a kick,” he says.

Jurbrant believes that the Board's work is made easier because Swedish Match is a company with a clear strategy for the future.

“At the moment, our main task is safeguarding growth. Swedish Match is a small player in a large world, so it is absolutely critical that it continues to grow.” ☘

“An organization
that believes
in itself.”

ARNE JURBRANT

BORN: In Stockholm, 1942.

FAMILY: Wife and a daughter who is a lawyer.

LIVES: In Stockholm.

WHERE ARE YOUR ROOTS? My family has lived in Stockholm for several generations.

DO YOU USE TOBACCO PRODUCTS?

I enjoy a cigar on special occasions.

WHAT DO YOU DO IN YOUR FREE TIME?

Play golf and tennis. I travel a lot with my wife, usually to our house in France.

WHAT IS YOUR FAVORITE PLACE? If I can only choose one place, it would be South Africa. It is a destination that has everything and I recommend it thoroughly.

WHAT IS YOUR ADVICE FOR A BALANCED LIFE?

The most important thing is finding balance between work and your private life, achieving a mix of serious and not-so-serious aspects that gives you perspective on life. That way you can cope better with both setbacks and success. It is also essential to have fun and believe in what you are doing.

PERSONALITY TRAITS YOU ADMIRE:

Openness, honesty and a good sense of humor.

Vertigo – modern snus designed for women

For the first time, a snus that is developed for women, by women, is being launched. Norway was first to introduce the new snus, Vertigo, and it is available in the Swedish market from February.

BY: KAROLINE HAMMAR

“The timing of the launch of Vertigo is perfect. The number of female snus users is increasing and they have long been asking for a new modern snus. In order to match the target group’s needs, it was important to understand their specific demands and requirements already in the product development process,” says Anna Neiås, Marketing Director at Swedish Match North Europe Division.

Vertigo has a unique waist-formed can and is available in Bahama Velvet and Cuba Gold flavors. Both are portion-packed and have a natural tobacco flavor inspired by the sun-ripe Caribbean.

