

# Inside

INFORMATION ABOUT SWEDISH MATCH FOR SHAREHOLDERS AND OTHER STAKEHOLDERS

#3 July 2001

## Another strong earnings report

Despite economic decline in many parts of the world and stagnating markets, the first six months of 2001 brought yet more strong earnings for Swedish Match. Sales increased by 25 percent to 6,564 MSEK and earnings per share by 36 percent to 1.69 SEK. All product areas reported increased sales and favorable profitability. **Page 2**

## Record share price

Swedish Match was one of the winning shares on the Stockholm Exchange during the first six months of 2001. Since the beginning of the year, the share price has risen by approximately 37 percent, from 36.50 SEK to 51 SEK (July 17, 2001). This is a new price record for the share, which was listed in 1996. The Stockholm Exchange, measured in terms of the all-share index, like the NASDAQ index in New York, fell 18 percent during the same period. **Page 7**

## Turnaround for lighters

After an arduous restructuring process, the decline of Swedish Match's lighter operations has at last been broken. In 2000, lighter operations achieved a profit margin of 10 percent and this positive trend has continued in 2001. The operating margin for the first six months of 2001 amounted to slightly more than 12 percent. **Page 6**



## New analysts praise Swedish Match

Excellent management; the best growth prospects in the industry. These were among the comments regarding Swedish Match that were made by three more or less new analysts specializing in tobacco companies: Elisabeth Kruth of ABG Securities, John Hernander of Alfred Berg Fondkommission and Pieter Vorster of CSFB SA Securities. **Page 2**

## Meet the Cigar Sisters in Veenendaal



They are the third generation of proprietors of the van den Loosdrechts cigar shop in the Dutch town of Veenendaal.

Under the management of the sisters Annemieke and Gerrien, the shop has expanded to become one of the ten largest in the country. The sisters more or less grew up in the shop. **Page 8**



VICTOR BROTT/FOTOGRAFIER AB

SOUTH AFRICA

# Rapid progress to the top

Only a few years ago, Swedish Match had no operations whatsoever in South Africa. In 1999, the snuff and pipe tobacco manufacturing company, Leonard Dingler was acquired, followed by Brasant and BAT's pipe tobacco operations. The Group is now the second-largest in the South African tobacco market.





## Dear Shareholder!

ALL OF THE PRODUCT AREAS reported favorable operating margins during the first six months of the year, and I would like to take this opportunity to praise the excellent restructuring and rationalization work undertaken by our employees in Lighters and Matches. During the period, both of these areas have achieved the margin targets we established.

Developments show that our operational and financial strategies have been successful. Thanks to the focus on growing niche products and successful acquisitions on a global scale, we have established a considerably higher level of growth than the market. Intensive internal efforts, including synergies, restructuring activities and the rationalization of production, distribution and sales, have provided us with a higher level of profit. To this can be added the redemption and repurchasing program which has returned considerable surplus funds to shareholders. And we and our shareholders have been rewarded. During the year, the price of the Swedish Match share has risen by 40 percent on the Stockholm Exchange. An excellent result.

In brief, we have reason to be happy and proud of the Group's results to date.

But we can hardly be satisfied. It is in the nature of enterprise and the culture of Swedish Match never to be completely satisfied.

We must continue to develop products and markets. Our competitors are not sitting still. The confidence of consumers must be won every day by offering constantly improved quality and flavor experiences. We have begun extensive and costly activities in the area of snuff. For cigars, the hunt continues for synergies following acquisitions and new launches. The successes in Lighters and Matches must be consolidated and strengthened. We are working constantly to evaluate potential acquisitions.

Lennart Sundén, CEO

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**SWEDISH MATCH**

## A STRONG FIRST SIX MONTHS

# Sales up by 25

»A strong report,« is how Sven Hindrikes, Chief Financial Officer, describes the first six months of 2001 for the Swedish Match Group. Despite economic decline in many parts of the world and stagnating markets, sales increased by 25 percent to 6,564 MSEK and the earnings per share by 36 percent to SEK 1.69. All product areas reported increased sales and favorable profitability. It is especially gratifying that the previous problem area, Matches, reported a strong improvement in income and achieved its target margin.



Sven Hindrikes.

**I**n the midst of an accelerating economic downturn and tumbling market prices, Swedish Match again published a positive quarterly report, showing operations with stable growth for both sales and income. Net sales have now increased continuously over ten quarters, with only one exception.

»This shows that our basic growth strategy has long-term strength and that the Group is relatively unaffected by the general economic cycle. This also means long-term strength for our shareholders,« Sven Hindrikes continues. »With an increase of approximately 40 percent, Swedish Match is one of this year's winning shares on the Stockholm Exchange, the general index of which has fallen nearly 20 percent.«

**THE INCREASE IN SALES** during the first six months is attributable to continued favorable organic growth within the Group's core areas, the addition of the acquisitions of recent years and the continued strength of the dollar. The positive trends will very likely continue for the remainder of the year.

Operating income climbed 18 percent to 1,046 MSEK during the first six

months, with a continued favorable rate of increase during the second quarter (555 MSEK). The continuous increase over ten successive quarters, with only one exception, also applies in this case, not counting the substantial items affecting comparability resulting from acquisitions and divestments.

»The growth strategy, with the major acquisitions of recent years combined with the restructuring and rationalization programs, have turned the Group into a stable profit machine. We now have six well-functioning core areas, with mutual synergies. All of these areas reported unchanged or increasing operating income for the first six months, favorable profit margins and substantial profitability.«

**THE TWO HEAVYWEIGHTS** of the Group are snuff and cigars. The operating income for snuff is on the same level as 2000, in spite of earnings being charged with considerable costs for product launches in the US and India. In recent years in the US, Swedish Match has built up a leading market position in the rapidly expanding value price segment for snuff, which has provided a total market share of more than 8 percent of the world's

largest snuff market. These successes are now being followed by an aggressive approach to the premium segment with the Sequoia brand. At the same time, Swedish portion-packed snuff is being launched in Bombay, in India.

**SVEN HINDRIKES EXPLAINS** that these costs will remain high during the second half of the year. However, if these long-term launches provide positive results, the Group will eventually achieve a growing addition to profits from snuff, mainly from the US and, at a later date, from India.

»We should therefore expect lower margins than we are accustomed to from snuff for about a quarter. To a certain extent, this is now being offset by a distinct improvement in Matches and the fact that we have achieved a stable and satisfactory margin level in Lighters, previously our two problem areas.«

Cigars, which have been the Group's most significant area in terms of sales, reported a 56-percent increase in sales to 1,642 MSEK. The operating income increased even more, rising by 62 percent to 225 MSEK. These impressive figures are largely explained by the major acquisitions made in North America. Howev-

## New analysts praise Swedish Match

Excellent management; the best growth prospects in the industry. These were among the comments regarding Swedish Match that were made by three new analysts specializing in tobacco companies.

**E**lisabeth Kruth is actually not so new among the tobacco analysts. She has been monitoring the industry for 3-4 years, spending the past year at the Stockholm office of the Norwegian investment bank, ABG Securities.

Swedish Match has been one of ABG's most favorite shares for a rather long time.

»It has been a »top pick« at ABG, with a performance that has been highly

appreciated,« she says. »The share price has also risen steadily. One reason for this can be the uncertainty in the stock markets. This has resulted in investors looking for low-valued companies with promising growth prospects, which also offer operations that are economically stable,« Elisabeth Kruth continues.

»Swedish Match's management also enjoys a high level of confidence among investors and analysts, since they always

fulfill their promises. They have implemented a number of successful acquisitions and restructuring measures, which have quickly made a positive contribution to income and cash flow. They have also conducted several shareholder-friendly activities, particularly the repurchase and redemption of shares,« she continues.

Will Swedish Match continue to be as attractive to investors?

»In principle, yes. The share still has the prerequisites for being a productive investment, with positive profit trends and low valuation. However, following this year's substantial increase in price, we have lowered our recommendation to »retain« as the share price is beginning to approach the levels where we assess that it is reaching its full value,« says Elisabeth Kruth.

# percent

er, the markets are expanding both on the other side of the Atlantic and in Europe.

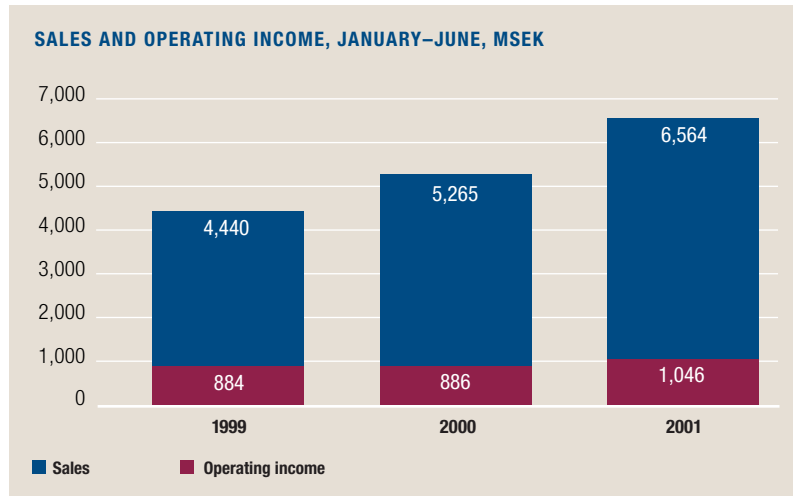
»We witnessed the largest sales increases in machine-manufactured cigars, where our substantial market shares and many strong brands provide results in a situation of intense competition. In addition, we are making use of synergies in the entire production chain, in distribution and sales, as we integrate the acquired companies, a process for which we can still see no end.«

FINALLY, A FEW WORDS about the two high-margin products, Chewing Tobacco and Pipe Tobacco and Accessories. These have been slightly overshadowed by the more spectacular successes of recent years and events within the other product groups. However, both show figures that are nothing to be ashamed of – steady margins of more than 25 percent, quarter after quarter. Although demand and markets are declining in the long term, Swedish Match succeeded again in increasing its market shares, net sales and operating income during the period.

The sum of this is a continued positive operating income, and an even and high earning ability, as all operating areas have been streamlined and are working in line with the established operating strategies.

In addition, financial strategies are now showing full impact in the form of increased shareholder value, a mainstay of the Group's steering and values. Through a redemption program, more than 1,000 MSEK in surplus funds was provided to shareholders in 2000. The Annual General Meeting also approved the repurchase of a maximum of 10 percent of outstanding shares.

AT THE END OF THE PERIOD, Swedish Match had repurchased 28,120,000 of the Group's own shares and 358,476,181 shares remained outstanding. If the mandate for repurchase is to be exercised in



	SALES MSEK			OPERATING INCOME, MSEK		
	Jan–June 2001	Jan–June 2000	Change %	Jan–June 2001	Jan–June 2000	Change %
Snuff	1,170	990	18	449	450	
Chewing tobacco	679	600	13	188	172	9
Cigars	1,642	1,051	56	225	139	62
Pipe tobacco & Accessories	450	357	26	123	101	22
Matches	833	805	3	88	43	105
Lighters	423	344	23	51	35	46
Other	1,367	1,118	22	-78	-54	
<b>Total</b>	<b>6,564</b>	<b>5,265</b>	<b>25</b>	<b>1,046</b>	<b>886</b>	<b>18</b>

full, the number of outstanding shares in the Company will total 334.4 million shares. The Group's key data will improve as a result of a reduced number of shares. In turn, this strengthens the share's attractiveness in the stock market, which favors shareholders.

However, the redemption program and repurchase of shares is only possible

as a result of the Group's earning ability currently being so strong that it generously covers development and investment requirements. At the same time, these are an expression of the ambition of the management and the Board that the capital structure be as optimal as possible – both for shareholders and the Company's long-term future. □

JOHN HERNANDER IS a company analyst with Alfred Berg Fondkommission in Stockholm. He joined Alfred Berg in 2000, after working as an analyst Svenska Handelsbanken. Since the beginning of the year, he has been responsible for monitoring Swedish Match, which is the only tobacco company in his portfolio.

John Hernander believes that the Group has taken the correct action to date.

»The first step was to divest the cigarette operations. The second was the acquisitions of recent years. These have been successful investments that have rapidly achieved profitability. Naturally, it is also a smart strategy to build up cross sales of the Group's own products through acquisitions.«

»However, for exactly these reasons, Swedish Match must perhaps look out for competitors in the future,« he adds.

»Undoubtedly, others can also see that

the underlying market growth is limited, particularly for cigarettes, pipe and chewing tobacco. The risk is, therefore, that competitors will start to copy the acquisition strategy, although Swedish Match has achieved a head-start. The Group also has snuff as its strength, the only product area where real growth worthy of that description can be seen.«

John Hernander believes that interest from investors will be strengthened by the fact that the Swedish Match share is now included in the FTSE All-World Index.

»This means that fund managers must have this share in their portfolios. It also shows the exceptionally favorable reputation that the Group has internationally.«

PIETER VORSTER IN SOUTH AFRICA is the third in the group of new Swedish Match analysts. The Group became part of the portfolio he monitors at the end of 2000, when his employer at the time,

ABM-DLJ Securities, was acquired by Credit Suisse First Boston. The company is now called CSFB SA Securities.

His impression is that Swedish Match is an exciting company, with highly professional management. In particular, he has been able to follow activities in South Africa at close range and believes that developments there are extremely promising.

In the short term, Pieter Vorster has also chosen a »neutral« recommendation for the performance of the share price. He says, however, that the prospects are brighter in the long term.

»Although the tobacco industry as a whole can only expect marginal growth in the future, I believe that there are exceptional opportunities for the international companies to expand - Swedish Match, in particular. It is a unique company and my assessment is that it has the industry's largest future growth potential,« concludes Pieter Vorster. □

## Analysts' questions

Swedish Match reported better earnings for the first six months of 2001 than analysts had forecast. Pretax income for the period amounted to 930 MSEK, compared with the analysts' average forecast of 905 MSEK.

Shortly after publication of the report, Group management met with analysts for a telephone conference:

### JONATHAN FELL, MERRILL LYNCH:

»My question is about the sales performance of snuff in the US. Can you state the market share for Timber Wolf and give some indication of how Sequoia is performing?«

### EMMETT HARRISON, VP INVESTOR RELATIONS:

»Timber Wolf has increased its market share, while volume growth in the market as a whole is approximately 2.5–3 percent. In total, Swedish Match's volume rose by 15 percent during the first six months for snuff, of which Timber Wolf accounted for 12 percent. This gives us a market share of 8 percent. Regarding Sequoia, it is too early to start talking in such terms, since we only began distribution to shops during May. However, we can say that the orders arrived faster than we had expected.«

### JOHN HERNANDER, ALFRED BERG:

»What is the progress of the test sales of Exalt, in the US, and Click, in India?«

### LENNART SUNDÉN, CEO:

»For Exalt, the trials to date have been very limited. We have really only tried sales in two cities and this has not been under way for particularly long – we only started during the second quarter. So far, however, I can say that the position appears positive and that everything has proceeded in accordance with our expectations. India is also a trial, but on a larger scale. We now have several thousand sales outlets contracted in Bombay and performance is looking favorable, according to plan.«

### PIETER VORSTER, CSFB:

»Is the substantial improvement for Lighters and Matches sustainable in the long term? I previously had the impression that the first quarter was exceptional.«

### LENNART SUNDÉN:

»It is difficult to provide forecasts for these areas of operation, where the most important markets are in countries such as India, Indonesia, Turkey and Eastern Europe. These are markets that can fluctuate very rapidly. At the same time, the improvement is also the result of a conscious restructuring process, which in the case of Matches has had more rapid effects than anticipated. For lighters, results are on a more stable base, but, naturally, we must also continue to be prepared for major fluctuations in the markets and to adapt as quickly as possible.«

### JONATHAN FELL, MERRILL LYNCH:

»Regarding your joint venture with GumTech, you now state that the products can only be rolled out towards the end of 2003, which is a step backwards. Does this mean that you will break your links with GumTech?«

### BO AULIN, CHEFSJURIST:

»Yes, it does. Through the sale of its chewing gum operations to Wrigley's, GumTech does not have the conditions to fulfil its obligations in accordance with our agreement. However, there are players in this market other than GumTech and we are currently investigating alternatives.«



SOUTH AFRICA

# Rapid progress to

A few years ago, Swedish Match had no operations in South Africa whatsoever. By means of the acquisition of Leonard Dingler, Brasant and BAT's pipe-tobacco division, the company is now the second largest in the South African tobacco market. »We have succeeded in what we set out to achieve,« says Lars Lindqvist, head of Swedish Match's operations in South Africa.

Acquiring companies in order to grow is not always easy. The purchased companies may prove difficult to adapt to the working methods and culture of the acquiring company. It is not uncommon for earlier economic problems to be part and parcel of the sale. However, it is pleasing for Swedish Match that the companies it has purchased in South Africa, and which account for the total operations of the Group in that country, are performing well and, after only a short period as members of the Swedish Match Group, are keeping to the original plans.

»We have succeeded well with these acquisitions,« states Lars Lindqvist, head of Swedish Match in South Africa, who took the opportunity to visit Sweden in connection with the Swedish Match Cup in July.



Lars Lindqvist.

A FEW YEARS AGO, Swedish Match had no operations in South Africa. Being a Swedish company, Swedish Match adhered to the UN sanctions imposed during the Apartheid regime, which precluded trade with South Africa and investment in the country.

In 1990, with the abolition of the Apartheid regime and the freeing of Nelson Mandela, the process of lifting the trade sanctions began. Swedish Match immediately began to study the possibility of establishing operations in the country. Old contacts existed, as the Group had once owned Lion Match, the dominant manufacturer of matches in the country. However, what now interested Swedish Match was entering the market for its prioritized product areas.

»South Africa is an extremely suitable

»Swedish Match was simply the best purchaser for us.«

RAMAO DA LUZ, PRESIDENT, BRASANT

market for us, since both snuff and pipe tobacco traditionally have a strong position in the country,« says Lars Lindqvist.

An early possibility to break into the market came in 1999 when Swedish Match was able to acquire a majority holding in the snuff and pipe tobacco manufacturing company, Leonard Dingler.

This is a considerable operation with more than 300 employees. The products are aimed at a broad mass market.

The following year saw the next acquisition when Swedish Match bought Brasant, South Africa's leading distributor of exclusive, imported selections of tobacco products such as fine cigars and premium pipe tobacco.

»We have thus acquired an extremely strong position both in the mass market and in the more exclusive segment,« says Lars Lindqvist.



Both snuff and pipe tobacco traditionally have a strong position in South Africa.



There are signs that pipe smoking is undergoing a renaissance in the current trend of Epicureanism according to Maria Nicholl.

## She gives Borkum Riff a profile

Maria Nicholl is market manager for Borkum Riff pipe tobacco. She now positions its nine different aromas in the right customer segments.

»She is intelligent, bold, knows what she wants and isn't afraid of conflicts.« These are the sort of comments you will hear about Maria Nicholl, market manager for pipe tobacco.

»I believe in honesty,« she comments. That's what it is all about for her – everyone knowing where everyone

else stands, making it easier to move ahead than if everything is obscured by a fog of false consensus.

She obtained her academic qualifications, a Bachelor of Science in Business Administration, in the US. On her return to Sweden, she answered an advertisement from Opticom International Research and was given the job.

»I was made project manager for market surveys, which I found to be tremendous fun,« she says. This also acted as excellent preparation for the job of brand manager at Swedish Match, to which she was appointed in 1998. She now positions Swedish Match's globally marketed pipe tobacco, Borkum Riff. By the end of the year, this process is to be complete.

»By then, we will have the knowledge we need to be able to profile the nine aroma variants of the brand in the correct customer segments.« The Borkum Riff

aromas that sell most are Whisky, Cherry Cavendish, and Ultra Light. However, so far it is only the joint name of the family of products, Borkum Riff, that represents anything. Its personality is secure, masculine, dependable and unafraid.

THE IMAGE ON THE PACKAGE is the well-known ship. This means that there is also a seafarer image built in to the brand. Since the prohibition of tobacco advertising is spreading across the world, packaging is growing increasingly important.

»This is often our only opportunity to communicate with the customer.«

However, Maria Nicholl seldom finds herself in debates about the health aspects of tobacco. Many pipe smokers do not draw the smoke into their lungs, smoke fairly infrequently, preferably in the evening, and could hardly be described as misled youths. In addition,



# the top

A further acquisition took place in January this year when Swedish Match took over the pipe tobacco operations of BAT (British American Tobacco), which is South Africa's largest tobacco company. The pipe tobacco operation came on the market in conjunction with BAT's acquisition of the Rothmans tobacco company. The pipe tobacco operation is named Best Blend Tobacco.



Ivan McQueen, Best Blend, Johnathan Pittaway, Dandy Agencies, Mike Firth, Firth Brothers, Lars Lindqvist, Swedish Match, Romao da Luz, Brasant and Elia Hadjidakis, Seven Eleven Supermarket Group, were invited to the Swedish Match Cup in July.

SOUTH AFRICAN OPERATIONS rest thus on three stable pillars – Leonard Dingler (pipe tobacco and snuff), Brasant (distribution) and Best Blend (pipe tobacco). Together, these companies have

**»We have acquired an extremely strong position both in the mass market and in the more exclusive market segment.«**

LARS LINDQVIST

annual sales totaling approximately SEK 650 M and have approximately 450 employees. Swedish Match is the second largest company in terms of volume on the South African tobacco market after market leader BAT.

That signifies rapid progress for Swedish Match after only three years in the country.

»We have succeeded in what we set out to achieve,« says Lars Lindqvist.

SEVERAL OF THE SOUTH AFRICAN guests invited to the week of sailing at Swedish Match Cup point out that one explanation behind the smooth establishment of Swedish Match is the positive reputation that Sweden enjoys in South Africa due to its support of the ANC and the fight against Apartheid. In addition, they all

mention the know-how and professionalism to be found within the company.

»Swedish Match was quite simply the best purchaser for us,« says Ramao Da Luz, President of Brasant and previously a part-owner of the company. Since Swedish Match took over Brasant, the operation has expanded significant-

ly and the number of employees has risen by more than 50 percent.

»We now have a pensions fund and company health care, which are new benefits for us,« states Ramao.

An important feature in South Africa is the transfer of know-how that Swedish Match can contribute. In conjunction with its purchase of Best Blend Tobacco, Swedish Match intends to employ a »black empowerment« partner, which was a condition from the authorities for approval of the acquisition.

THE FUTURE FOR SWEDISH MATCH in South Africa looks bright. One obstacle that should not be underestimated is, however, the highly restrictive tobacco legislation recently introduced, which is one of the strictest in the world and which entails that all smoking in public places is prohibited.

The tobacco market in the country enjoys no growth to speak of. Swedish Match will have to expand by means of innovative product development and dynamic marketing and sales.

Based in South Africa, sales to other south African countries such as Botswana, Mozambique and Namibia are also growing.

»We are also looking at Angola and Zimbabwe,« says Lars Lindqvist. □

**Swedish Match in South Africa**

SWEDISH MATCH SOUTH AFRICA (PTY.) LTD.  
Cape Town, Lars Lindqvist

LEONARD DINGLER Acquired 1999 Boksburg (Johannesburg)	BRASANT ENTERPRISES Acquired 2000 Cape Town	BEST BLEND TOBACCO Acquired 2001 Rustenburg (J-burg)
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pipe smoke often smells nice and does not, therefore, disturb people in the surroundings as much as cigarette smoke. On the contrary, the pipe smoker we recollect is often a kindly older relative. The image of someone stuffing his pipe, lighting up and puffing away is a cozy one that is difficult to attack.

THERE ARE ALSO SIGNS that pipe smoking is undergoing a renaissance in the current trend of Epicureanism, where the wholesome often takes a backseat to the pleasurable.

According to Maria Nicholl, the pipe smoker is an intellectual and also a secure individualist. Famous pipe smokers include the scientific genius Albert Einstein and the author Günter Grass, but also the film actor and musician, Arnold Schwarzenegger. □

Name: Maria Nicholl  
Age: 33 years  
Family: Husband  
Resides: In Solna outside Stockholm  
Profession: Market manager for pipe tobacco

## Havanas in famous company

Fine cigars are best enjoyed together with good food and drink and in pleasant company. This is why Brasant of South Africa has made a tradition of inviting selected guests to a cigar dinner of the best sort several times a year. The venue for these events alternates between Cape Town and Johannesburg.

The latest such dinner was held at the Kennedy Cigar Bar in Cape Town with Cuba and Havanas as its theme. The cigar-loving guests included among their number none less than South Africa's Minister of Finance, Trevor Manuel, and the head of the Finance Department, Maria Ramos, in the company of restaurateurs, retailers and other friends of pleasurable puffing.

»One can get through about three cigars on such an evening,« explains the host, Brasant President, Ramao Da Luz. »But then, of course, you don't



Cigar loving guests Marcos Rodriguez, Cuban ambassador, with wife Rosa and Trevor Manuel, Minister of Finance.

smoke the whole cigar but make do with perhaps half or a third.«

On the other hand, it is permitted to smoke as much as you want and when you want – even between courses for those who so wish. The recipe for a successful and relaxed evening, according to Ramao Da Luz. □



Club Macanudo in Djakarta is the first outside the US. In the humididor Swedish Match premium cigars are for sale.

## CLUB MACANUDO Djakarta's temple of the cigar

As of a few weeks ago, guests at the five-star Shangrila Hotel in Djakarta have been met by a completely new sight. Adjoining the lobby, they are welcomed by a »temple« dedicated to fine cigars – the first Club Macanudo outside the US.

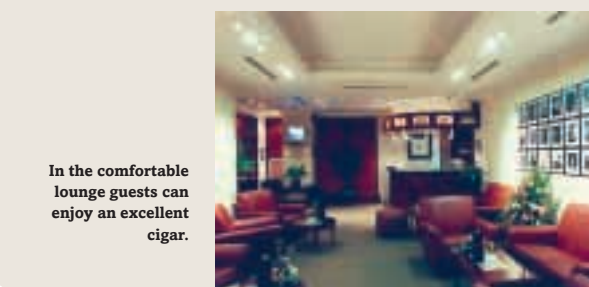
THE CLUB, WHOSE PREDECESSOR is to be found in New York, is a walk-in humididor for the sale and demonstration of Swedish Match's premium cigars. There is also a lounge where visitors can relax and socialize or read a newspaper while enjoying an excellent cigar along with a drink or a cup of coffee.

»We have already noted a high degree of patronage and much appreciation. The club is, of course, also situated in one of Indonesia's premier hotels, so the guests are a most international amalgamation of business people, politicians and the like,« explains Lars Lindqvist, who is responsible for operations in Indonesia within Swedish Match Overseas.

However, Indonesian cigar enthusiasts are also of interest. That is why Club Macanudo also offers customers the possibility of renting their own private cigar locker inside the humididor.

THE INDONESIAN CIGAR MARKET is, in itself, not particularly large. However, good growth is being observed in many Asian markets, such as Hong Kong and mainland China. The reason that Djakarta, despite this, became the first city outside the US with a Club Macanudo is primarily Swedish Match's strong presence in the country.

The formal inauguration of the Club Macanudo will take place on September 7. According to Lars Lindqvist, plans are afoot for the further establishment of Macanudo clubs in other markets. »There will probably be more, but we won't be hurrying and there will be no dramatic expansion.«



In the comfortable lounge guests can enjoy an excellent cigar.





Bernt Magnusson, Chairman of Swedish Match, and Andrea Gaudenzi, winner of Swedish Open.

## Gaudenzi victorious!

TWO FORMER WORLD NO 1s inaugurated this year's Swedish Open in Båstad, where Swedish Match was one of the main sponsors. Combined, Stefan Edberg and Ilie Nastasie have won 98 international singles titles. Both have won Grand Slam titles and Nastasie won the Båstad competition exactly 30 years ago.

This year's competition began with a qualification round on Saturday, July 7. For the first time, since Paolo Canés' triumph in 1989, the Swedish Open resulted in an Italian victory in the final. Andrea Gaudenzi won the third title of his career after defeating the Czech Bohdan Ulihrach 7-5, 6-3, in front of a packed stadium.

There was a sensational final in the doubles competition where the German pair of Braasch and Knippschild finally emerged victorious. Simon Aspelin in partnership with the Australian Andrew Kratzmann managed to save four match balls before Knippschild was able to determine the outcome with a powerful serve in the tiebreaker of the decisive set.

Despite the rain, this year's event was a spectator success and attracted heavy media coverage. The total spectator figure was 33,000. This is in stark contrast with the early 1990s, when the stars of tennis chose to play in other locations and spectator figures plummeted. This trend was broken in 1993, when Swedish Match became one of the main sponsors and now it appears that the competition is enjoying a renaissance.

## Cigar-friendly US judgment

THE SUPREME COURT OF THE US has rejected an attempt by the state of Massachusetts to introduce the country's strictest legislation against tobacco advertising, reports Cigar Aficionado. The ban would have prevented all outdoor marketing of tobacco products. One of the country's oldest cigar merchants, 131-year-old Peretti of Boston, would have been forced, for example, to remove its store-front sign, because it is situated less than 1,000 feet from a playground. The Supreme Court found, however, that the advertising ban was in contradiction of the constitutional rights of entrepreneurs.

## Italian acquisition on the way

SWEDISH MATCH HAS SECURED an agreement for the purchase of the tobacco operations of Maga s.p.a. in Italy. Maga is one of Italy's leading, independent distributors of niche products, such as cigars, pipe tobacco and accessories. Annual sales amount to approximately SEK 35 M. The acquisition makes it possible for Swedish Match to establish its own marketing and sales operations in the important Italian market, where the consumption of cigars has increased in recent years. It is planned that the transaction will be completed by the beginning of September 2001.

# A classic turnaround

Following an arduous program of restructuring, the downturn in Swedish Match's lighter operations has been broken. In 2000, these operations achieved a profit margin of over 10 percent and the improvement continues in 2001.



One of the positive surprises of the past year within the Swedish Match Group was the strong improvement regarding lighters. Swedish Match is one of the three largest manufacturers of disposable lighters in the world, with the well-known Cricket as its primary brand. Production is located in the Netherlands, the Philippines and Brazil.

A few years ago, however, lighter operations were in poor shape and their economic performance lay well below that of other units in the Group.

IN 2000, THE TREND FINALLY turned and lighter operations were able to report an operating income of 74 MSEK from sales of 720 MSEK, entailing a profit margin of more than 10 percent and a marked improvement on 1999, when the margin was 2 percent. The improvement has continued this year. During the first quarter, the margin reached more than 11 percent and has also been strong during the second quarter (see the financial report elsewhere in this magazine). Much speaks for 2001 being the best year yet for lighters.

»We are extremely pleased that the systematic restructuring process has provided such favorable results,« comments Group CEO, Lennart Sundén.

This is a classic »turnaround,« where Swedish Match has instigated a

number of measures in order to get operations back on an even keel:

- Overcapacity has been countered by the closure of a large plant (France).
- Uniform production has been introduced and all factories now manufacture in the same way.
- Costs have been cut and the number of employees reduced.
- More attractive products have been developed.
- The number of brands has decreased.

TODAY, 350 EMPLOYEES PRODUCE as many lighters as 800 employees produced previously.

»Production was disorganized before. The most important thing is that we now make lighters the same way in all of the plants. In this way, one plant can support another and we are able to deliver quickly when demand increases,« explains Peter Nilsson, head of lighter operations since 1997. It has been an arduous process and the closure of the French plant created much concern.

»But it was entirely necessary,« says Peter Nilsson.

Previously, lighters formed a separate division, but now these operations are included in the Continental Europe Division, with Nilsson at the helm.

In contrast with tobacco products, which enjoy strikingly stable demand, lighters are fast-moving consumer products that react with lightning speed to external economic signals.

Economic crises in Russia and Asia in 1998-99 set off the most recent plunge when demand suddenly fell by over 100 million lighters (SM manufactures approximately 400 million lighters per year).

»Gratifyingly enough, we have pulled back well in Russia – to the levels which applied before the crisis,« says Peter Nilsson.

He feels that today's successes reflect the thorough and patient work initiated by the management group for lighters a number of years ago. Particularly deserving of great thanks is the production manager, Dutchman Henk Ottens, who has been with the company for 33 years.

However, although things may be looking up for the moment, Swedish Match can in no way rest on its laurels. New times of economic uncertainty can arise. Competition is razor sharp, not least from the Chinese manufacturers, who represent the low price alternative.

»A lot of it is absolute trash. But we can most probably learn from them how to further reduce production costs. Costs mean very much in this business,« says Peter Nilsson. □



Peter Nilsson.

# Mats Holmberg won the tour

Swede Mats Holmberg, and his Team Stora Enso have won this year's Swedish Match Grand Prix Sailing Tour. This was already evident when the team came third in the Croatian competition on the tour at Split at the end of May.

The 15 points obtained by Holmberg at Split were sufficient to allow him to beat the defending champion, Bertrand Pace and his Team New Zealand. »Many years of hard work have finally paid off. It is a fantastic feeling,« said the contented winner, Holmberg.

The official prize ceremony took place in conjunction with the final competition of the tour at Marstrand in Sweden on July 8.

THE OLYMPIC GOLD-MEDALLIST, Russel Coutts in Alinghi Challenge, claimed victory in the final competition of the Swedish Match Tour of the season, the Swedish Match Cup at Marstrand in Sweden. This accomplishment was



made even greater by the fact that Coutts was battling both stomach trouble and dehydration during the last two days of the event. The victory is Coutts' second on the Swedish Match Tour.

Things weren't going the right way for Swede Magnus Holmberg this time. He and his Team Stora Enso finally ended up in third place. Second in the competition was Frenchman Luc Pillot. □

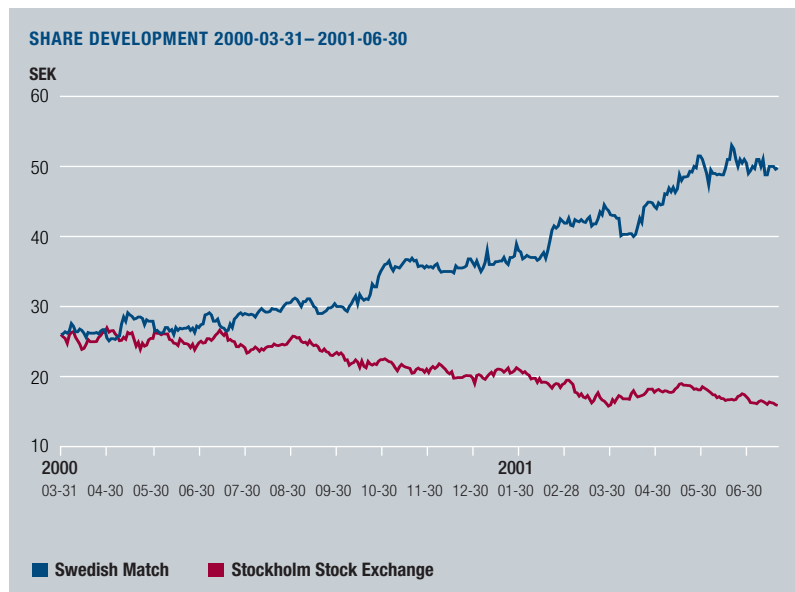
## Record share price

To date, Swedish Match shares have enjoyed a positive development during 2001. Since the start of the year, the share price has risen by 37 percent, from SEK 36.50 to SEK 51 (July 17, 2001). This represents a new share price record for Swedish Match since its listing in 1996.

As a whole, the all-share index of Stockholmsbörsen (the Stockholm Exchange) has fallen by 18 percent over the corresponding period. The American NASDAQ exchange, where Swedish Match's depository receipts are listed, has likewise fallen by 18 percent so far this year.

The trend noted during the first quarter has thus continued to hold for the shares market. The previously favored shares within the IT and telecom sectors have fallen back, while stable companies with favorable cash flows, such as Swedish Match, are attracting increased interest from investors. Companies in closely related sectors, such as retailing and consumer products, have also performed better than the index.

THE FIRST SIX MONTHS of 2001 have been an uncertain time for the world economy. Growth has diminished significantly from the almost overheated economy experienced in the US and several other countries in recent years. The US Federal Reserve has continued to lower its basic interest rate with the purpose of preventing a recession in the American



economy. Since the beginning of the year, the Federal Reserve has adjusted the interest rate downwards six times.

At the same time, certain signs of increased inflation have been observed in Europe and, particularly, in Sweden, with the result that the Swedish Riksbank increased its interest rate slightly during the summer. The risk of stagflation, i.e. low growth combined with high inflation, has affected the climate for share investment in Europe negatively.

Trend analysts are doubtful as to when the expected upswing in the econ-

omy may occur. The forecasts that predicted an upswing during the autumn of 2001 have, in general, now been adjusted to a later point in time. A number of profit warnings from companies throughout the world, with emphasis on technology oriented companies, have also put a damper on the mood.

IN THIS SOMEWHAT GLOOMY environment, the Swedish Match Group has continued to develop well, as is evident from the interim report for the first six months of the year. □

## Cancer warning on snuff removed

The EU has withdrawn its requirement that snuff cans include a cancer warning. The reason is that no connection between snuff and cancer has been shown.

»It's about time!« says Bo Aulin, General Counsel and head of information and communication for Swedish Match. »Furthermore, the logical consequence of the abolition of the cancer warning ought to be that the EU's ban on snuff sales be removed entirely. After all, one of the main explanations

for the ban was the claimed link between snuff and cancer,« he adds.

THE ASSIGNMENT GIVEN to the Commission regarding the directive on warning texts could be interpreted as a first step in this direction. The member states have ordered a report evaluating less harmful tobacco products, including their use as a replacement for cigarettes. The report is to be completed by 2004 at the latest and will form the foundation for a possible new directive.

»There is thus the risk that it will take a long time for the politicians to make a decision,« says Bo Aulin. »But we aren't just sitting waiting,« he continues. »We have a legal process against the ban in Germany. Our intention is to have the issue of the compatibility of the ban with EU law referred to the European Court. So, we'll see who gets there first, the politicians or the lawyers. But the ban must go!« □

## FTSE All-World Index

From July 18 this year, Swedish Match shares have been included in the FTSE All-World Index. The various FTSE indexes are habitually used by international investors. The fact that Swedish Match is now included in the All-World Index will contribute to greater visibility for the company, which, in turn, normally leads to increased interest in the company among international portfolio managers and share investors.

According to the FTSE, inclusion in one of its indexes usually results in a notable increase in trade in the shares of the company concerned. This is partly

because fund managers around the world use the FTSE indexes for benchmarking.

The FTSE All-World Index covers 49 countries in both developed and emerging markets. In total, the index comprises shares in approximately 2,400 companies.

The FTSE is one of the world's leading organization for expertise in share indexes. The company is owned jointly by the London Stock Exchange and the Financial Times. The indexes are published daily in the Financial Times and by Reuters, Bloomberg and ICV/Datatreem, among others. □

## Environmental success for Swedish Match

SWEDISH MATCH HAS PLACED within the top group regarding three indicators of four in the Environmental Index. The Index represents a ranking of 129 listed Swedish companies, carried out in collaboration between Green Index AB, the Folksam insurance company and Swedish financial daily, *Finanstidningen*. Swedish Match topped the list within the areas of improving the ozone layer, water protection and forest management. □

## New appointments

ANNICA MARTINSSON was appointed Group Controller on May 7. She comes to Swedish Match from a post as Finance Manager at Kodak Professional Europe.



JOHNNY GHOSAL has been appointed Vice President for Operations and Supply within the North America Division as of August 1, 2001. Johnny Ghosal comes to Swedish Match from the post of technical manager at Austria Tabak Scandinavia AB. He succeeds Doug Pajak, who will retire on February 1, 2002. Doug Pajak will have the role of consultant until July 31, 2002.

## Turnaround for cigars in the US?

IMPORTS OF PREMIUM CIGARS to the US appear to have stabilized during the first two months of the year, reports American magazine, *Cigar Aficionado*. Imports have been declining rapidly since 1997, but now the rate of the downward trend seems to have slowed, the magazine states. Nicaragua, the third largest exporter of cigars to the US, performed best during the period and could note an increase of 5.9 percent to 3.5 million cigars. Cigars from Honduras, the Canary Islands and mainland Spain also enjoyed a favorable start to the year.

## Macanudo launched in the Philippines

SWEDISH MATCH HAS BEGUN its launch of the Macanudo cigar selection in the Philippines. After the first two months, it can be noted that the Macanudo Café, Robust and Maduro products have been well-received by the Philippine market. The well-established distribution network for Cricket lighters has served as a useful boost in introducing the Macanudo range to cigar lounges and specialist retailers. A success factor behind the launch has also been the availability of a continually updated stock, meaning that customers can be offered delivery on the same day that they place their order or one day later.



HELENA HALVARSSON/HH BILD

## Watch out for fakes!

TRADE IN PIRATED COPIES of important brands are a global business causing enormous economic problems for the companies that produce the originals – and for the consumers who are fooled. Now it seems that not even cigars are exempt. In the US alone, sales of counterfeit cigars are estimated at more than 3 million per year, according to *Cigar Aficionado*. However, the trade is extensive across the entire globe and fakes are being found constantly on all continents. *Cigar Aficionado* has therefore initiated a »counterfeit gallery« on its website. Here it is possible to compare the genuine item with the fakes that have been found and to obtain advice as to which characteristics one should look for.



# A cigar store with a feminine touch



Women tend to like slim, elegant cigars. »Fat cigars take far too long to smoke,« say sisters Annemieke and Gerrien van de Loosdrecht, the third-generation owners of van de Loosdrecht's cigar store in the Dutch town of Veenendaal.

**I**t all began by chance, as is so often the case. The sisters' maternal grandfather suffered from tuberculosis and was unable to work in any of the city's many factories. In 1932, he decided to sell cigars instead. It was a natural choice, since there were several cigar factories in Veenendaal, where tobacco used to be grown.

Today, the running of the cigar store – which has grown to become one of the ten largest in the country – is in the hands of sisters Annemieke and Gerrien. For the sisters, popularly known as »the cigar sisters,« it seemed only natural to take over the busi-

ness that their grandfather had started.

»We were virtually born in the store and grew up with cigars,« recalls Gerrien. The world of cigars is one of the few spheres still dominated by men. But certainly not in the case of Annemieke and Gerrien, who work in the store themselves and also have two female employees.

»Nowadays it's considered a little more normal for women to smoke cigars,« says Annemieke.

**THE SISTERS** – or rather their parents – have probably contributed to the fact that more Dutch women have discovered cigars.

»Our parents always used to pick out »the cigar smoker of the year,« relates Gerrien. »The first winner they chose was a woman artist named Marte Röling, who was often photographed smoking a cigar.«

Twenty-five percent of the sisters' customers are women. However, their taste in cigars is somewhat different from that of the male customers, according to the cigar sisters. Women favor the slimmer, more elegant cigars that don't take too long to smoke.

»We women are always in a hurry and simply don't have time to sit and smoke for two or three hours,« says Gerrien, who enjoys a cigar herself once or twice a week. Her favorite cigar is a Jüstus van Maurik petit panatella.

»I can smoke a petit panatella in half an hour,« says Gerrien, who likes to smoke a cigar after the children have gone to bed and all the day's chores have been completed. »You need to feel relaxed and have a bit of time on your hands to enjoy a cigar.«

Annemieke also smokes cigars and likes to relax with a De Heeren van Ruysdael XO once or twice a day.

**THE COMBINED KNOWLEDGE** of the van de Loosdrecht sisters represents a considerable fund of expertise. Apart from having grown up with cigars, they are both certified cigar experts with diplomas in cigar studies. There are few people who can match their knowledge of the subject. They are familiar with every detail of the 1,000 or so different cigar types, representing some 40 different brands, that are tastefully displayed in the newly refurbished store on the town's main shopping street.

At the back of the store, the sisters have set up a smoking area, where customers can sit in comfortable armchairs and sample a good cigar of a brand they have never tried before, then purchase an entire box if it lives up to their expectations.

»Up until about ten years ago, people often smoked cigars for the sake of the nicotine and smokers tended to stick to one

brand and type,« says Gerrien. »But the new trend today is to smoke a cigar purely for the sake of the pleasure it gives. It has become a luxury to enjoy a cigar.«

»But a box of cigars can be an expensive luxury, so customers usually want to sample a cigar before they buy a whole box,« says Gerrien. The demand for more information about cigars has grown to such an extent that the sisters are planning to initiate cigar-sampling evenings for specially selected customers in the autumn.

**THE CUSTOMERS WILL ALSO** be able to acquire some useful cigar tips, such as the best technique for cutting a cigar, how to store hand-rolled cigars – which have a high moisture content – so that they do not dry out and lose their flavor and aroma.

The sisters are particularly hopeful that their sampling evenings will attract women.

»They seldom have time to stay in the store and smoke in our smoking area on the Saturdays when we present new cigars,« says Gerrien. »So they take a cigar home with them and sample it there.«

However, Gerrien and Annemieke are hoping that the result of their cigar courses will be that more and more Dutch people – both women and men – will discover the pleasure to be derived from smoking a good cigar. □



More than 1,000 cigar types are tastefully displayed in the newly refurbished store.

## SWEDISH MATCH IN BRIEF

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

### Smokeless tobacco

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



#### MARKET POSITION

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

### Brown tobacco

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



#### MARKET POSITION

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

### Matches and Lighters

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



#### MARKET POSITION

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

#### KEY FIGURES

MSEK	2000	1999
Net sales	11,533	9,420
Operating income	1,886	1,689
Operating income before depreciation	2,429	5,777*
Net income	1,153	4,656
Income per share after tax, SEK	2:78	2:26
Dividend per share, SEK	1:35	1:25
Return on shareholder's equity, %	21.8	115.0

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