

APPENDIX 2.1
(referred to in paragraph 2.12)

Bryant & May: returns on average net tangible assets and on average capital employed, 1982 to 1986

	30.9.81	30.11.82	30.11.83	30.11.84	29.12.85	£'000 28.12.86
Fixed tangible assets	4,257	3,455	3,568	4,677	3,788	4,128
Group and related companies (net)	4,307	9,326	14,791	13,199	15,812	999
Stock and debtors, less liabilities	2,252	2,177	2,636	1,513	2,295	2,401
Cash and bank balances	254	406	258	45	201	642
Net tangible assets	11,070	15,364	21,253	19,434	22,096	8,170
Less group and related companies (net)	4,307	9,326	14,791	13,199	15,812	999
Capital employed	6,763	6,038	6,462	6,235	6,284	7,171
Share capital:	1	1	1	1	1	1
Reserves	10,720	14,963	20,916	19,100	20,423	6,903
Regional development grant	349	400	336	333	298	199
Provisions and long-term creditors	—	—	—	—	1,374	1,067
Financing net tangible assets	11,070	15,364	21,253	19,434	22,096	8,170
Average net tangible assets		13,217	18,308	20,343	20,765	15,133
Average capital employed		6,400	6,250	6,348	6,260	6,727
Profit before taxation and extraordinary items		6,337	5,994	6,276	7,204	4,452
Net interest receivable from other group companies		(1,465)	(1,193)	(1,563)	(2,161)	(1,162)
Operating profit before interest and taxation		4,872	4,801	4,713	5,043	3,290
						<i>per cent</i>
Returns:						
Profit before taxation on average net tangible assets		47.9	32.7	30.9	34.7	29.4
Operating profit before interest and taxation on average capital employed		76.1	76.8	74.2	80.6	48.9

Source: MMC study from Bryant & May published accounts.

APPENDIX 2.2
(referred to in paragraph 2.14)

Bryant & May: trading results for the five accounting periods 1 October 1981 to 28 December 1986, incorporating the results of Maguire & Paterson (NI) Ltd, a fellow group subsidiary, acquired by Bryant & May with effect from 1 December 1983

	<i>14 months to 30.11.82</i>	<i>12 months to 30.11.83</i>	<i>12 months to 30.11.84</i>	<i>13 months to 29.12.85</i>	<i>12 months to 28.12.86</i>
<i>Turnover (incl sales to group companies)</i>					<i>£'000</i>
Matches	24,447	22,501	22,104	22,987	20,674
Lighters	1,055	1,613	1,660	2,132	3,586
Other	—	—	1,232	2,315	1,751
	<u>25,502</u>	<u>24,114</u>	<u>24,996</u>	<u>27,434</u>	<u>26,011</u>
<i>Operating results</i>					
Matches, after international marketing and development costs and excluding intra-group profit	5,758	5,461	5,363	5,264	3,334
Lighters	154	213	270	444	569
Other	—	—	(441)	(200)	(155)
	<u>5,912</u>	<u>5,674</u>	<u>5,192</u>	<u>5,508</u>	<u>3,748</u>
<i>Operating profit per management accounts</i>	5,912	5,674	5,192	5,508	3,748
Year-end accounting adjustments	—	(17)	1	—	—
Pension contribution adjustment	—	—	—	—	201
	<u>5,912</u>	<u>5,657</u>	<u>5,193</u>	<u>5,508</u>	<u>3,949</u>
<i>Adjusted operating profit per management accounts</i>	5,912	5,657	5,193	5,508	3,949
Sundry net income/(expenses)	23	89	120	250	37
Wilkinson Sword charges	(560)	(540)	(600)	(715)	(696)
	<u>5,375</u>	<u>5,206</u>	<u>4,713</u>	<u>5,043</u>	<u>3,290</u>
<i>Operating profit per published accounts</i>	5,375	5,206	4,713	5,043	3,290
Net interest receivable from group companies	1,465	1,193	1,563	2,161	1,162
	<u>6,840</u>	<u>6,399</u>	<u>6,276</u>	<u>7,204</u>	<u>4,452</u>
<i>Profit before taxation per published accounts</i>	6,840	6,399	6,276	7,204	4,452
<i>Accounted for in the accounts of:</i>					
Bryant & May Ltd	6,337	5,994	6,276	7,204	4,452
Maguire & Paterson (NI) Ltd	503	405	—	—	—
	<u>6,840</u>	<u>6,399</u>	<u>6,276</u>	<u>7,204</u>	<u>4,452</u>

Source: MMC study from Bryant & May management accounts.

APPENDIX 4.1
(referred to in paragraph 4.10)

**Main provisions of the 1954 agreement (amended in 1983) between
Swedish Match and the Wilkinson Sword Group**

1. Under the 1954 agreement made between Swedish Match and the then British Match Corporation, Swedish Match agreed to supply such quantities of matches as British Match should require for the needs of the British Isles. The agreement provided that the prices at which matches so supplied by Swedish Match were to be resold in the United Kingdom should be determined by Swedish Match; and that the price to be paid to Swedish Match for such supplies should be the realised resale price less the importing and selling costs. The agreement was terminable on three years' notice by British Match or on one year's notice by Swedish Match (though it should be noted that even without termination, British Match was not required to take any particular quantity of, or indeed any, matches from Swedish Match).

2. In respect of that agreement, which remains in force subject to amendments and additions agreed between Swedish Match and the Wilkinson Sword Group in 1983, the company performing the British Match obligations was and still is Masters.

3. The substance of the agreement in 1983 was to give Swedish Match the right to nominate the Managing Director of Masters and to be responsible for the day-to-day running of its business (although the Wilkinson Sword Group retained ultimate control of the company); to provide for Masters to act as the selling agent of a United Kingdom subsidiary of Swedish Match (in the event, Cardfine Ltd) in respect of non-match products; and to require Swedish Match to indemnify the Wilkinson Sword Group against certain costs arising out of Swedish Match's running of the business of Masters.

4. At all times it has been open to the Wilkinson Sword Group, without incurring any legal liability towards Swedish Match and even without giving notice under the agreement, to decide that it no longer wished to import Swedish Match's matches through Masters, or at all, and to reassert its control over the management of that company.

APPENDIX 4.2
(referred to in paragraph 4.12)

J John Masters & Co Ltd: including for a period of 24 months to 30 September 1983 the results of The Union Match Co Ltd, which traded separately to that date

Trading results for the five accounting periods from 1 October 1981 to 31 December 1986

	<i>14 months to 30.11.82</i>	<i>12 months to 30.11.83</i>	<i>12 months to 30.11.84</i>	<i>13 months to 31.12.85</i>	<i>12 months to 31.12.86</i>
	<i>£'000</i>				
<i>Turnover</i>					
Matches	12,501	10,918	10,241	10,520	8,940
Lighters	686	854	—	—	—
Cigarettes	1,451	3,404	—	—	—
Other	21	43	—	—	—
	<u>14,659</u>	<u>15,219</u>	<u>10,241</u>	<u>10,520</u>	<u>8,940</u>
<i>Gross profit</i>					
Matches	4,513	3,846	4,122	4,409	3,924
Lighters	397	407	—	—	—
Cigarettes	80	236	—	—	—
Other	28	5	—	—	—
	<u>5,018</u>	<u>4,494</u>	<u>4,122</u>	<u>4,409</u>	<u>3,924</u>
<i>Trading profit</i>					
Matches	497	335	340	328	280
Lighters	6	(4)	} (144)*	} (108)*	} (82)*
Cigarettes	—	—			
Other	—	(10)			
	<u>503</u>	<u>321</u>	<u>196</u>	<u>220</u>	<u>198</u>
Group administration charge (paid to Wilkinson Sword)	(98)	(10)	—	—	—
Profit before interest and taxation	<u>405</u>	<u>311</u>	<u>196</u>	<u>220</u>	<u>198</u>
Interest payable to group company (Wilkinson Sword)	(88)	(112)	—	—	—
Profit before taxation—per published accounts	<u>317</u>	<u>199</u>	<u>196</u>	<u>220</u>	<u>198</u>
					<i>per cent</i>
Trading profit on matches expressed as a return on turnover	4.0	3.1	3.3	3.1	3.1

Source: MMC study from the management accounts and published accounts of Masters and The Union Match Co.

*Losses incurred in handling the sale of these products as agent for Cardfine.

APPENDIX 4.3
(referred to in paragraphs 4.12 and 4.13)

J John Masters & Co Ltd: incorporating the results, assets and liabilities of The Union Match Co Ltd up to the acquisition by Masters, with effect from 1 October 1983, of the trade, assets and liabilities of that company

Returns on average capital employed and on average net tangible assets, 1982 to 1986

	30.9.81	30.11.82	30.11.83	30.11.84	31.12.85	31.12.86
Fixed tangible assets	260,498	345,561	319,947	346,983	348,652	417,994
Fixed investments	25	25	25	—	—	—
Group and related companies, excluding interest-bearing accounts*	1,451,648	1,289,525	359,451	(102,504)	(158,014)	(97,832)
Stock and debtors, less liabilities other than net borrowings	(427,655)	282,808	947,142	899,833	1,003,928	851,777
Cash and bank balances	265,404	54,277	356,257	51,840	25,680	26,194
Capital employed	1,549,920	1,972,196	1,982,822	1,196,152	1,220,246	1,198,133
Group company loan	(338,240)	(447,616)	(565,000)*	—	—	—
Net tangible assets	1,211,680	1,524,580	1,417,822	1,196,152	1,220,246	1,198,133
Share capital	1,010,000	1,010,000	1,000,000	1,000,000	1,000,000	1,000,000
Reserves	200,680	514,580	417,822	196,152	220,246	198,133
Provisions	1,000	—	—	—	—	—
	1,211,680	1,524,580	1,417,822	1,196,152	1,220,246	1,198,133
Average capital employed		1,761,058	1,977,509	1,589,487	1,208,199	1,209,190
Average net tangible assets		1,368,130	1,471,201	1,306,987	1,208,199	1,209,190
Profit before interest and taxation		405,461	311,145	196,152	220,246	198,133
Profit before taxation		316,900	199,425	196,152	220,246	198,133
					<i>per cent</i>	
Returns:						
Profit before interest and taxation on average capital employed		23.0	15.7	12.3	18.2	16.4
Profit before taxation on average net tangible assets		23.2	13.6	15.0	18.2	16.4

Source: MMC study from the published accounts of Masters and The Union Match Co.

*Estimated.

Method of calculating United Kingdom lights market data

1. The basic data come from a number of sources including:

- The Tobacco Research Council (TRC)
- NOP Market Research Ltd (commissioned by Bryant & May as part of NOP's Random Omnibus Survey)
- OPCS population data
- HM Customs & Excise statistics
- Bryant & May's and Masters' own internal data.

The exercise involves:

- (a) an assessment of the United Kingdom lights market in terms of lights used for smoking and domestic purposes; and
- (b) an analysis of the proportion of lights within each of those categories provided by matches and lighters respectively.

Lights usage

2. In calculating lights usage for smoking purposes, the basic data are the annual statistics published by the TRC relating to the United Kingdom consumption of tobacco goods (broken down between cigarettes, cigars, pipe tobacco and hand-rolling tobacco).

3. The TRC data show consumption of cigarettes and cigars by numbers, and pipe and hand-rolling tobacco by weight. The first stage in the analysis is to convert this weight data into the appropriate number of pipes of tobacco and hand-rolled cigarettes that it represents. For this purpose, research undertaken by the TRC in the 1970s showed that on average:

- 1 lb of pipe tobacco produces 192 pipes; and
- 1 lb of hand-rolling tobacco produces 750 cigarettes.

From the numbers of cigars and cigarettes shown in the TRC data plus the number of pipes and hand-rolled cigarettes calculated as above, an estimate of the number of lights required is obtained.

4. From the NOP research data it is known that, except for manufactured cigarettes, more than one light is used per unit (ie per cigar, pipe, or hand-rolled cigarette). Therefore, to arrive at the total number of smoking lights used, factors derived from the NOP data are applied to the total numbers of units. These are as follows:

Cigarettes	1.00
Cigars	2.33
Pipes	4.13
Hand-rolled cigarettes	2.20

5. To arrive at domestic lights requirements, OPCS population data are used in conjunction with the NOP Omnibus Data for daily usage of lights for domestic purposes, ie gas fires, gas cookers and other domestic usage. Data from the NOP Omnibus Research (which is produced every six months) is used to calculate the share of total lights supplied by matches, lighters (refillable and disposable) and other means (usually automatic ignition). The data are then subjected to time-series regression analysis in order to produce a projection of the total lights market and its constituent elements.

Provision of lights

6. Statistics published by HM Customs and Excise on the quantities of matches and lighters released from bond are used to monitor the actual shares of the lights market held by matches, disposable lighters and refillable lighters.

7. The trends projected by time-series regression (referred to in paragraph 5) are then applied to the Customs and Excise statistics, in order to:

- (a) verify the accuracy of previous projections of the lights market; and
- (b) project the size of the disposable lighter market expressed in terms of numbers of lighters, rather than numbers of lights provided by disposable lighters.

8. The number of lights per disposable lighter can vary significantly between types of lighter, and is dependent on:

- (a) the capacity of the gas tank;
- (b) the efficiency of the ignition mechanism; and
- (c) the average flame height.

In recent times, an overall average is approximately 1,000 lights per lighter.

Source: Bryant & May and Masters.

APPENDIX 5.2
(referred to in paragraph 5.34)

United Kingdom match imports from the state trading countries

Country	1965	1970	1975	1980	1981	1982	1983	1984	<i>Short standards (but see note 4)</i>			
									1985	1986	1987	
Bulgaria												
Quota	—	pm	5,000	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
Imports	na	—	—	—	3,750	—	—	—	—	—	—	—
China												
Quota	—	—	15,000	21,250	23,500	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Imports	na	—	—	—	—	—	—	—	—	—	7,500	—
Czechoslovakia												
Quota	600,000	600,000	633,000	725,000	725,000	725,000	725,000	725,000	725,000	725,000	725,000	760,000
Imports	587,519	541,653	677,256	699,839	621,973	799,548	756,405	539,619	485,418	529,788	—	—
GDR												
Quota	10,000	—	12,500	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000
Imports	na	—	—	—	—	—	—	1	—	1	—	—
Hungary												
Quota	80,000	80,000	80,000	67,000	67,000	67,000	67,000	67,000	67,000	67,000	67,000	67,000
Imports	186,803	—	—	—	—	—	—	—	5,705	59,130	—	—
Poland												
Quota	20,000	20,000	100,000	83,500	83,500	83,500	83,500	83,500	83,500	83,500	83,500	83,500
Imports	na	73,171	—	6,264	12,528	—	12,528	—	4,054	12,080	—	—
Romania												
Quota	10,000	10,000	10,000	8,500	9,350	9,500	9,500	9,500	9,500	—	—	*
Imports	na	—	—	—	—	—	—	—	—	—	—	—
USSR												
Quota	175,000	220,000	235,000	475,000	475,000	475,000	475,000	475,000	475,000	475,000	475,000	500,000
Imports	822,484	390,415	441,451	187,334	270,111	385,907	415,852	357,732	290,732	296,440	—	—
Total imports as above	na	1,005,239	1,118,707	893,437	908,362	1,185,455	1,184,785	897,352	785,909	904,939	—	—
Import total as per cent of all match imports	na	19.1	20.2	17.4	58.4	17.6	24.8	20.8	19.6	23.7	—	—

Source: DTI

* Restrictions on Romania were discontinued after 1985

pm = No quota level set but applications to import would have been considered. na = Figures no longer available

- Notes:
1. Licences issued in one calendar year are valid up to the end of March of the following and this means that actual imports in one calendar year can be in excess of the quota.
 2. No imports are allowed from Albania, Kampuchia, North Korea, Laos, Mongolia and Vietnam.
 3. A short standard is 7,200 matches.
 4. By 1978 all quotas were expressed in short standards, but in earlier years all but Czechoslovakia's were expressed in value terms (on a cif basis).

Other West European match producers

1. Swedish Match told us that there are three other European match manufacturers, SEITA in France, Fierro in Spain and Saffa in Italy. Swedish Match estimates that between them they have spare capacity sufficient to produce some 30 billion additional wood matches per annum, equal to over half of United Kingdom consumption.

2. Each of those manufacturers, Swedish Match believes, has a protected domestic market from which it can export to the United Kingdom. In Italy, Saffa controls the state match monopoly, under which Italy is closed to non-Italian matches until at least 1992. In France, SEITA has a state monopoly of match production and, through a combination of duties and customs barriers, a de facto monopoly of match sales. In Spain, Fierro is protected from imports (save on a regulated basis from Portugal) for a period of three to five years following Spain's accession to the EEC.

3. Swedish Match believes that these producers can afford to export to the United Kingdom at highly competitive prices since not only do they enjoy cost advantages over Bryant & May by reason of their access to indigenous raw materials, but also, with protected home markets, it is in their interest to export even at prices providing only a contribution to overhead costs. Swedish Match has told us that, in Italy, Saffa has substantial capacity for strike-anywhere wood matches, and that Saffa's chemicals division is the biggest producer of phosphorus sesquisulphide (a major element of strike-anywhere match heads) in the world with more than twice the output of Albright and Wilson.

4. In Turkey Koc Industries is a major producer with a capacity of over 40 billion matches per annum. It is generally protected, we were told, from imports into its domestic market by customs tariffs and state standards controlling matchbox size and type, as well as by its position as one of the most powerful companies in Turkey.

**Factors affecting United Kingdom match exports
(Views of Swedish Match)**

1. Whilst there has been some growth in United Kingdom exports it has not been sufficient to offset the decline of the United Kingdom market. The high 1987 export figure was due to opportunistic sales at marginal prices of Swan Vestas smokers box to Turkey at a time when the Koc match factories were on strike. Action is now being taken by Koc to stop any match imports and therefore it is unrealistic to believe this sale can be repeated.

2. The outlook for United Kingdom match exports is bleak if Bryant & May is not part of the worldwide Swedish Match organisation. The principal reasons are:

1. *Europe*

Swedish Match has a majority share in the European countries where there is a free market whilst France, Spain and Italy are effectively barred to imports. In all countries matches are increasingly regarded as a commodity. Disposable lighters have taken over and there is no interest by distributors, or the major retail chains, in developing the match market.

2. *Middle East and Africa*

Substantial markets still exist, particularly in those African countries where local production facilities are not able to meet the country's needs. These markets are important to Swedish Match but can only be sustained in the face of fierce price competition from Eastern Bloc countries and increasingly so from Turkey. Bryant & May does not have the facilities to produce the small low-cost box which is demanded in these markets.

3. There is some opportunity for Bryant & May to exploit the Swan smokers' box as a speciality product in both strike-anywhere and safety versions. Some progress has been made in gaining sales in the specialist smokeshop sector in the USA, but further development needs further sales/marketing support. We believe this could be provided very effectively by the Swedish Match US sales team.

Source: Swedish Match.

APPENDIX 6.1
(referred to in paragraph 6.1)

Wilkinson International

List of companies directly acquired by Swedish Match from Allegheny International and the principal trading companies indirectly acquired, showing in each case the effective interest directly or indirectly acquired by Swedish Match.

<i>Company</i>	<i>% effective interest</i>	<i>Country of incorporation</i>
1. <i>Wilkinson Sword (NZ) Ltd</i>	100	New Zealand
Tullen Marketing Ltd	100	New Zealand
Atlas Tools (NZ) Ltd	50	New Zealand
Polynesia Match Ltd	46	West Samoa
2. <i>Companhia Fiat Lux de Fosforos de Seguranca</i>	98	Brazil
Companhia Brasileira de Fosforos	97	Brazil
Fosforos do Norte SA	81	Brazil
Fiat Lux Empresa Agricola de Florestamento E Reflorestamento Ltd	98	Brazil
Wilkinson Sword Amazonia da Industria de Cutelaria	98	Brazil
3. <i>Wilkinson Sword Canada Inc</i>	100	Canada
4. <i>Wilkinson Sword Group Australia Ltd</i>	100	Australia
Brymay Forests Pty Ltd	100	Australia
FM Forests Pty Ltd	100	Australia
Melanesian Matches Pty Ltd	100	Papua New Guinea
Bryant & May Pty Ltd	79	Australia
Pacific Manufacturers Ltd	100	Fiji
5. <i>Wilkinson Sword Inc</i>	100	Delaware, USA
6. <i>Maguire & Paterson Manufacturing Ltd</i>	100	Rep Ireland
Maguire & Paterson Ltd	100	Rep Ireland
Maguire & Paterson Sales Ltd	100	Rep Ireland
7. <i>Wilkinson Sword Europe GmbH</i>	100	West Germany
Wilkinson Sword GmbH	100	West Germany
Wilkinson Sword Gesellschaft mbH	100	Austria
Wilkinson Sword SARL	100	France
Wilkinson Sword SA	100	Belgium
Wilkinson Sword SpA	100	Italy
Wilkinson Sword SAE	85	Spain
8. <i>Wilkinson Sword Group Ltd</i>	100	England
(a) <i>United Kingdom</i>		
Bryant & May Ltd	100	England
J John Masters & Co Ltd	100	England
Wilkinson Sword Ltd	100	England
(b) <i>Overseas</i>		
The Lion Match Company Ltd	64	South Africa
Wilkinson Sword (SA) (Pty) Ltd	64	South Africa
Interpak Holdings (Pty) Ltd	64	South Africa
The Match Company (Malawi) Ltd	45	Malawi
Fosforeira de Mozambique Ltd	53	Mozambique
Lion Match Ltd	64	Zimbabwe

APPENDIX 8.1
(referred to in paragraph 8.34)

**Text of a letter dated 18 September 1987 from the Chairman and
Managing Director of Bryant & May to the Regional Organiser of
the General, Municipal, Boilermakers and Allied Trades Union**

RE: SECURITY OF EMPLOYMENT: UNDERTAKINGS

I am responding to your letter of 3 September.

- (1) Assuming the acquisition of Bryant & May by Swedish Match is accepted by the Secretary of State for Trade and Industry, then it is the plan of Swedish Match to close one of the Swedish factories during 1988 and concentrate production on the two major remaining factories in Europe—one of which will be Bryant & May in Liverpool.

This means that the Liverpool factory will be the main supplier to the UK market and that 85–90 per cent of the sales currently made by the separate sales organisations of J John Masters and Bryant & May will be produced in Liverpool.

In actual production this means that circa 6 billion matches will be added to the forecast level of production in Liverpool in the course of 1988 on the assumption that the sales forecast for 1988 is achieved. This implies a 25 per cent increase above the level of production hitherto planned for Liverpool. The manning to achieve this production will be discussed and agreed on site.

We must, however, remind you that the UK market is declining and that we must be prepared to adapt our cost structure to this situation. As you know, the match market in the UK is affected by the Excise Duty on lighters and our assumption is that this Duty will be maintained. The reduction or abolition of the Duty would have very serious consequences for the UK match market and, therefore, for the Liverpool factory.

- (2) Investment plans will be considered whereby the objective is to make Liverpool as efficient a manufacturing site as possible in relation to the future demand in the UK.
- (3) Running levels will be maintained to meet the requirements for the level of sales in the UK and will be discussed on site.
- (4) The Company is prepared to honour existing "Contracts of Employment" and mutually signed "Agreements" for the Mersey site. However, if the need to change arises, due to changing business requirements, then, as always, there will be full discussions through the normal consultative procedure with the appropriate Unions.

The above points were discussed in our meetings with the Monopolies and Mergers Commission and a copy of this letter is being sent to the Chairman.