

# Inside

INFORMATION ABOUT SWEDISH MATCH FOR SHAREHOLDERS AND OTHER STAKEHOLDERS

#3 July 2002

## Earnings per share reach record levels

Sales of snuff reached record levels during the second quarter and contributed to Swedish Match's favorable profits for the first six months of the year. Sales rose 4 percent to 6,850 MSEK. The operating profit for the period increased by a full 19 percent to 1,245 MSEK. Earnings per share increased by 23 percent to a record-high SEK 2.07. **Page 2**

## Swedish Match best supplier

In intense competition, Swedish Match has been named the best supplier to the convenience retail sector. The newly established prize was awarded with the motivation that Swedish Match has continually adapted to the needs of the service retailers. The Company was praised for its product development, adaptation of product range and sales aids. **Page 2**



Bengt Jönsson,  
VP Sales.

## Sailing week attracts customers



During the Swedish Match Cup in Marstrand, Sweden, 200 Swedish Match customers gathered from around the world

to enjoy top-level sailing. However, there was also time to meet colleagues, get acquainted with new products and discuss issues of mutual interest with the Swedish Match senior management. The event is highly popular and customers stand in line to be able to take part. **Page 6**

## Swedish Match at Swedish Open

Since 1993, Swedish Match has been one of the principal sponsors of the classic Swedish Open tennis tournament, that has been held over the past 55 years. This year's event offered a great deal of sunshine, high attendance figures and world-class tennis. **Page 6**

## Ettan turns 180

The highest quality of snuff, grade one, came to be called »Ettan« in the Swedish vernacular, and the first snuff brand to be sold nationwide.

This year, Ettan turns 180 and is one of

Sweden's oldest trademarks. **Page 8**



# Board at work



Developing a strong corporate culture is one of the Board's most important tasks, according to Chairman Bernt Magnusson in an interview about the work of the Board, which at Swedish Match is governed by a clear procedure. During Board meetings, members are able to rest their gaze on an exciting artifact of cultural history. **Page 4-5**



## Preserving one's »trust capital«

RECENT MONTHS HAVE SEEN SIGNS of a decline in confidence in parts of industry and commerce in the wake of a number of accounting scandals in the United States.

It is too early to say whether this will develop into a lasting crisis of confidence, but it is clear that the stock markets have reacted negatively.

Against this background, the relatively favourable trend of Swedish Match shares during the first half of the year must be interpreted as showing that investors have confidence in the Group.

Preserving and developing this »trust capital« is a basic prerequisite for successful business operations; it is the principal task of the Company's Management and Board of Directors. The connection with the trend of the price of the Company's shares is obvious.

The principal instruments for preserving »trust capital« are the laws, rules and standards that give the Board of Directors power and control over the Company on behalf of the shareholders.

But for me, as President, these instruments can never replace human knowledge and experience. How we, in our work on the Board, strive for a »culture of good repute« – a combination of expertise and quality in the application of laws, rules and standards – constitutes the principal story in this number of Inside.

I hope that you will find it interesting reading and extend good wishes for the summer.

Lennart Sundén, CEO

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**SWEDISH MATCH**

FIRST SIX MONTHS OF 2002

# Record earnings

The favorable start to 2002 also continued during the second quarter. During the first half of 2002, Swedish Match's sales increased by 4 percent to 6,850 MSEK. "The success is primarily attributable to solid organic growth, in which snuff sales reached record levels during the second quarter," commented Sven Hindrikes, the Group's CFO. Operating income for the period grew by a continued positive 19 percent to 1,245 MSEK. The earnings per share climbed 23 percent to 2.07 SEK, which was also a record.



Sven Hindrikes.

**T**he results for the first six months of 2002 were largely in line with our expectations and we are more than satisfied. The continuous improvements in operating margins for snuff and cigars are particularly gratifying, since these are our largest product areas, says Sven Hindrikes.

Other product groups reported positive margins for the past six months, except for pipe tobacco. "In the case of pipe tobacco, the decline is particularly attributable to the situation in South Africa, with raised tobacco taxes and the low value of the currency. Matches and lighters continue their secure trend above the long-term target profit margin of 10 percent.

FOR AN INTERNATIONALLY ACTIVE group like Swedish Match, currency fluctuations are always a factor that affects earnings, which is also the case for this

six-month period. The strengthening of the Swedish krona, particularly against the US dollar, resulted in a fall in sales during the period of 1 percentage point compared with the year-earlier period, according to Sven Hindrikes.

Swedish Match continues to reinforce its position as the only global manufacturer of snuff. Sales in both of its leading markets – Northern Europe and the US – increased strongly in volume, thereby representing the largest contribution to organic growth during the period. In the US, which is the world's largest single snuff market, the rate of volume increase was 10 percent, which means that the market share grew from 8.1 percent in 2001 to 9.3 percent in total. In Northern Europe, volumes increased by 6 percent. Sales for the entire product area grew by 18 percent.

OPERATING INCOME FOR SNUFF operations as a whole rose by 34 percent to 603

MSEK and the operating margin was 43.6 percent, compared with 38.4 percent during the year-earlier period. The positive result is the outcome of a combination of increased sales, price increases and somewhat reduced marketing costs, according to Sven Hindrikes.

Swedish Match also increased its sales of chewing tobacco, which is mainly sold in the North American market, by 5 percent, although the market in general is declining in terms of volume by approximately 4 percent per year. Operating income rose by 12 percent to 211 MSEK on total sales of 711 MSEK.

Cigars, the Group's other large product area, noted largely unchanged sales compared with the year-earlier period. Sales during the first six months amounted to 1,649 MSEK (1,642). The sales increases in Europe offset a somewhat reduced sales volume in the US market.



Bengt Jönsson, VP Sales.

## Swedish Match named »Best Supplier«

Swedish Match has been named »Best Supplier in Service Retailing in Sweden.« The award was made for the first time by the National Association of Game and Service Retailers, the National Association of Petroleum Product Retailers and the Stockholm Fair at a trade fair in Stockholm in April.

**T**he competition must be considered the toughest conceivable. Suppliers to service retailers include not only tobacco companies but many large companies with world-class marketing, such as Coca-Cola, GB and Carlsberg. The award consists of a certificate and SEK 15,000. But the honor is naturally more important.

»THE TOUGH COMPETITION naturally makes it especially pleasing that we have received this award,« says Bengt Jönsson,

vice president Sales for North Europe Division. »It is a spur for us. It shows that we are on the right track and that retailers appreciate our work.«

There are a number of reasons why the award went to Swedish Match. One is that Swedish Match continuously adapts its operations to the needs of retailers. The Company has also worked to help increase profitability in the retail field.

Swedish Match was also praised for its product development, adaptation of

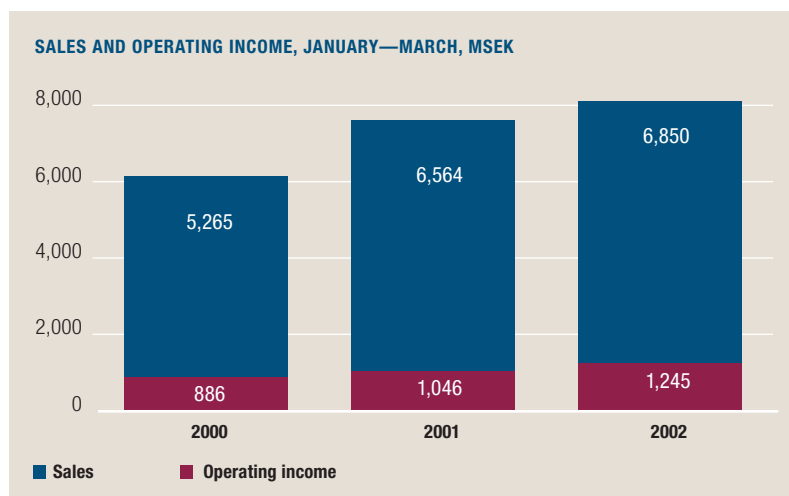
# per share

However, both the operating income and the operating margin improved in a satisfactory manner during the period. Operating income grew by 20 percent to 271 MSEK, which resulted in an operating margin of 16.4 percent, compared with 13.7 percent for the first six months of 2001. The factors behind the improvement are mainly continued consolidation and efficiency enhancement of operations, which led to substantial cost savings.

**MATCH OPERATIONS CONTINUE** to be a source of satisfaction following the restructuring and efficiency program of the past year and operating income increased by 41 percent during the period to 124 MSEK. Sales grew by 6 percent to 881 MSEK and the operating margin improved to 14.1 percent. Sales of lighters, on the other hand, declined somewhat compared with to the preceding year, to 370 MSEK. The operating margin for operations amounted 11.6 percent.

In conclusion, this means that, during the past six months, there has been a considerable increase in the earnings per share, to a record level of 2.07 SEK, which is in line with the Group management's focus on increased shareholder value.

»THE RESULTS FROM THE FIRST six months show that we are well-equipped to implement the goals we established for the year, which are consolidation of operations and improved operating margins, as well as investment in organic growth,» says Sven Hindrikes. □



	SALES, MSEK			OPERATING INCOME, MSEK		
	Jan-June 2002	Jan-June 2001	Change %	Jan-June 2002	Jan-June 2001	Change %
Snuff	1,383	1,170	18	603	449	34
Chew. tobacco	711	679	5	211	188	12
Cigars	1,649	1,642	0	271	225	20
Pipe tobacco/ Accessories	401	450	-11	78	123	-37
Matches	881	833	6	124	88	41
Lighters	370	423	-13	43	51	-16
Other	1,455	1,367	6	-85	-78	
<b>Total</b>	<b>6,850</b>	<b>6,564</b>	<b>4</b>	<b>1,245</b>	<b>1,046</b>	<b>19</b>

its product line, and fine sales aids. The fact that Gothia Tek was considered to have brought factual and serious arguments to the debate over tobacco was a special plus factor. »Catch,« the snus that has attracted new consumer groups, is one example of development of the product line.

»Swedish Match is good at visiting stores and helping on the spot, and its distribution works well,« says Susan Fritz, president of the National Association of Game and Service Retailers.

»The award is important for us since service retailing accounts for a full 65 percent of our sales in Sweden,« Bengt Jönsson says. Kiosks, convenience stores, gasoline stations, newsstands and tobacconists, among other outlets, are included in the service retailing designation.

»DIALOG« IS THE KEY WORD underlying the good relationships with retailers.

»We work consistently with an ear to the ground, listening to the needs out in the field,« Bengt Jönsson says. »For example, it may be a matter of snus coolers and what they should look like in the future. Or humidors, product

exposure, sales campaigns, and so forth.«

»The purpose of the award is to increase the focus on small shops,« Susan Fritz says. »An individual store has relatively small sales, but as a group these stores are of great importance.«

The select of a winner was a long process.

»We asked our members to propose appropriate award winners and the jury then chose Swedish Match,« Susan Fritz says.

**THE WORK IN PARTNERSHIP** with retailers was also the reason why Swedish Match and United States Manager Lennart Freeman were awarded the prestigious »Captain of the Year« prize last year. The prize is awarded by the Pennsylvania Distributors' Association. The Swedish award was not made to an individual person.

»This is a team award, not just to the sales division but to the entire division,« Bengt Jönsson says. »But it is important that we not rest on our laurels with this. We must continue to have a close dialog with service retailers and grow together with them.« □

You can now subscribe to and order electronic services via Swedish Match's website: [www.swedishmatch.com](http://www.swedishmatch.com).

#### CALENDAR REMINDER

This service provides reminders about activities on the Swedish Match calendar via SMS and/or e-mail. You can choose to be reminded about financial or other activities one or several days before the event.

#### SHARE PRICE SERVICE

This service provides real-time information about Swedish Match's share price via SMS and/or e-mail.

#### PRESS RELEASE SERVICE

This service provides real-time information about Swedish Match press releases via SMS and/or e-mail.

## Analysts' questions

In connection with release of the interim report, the Company arranged the customary telephone conference for securities analysts in banks and brokerage firms. A selection of the questions that were raised and answered follows:

#### PIETER VORSTER, CREDIT SUISSE, FIRST BOSTON:

»The volume of sales of snus in Sweden picked up during the first quarter this year, and in the second quarter last year I think you had an increase of five percent. How do you account for the fact that the increase for the second quarter this year was only three percent?«

#### LENNART SUNDÉN, CEO:

»It is true that we had a strong trend last year. But I also would like you to note that sales in the second quarter this year reached a record level. We will always see these quarterly fluctuations, depending -- for example -- on the fullness of inventories or holiday periods. But, generally speaking, we see that a growth rate between four and five percent holds up over time.«

#### GORM THOMASSEN, CAZENOVE:

»I would like to have a little guidance where the expected profit per share is concerned. I also have a question pertaining to the Nordic market, and whether you see an increasing contribution there from sales in Norway?«

#### SVEN HINDRIKES, CFO:

»What we can indicate at the present time is a projected profit of between SEK 4.10 and SEK 4.20 per share for the full year. This is an upward revision of our earlier forecast of between SEK 3.80 and SEK 4.20, and it also includes anticipated legal costs as well as negative effects of foreign exchange movements to the degree that they may continue.«

#### LENNART SUNDÉN:

»The Norwegian market is beginning to make a substantial contribution to sales in the Nordic region. Up to now, much of the sales have been in the form of cross-border transactions and duty-free sales. But we see a growing potential and will accordingly establish our own sales company in Norway in the beginning of next year.«

#### MARTIN FELDMAN, MERRILL LYNCH:

»You have sued US Smokeless Tobacco Company (USST) for behavior in restraint of competition. Can you provide a little more detail on what lies behind the suit, and what damage has been caused?«

#### BO AULIN, GENERAL COUNSEL:

»It involves the systematic use of USST's dominant position in an unlawful manner, providing erroneous information on competing products to retailers, and tearing down signs and preventing exposure of competitors' products. We have not yet quantified the amount of damage we have suffered, or the compensation that we will demand.«

#### FRANZ HOYER, CHEVREUX DE VIRIEU:

»You have indicated that you would prefer to avoid going to court to have the ban on sales of snuff in the EU abolished. What other approaches would be possible?«

#### BO AULIN:

»There are two approaches. We either have the ban lifted by the European Court of Justice, or the politicians who approved the ban listen to reason and abolish it. A great deal has happened recently that would point to the latter approach. More and more persons in the international health establishment have begun to speak openly of snuff as a damage-minimizing alternative to smoking. But, regardless of which of the alternative approaches proves to be fastest, we are convinced that the ban will disappear sooner or later.«

# Strong culture creates sha

»Swedish Match is a harmonious company. It has harmonious strength.

It works. One of the reasons is the company's culture, the strongest I know of in any company.

One of the Board of Directors' most important tasks actually is to »set the tone« in the Company, to cultivate the culture, so that all employees are working together to produce and create value for the shareholders.«

**S**o says the man who has been Chairman of Swedish Match's Board of Directors for the past six years. He should know what he is talking about. As early as 1979 he was president of the match operations, the Group's classic core business, based in Nyon, Switzerland. Bernt Magnusson was one of a young gang of Swedish Match managers who soon became presidents of a number of Sweden's leading international companies.

*And what does a strong corporate culture mean, viewed in a Board perspective?*

»Well, among other things, it means that corporate governance – the chain of control in the Group – functions with much less bureaucracy than in many other companies. Many management persons have been with the Company for a very long time, and the Board and I have been involved in the recruiting of many of them. Good corporate governance works better with confidence and trust than with a large control apparatus. At the same time, one should never hesitate to keep a tight hold on the reins.«

**BERNT MAGNUSSON'S SELECTION** of such key words as harmony, corporate culture, trust and »setting the tone« reveals an ideal perspective of corporate governance – the art of guiding and controlling a company. Most of what has been written about board-of-directors' work recently is based on conflict conditions between different interests that have a stake in a company. The same approach characterizes legislation. Bernt Magnusson prefers to emphasize the strength in

searching for, and building, a consensus.

»It is clear that it has become much harder to work in boards of directors in recent years. Legislation has sharpened considerably following the comprehensive debate in the wake of the Cadbury report, the Greenbury Committee, the Hempel Committee and the most recent Turnbull report – all of which focused sharply on issues dealing with control and responsibility. The creation of value for shareholders is today very clearly the primary objective of boards of directors, a task for which Swedish Match has taken up the cudgels in Sweden, incidentally.«

**ALL THIS, BERNT MAGNUSSON** continues, is important and fine. When the system works, as it does in Swedish Match, the opportunity to place emphasis on supplementary expertise and values in board-of-directors' work – rather than on »one-sided control – increases.

*Is share price a good indicator of how a company is developing? Isn't the »action« short-term?*

»No. Over the short term share price can reflect both over-performance and under-performance. But over the long term it is a good gauge of value.«

Swedish Match is wrestling with questions that are quite unusual for companies on the Stockholm Stock Exchange.

These include the tobacco problem and the fact that the Company does not have a clear long-term owner.

»As a result of the ownership situation, we do not have any direct 'ownership

instructions.' This means that the Board is deeply concerned to take the initiative and have a good dialog with the principal owners. It may be assumed that some owners are more shortsighted, while others take a longer view – and this imposes demands on the Board to aim for balanced development of the Company. With the creation of long-term value for shareholders as the guiding principle, we formulate the Group's objectives and strategies on which the owners take positions at meetings of shareholders. The Nominating Committee that is elected at the Annual General

Meeting is also an important forum. It conducts discussions pertaining to the composition of the Board of Directors. This composition should be optimal in terms of future growth targets and strategies. The discussions also deal with the work of the Board and the Company's development, as well as corporate-governance matters.«

**THE OTHER SPECIFIC** Swedish Match issue is the tobacco problem. Here, the Company has focused its unique expertise over the course of years. »In addition to access to legal expertise, the Board of Directors has to have knowledge and a strong feeling for society's and public authorities' attitudes toward the use of tobacco,« Bernt Magnusson says. »This applies not only in Stockholm and Brussels but also globally. The legal and social aspects of the tobacco problem are reported on and discussed at each Board meeting.«

»But you can never ignore the importance of industrial expertise – and, in Swedish Match's case, expertise with international dimensions – for an effec-



Bernt Magnusson.



## MANAGING A CORPORATION

# The Board is the extended arm of shareholders

The role and responsibility of a board of directors is often a matter of debate in media and financial markets. In Swedish Match there is a clear set of working rules that govern the distribution of work between the board and the Company's management. But the board not only has a supervisory role; it must also contribute by providing expertise and advice to management.

**M**anagement of a company involves intricate interplay between different players, all with different roles and areas of responsibility. These roles and areas of responsibility, in turn, are defined in different ways – for example, in legislation such as the Swedish Companies Act and tax and auditing laws, through stock exchange contracts, in Articles of Association, and in the company's corporate culture and method of operating.

**ULTIMATELY, IT IS THE** shareholders who are responsible for ensuring that the business has the orientation that they desire. The shareholders' primary formal forum for the exercise of their power is the Annual General Meeting. Here, the income statement and balance sheet for the preceding year are adopted, and a decision on how the profit is to be disposed of is made. The Annual General Meeting also releases the Board of Director and the President from liabili-

ty (for their management of the Company in the preceding year) and elects the Board of Directors and auditors.

Thus, between general meetings, it is the Board of Directors which, on behalf of the shareholders, must ensure that the Company measures up to the shareholders' demands and intentions, while the President – who is also a member of the Board – has the daily responsibility for converting these intentions into practical action. This involves a great responsibility for each of the Board members, including the employee representatives. Board members are, indeed, managing the property of others, and large values are often involved. This also imposes heavy demands for good cooperation between the Board of Directors and Company management.

**THE BOARD OF DIRECTORS** of Swedish Match has established rules of procedure that govern the distribution of work between the Board and the President. The rules also contain instructions

specifying how financial reports are to be made. Matters of a long-term, strategic nature in particular are to be decided by the Board. This applies, for example, to such matters as acquisitions and divestments, the budget and the Company's strategic plans, as well as guidelines for the management and investment of the Company's funds. The Board is also responsible for the continuing follow-up of the strategy and budget; it adopts and presents financial reports such as quarterly reports and annual reports, except for the six-months report, which is presented by the President on behalf of the Board.

**THE SWEDISH MATCH BOARD** holds five regular meetings each year, plus an organizational meeting at which a Chairman and Secretary are elected. In addition, it may be necessary to call »extra« meetings if there is some special matter that requires an immediate decision – a company acquisition, for example.

A matter that has been debated stren-

# reholder value



uously in Sweden and elsewhere pertains to companies' systems for compensating key persons. In Swedish Match, the Board's Compensation Committee decides such matters. The Committee consists of Chairman Bernt Magnusson and three regular Board members. The Committee establishes salaries and other terms of employment for the President and other Group managers who report directly to him. The Committee also makes decisions on other compensation matters – such as options programs and profit-sharing systems – that deal with principles or which are otherwise of major importance.

ALTHOUGH DECISIONS on benefits and compensation are made within a small circle in the Board of Directors, the decisions are reported in detail to the other members once a year. This is necessary because the entire Board is formally responsible for decisions and no one can disclaim responsibility by referring to a lack of information. For the same reason, the Board is provided continuously with information on operations in the Company. This occurs at Board meetings, where a number of »information points« are always on the agenda – generally with the President as

the presenter, but other members of Group management may also report to the Board on these occasions. For example, reports on current strategic projects are presented at each meeting. A current acquisition may have been discussed in this way at a number of meetings, while a decision may not be made until the process is relatively well advanced, for example through the Board, by means of a »framework decision,« giving a green light to complete negotiations.

THE PROVISION OF good information internally is a key factor in determining the quality of Board work, according to Bo Aulin, General Counsel and Board Secretary. At least equally important is confidentiality outside the Board where members' views and discussions are concerned. »It is of critical importance, in terms of trust on the part of investors and in the market, that the Board be able to conduct its work on its own terms and that all parties in the market obtain the same information at the same time.« Bo Aulin says. Swedish Match has never had any problems with »leaks.«

Despite events involving individual companies that have attracted interest recently, Bo Aulin thinks that the

tive board of directors. In addition, I place great value on continuity, with board members who are not replaced too rapidly. The Group is in many respects a global distribution organization. We are therefore very pleased to have members with experience in both the tobacco industry and other industries with fast-moving consumer goods, as well as broad international experience.«

*Are there any special tricks to conducting a «good» Board meeting?*

»For me it is important that the president and chairman establish the 'atmosphere' of the meeting. There are many formalities connected with a board meeting. As a result, in their reports, the president and chairman must allow »openings« for exchanges of opinion and discussion, and a focus on the important problems to be solved. The members of Swedish Match's board are »independent,« with strong integrity and views of their own, and this produces fruitful debate.« □

## THEY GUIDE SWEDISH MATCH

The Swedish Match Annual General Meeting in May elected two new Board members, Tuve Johannesson and Arne Jurbrant. They succeeded Arne Bennborn and Anders Lannebo, who declined re-election. The other Board members were re-elected unanimously.

### BERNT MAGNUSSON

b 1941. Chairman. Member since 1993.

### ARNE JURBRANT

b 1942. Member since 2002.

### JAN BLOMBERG

b 1939. Member since 1996.

### TUVE JOHANNESSEN

b 1943. Member since 2002.

### LENNART SUNDÉN

b 1952. Member since 1999.

### MEG TIVÉUS

b 1943. Member since 1999.

### KLAUS UNGER

b 1934. Member since 1984.

### Employee representatives

#### KENNETH EK

b 1953. Member since 1999.

#### EVA LARSSON

b 1958. Member since 1999.

#### JOAKIM LINDSTRÖM

b 1965. Deputy member since 1999.

Swedish system functions satisfactorily. Real »scandals« are still uncommon. He doesn't want to enter the continuing debate over more legislation as opposed to more self-regulation, but he still sees advantages in a combination of the two. »Legislation and stock exchange contracts provide a necessary framework. But, ultimately, good governance is to a high degree a matter of the internal corporate culture. And that, in turn, depends on such factors as the composition of the Board, the Chairman's personality and the expertise possessed by the Board and management.« □

## A culture-historical meeting place

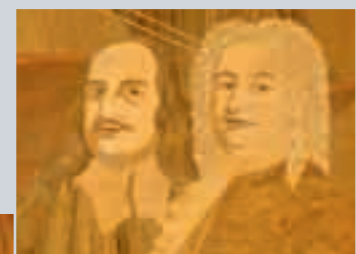
When today's members of Swedish Match's Board of Directors gather for their meetings they have a unique bit of Swedish cultural history before their eyes. Artist Ewald Dahlskog's inlaid (intarsia) walls depict tobacco's path through history, from the America of the Indians to Sweden. Here there are scenes with figures such as Catherine de Medici, who introduced snuff in Europe's higher social classes, pictures of the Thirty Year War, pictures of Queen Christina and Carl Linneaus – all with links to tobacco.

THE INLAID WALL IS DATED 1935 and was originally constructed in what was then the Board room of the Tobacco Monopoly's head office in Stockholm. The architect for the building was Ivar Tengbom and Ewald Dahlskog had also worked with him on the construction of Stockholm's Concert Hall, which is also adorned with inlaid doors signed by Dahlskog.

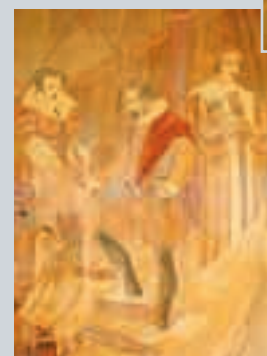
When the new head office, where today's Swedish Match is located, was established on Rosenlundsgatan in Stockholm in 1990, it was decided that the intarsia wall should also be moved.

THE ART OF INTARSIA experienced a renaissance in Europe in the 1920s and Ewald Dahlskog (1894-1950) is generally regarded as its great reviver in Sweden. Today, his work is considered to be a unique element of modern Swedish architectural history, due not least to Dahlskog's ability to employ hundreds of different types of wood in his works and thereby make use of the special structure and color of each type.

Among many other interests, Ewald Skog was also active as a designer of glassware and ceramics at the Kosta Glassworks and the Bobergs Fajansfabrik in Gävle, Sweden. Objects designed by him appear often at auctions featuring modern Swedish design.



The beautiful inlaid (intarsia) walls by Ewald Dahlskog from 1935 in the Swedish Match Board room show scenes and persons related to tobacco.



# Sailing Week with customers in Marstrand

Sailors from all parts of the world gathered in a windy Marstrand for the Swedish Match Cup the first week in July. But the windier it was, the more the sailing teams liked it. Two hundred of Swedish Match's customers also enjoyed being in the sailing Eldorado. Here, they met Swedish Match's management, sampled products and discussed common problems with colleagues from other countries. And they were also able to sail with professional sailors!

**G**erard Hoozeboom is the third generation of his family in Hoozeboom's Sigarenfabriek. His father was in Marstrand four years ago. Gerard thinks that it is exciting to meet other customers, colleagues and competitors in the industry, as well as representatives of his supplier, Swedish Match, away from the negotiating table.

»I have stood in line for four years to come to Marstrand,« says Gerard Hoozeboom, who really looked forward to sailing with one of the competing professionals. Gerard is a true »sailing freak« from Holland, with a background as a cigar distributor with his own brands.

François Elvinger, his cigar-dealer colleague, is not equally sailing-oriented. He is the sales manager for the Heintz Van Landewyck family-owned company in Luxembourg, a landlocked country. »I was here three years ago and I think that this kind of meeting gives me an opportunity to discuss matters with a supplier without sitting like parties around a negotiating table,« he says. And he adds that he also has a chance to meet competitors and colleagues from other countries.

Heintz Van Landewyck, who has distributed La Paz cigars since 1974, has 50 percent of the market for cigars in Luxembourg and 15 percent of the market for cigarillos. His group had sales of EUR 867 M, with 850 employees – 530 of them – in Luxembourg – in 2000.

Zeze Diniz is another customer who doesn't come to Marstrand primarily for the sailing. The Nordece family-owned company is a large distributor of matches in northeastern Brazil. Zeze Diniz is part of a group of 14 Brazilians.

»A total of 200 customers from near and far, divided into two 'rounds,' partic-



During the Swedish Match Cup in Marstrand 200 of Swedish Matches customers gather to sail and to meet with the company's management. Customers gain knowledge about the Swedish Match product range and discuss current issues, as well as being provided the opportunity to sail against the professionals.

ipated in Marstrand,« says Monica Larsson, project manager for the Swedish Match Cup arrangements in Marstrand July 1 through 7 this year.

**MATCH RACING IS** tough sailing. Complicated maneuvers take place at intervals of only seconds in a cat-and-mouse game with opponents. If the winds are heavy, as they were in the beginning of the sailing week, you go under and take a beating. There are those who say that match racing is an ideal form for training in cooperation, »I am here the entire week,« President Lennart Sundén says. »This gives me an opportunity to meet both customers and



Gerard Hoozeboom.

our own people in a relaxed atmosphere.« The event is becoming popular. Customers line up for invitations to come to Marstrand.

Customers are able to become familiar with the full range of Swedish Match's products and the full array of brands. Everyone has an opportunity to sample »General,« the American »Redman« chewing tobacco and all versions of cigars and cigarillos. One question that both Gerard Hoozeboom and François Elvinger raised was the possibility of selling products in

neighboring countries. In practice, despite the common market in the European Union and a common currency on the Continent in the form of the euro, the tobacco market is not a common one. It is difficult to export products due to the complicated rules governing labels and warning texts in different languages in different countries.

**MANY INDUSTRY PERSONS** from neighboring Germany, France, Belgium and Holland deal in tobacco products cross-border in

Luxembourg, since prices are generally lower there but, if they themselves want to export, the rules governing labeling and languages constitute a problem.

The prohibition against the sale of snuff in EU countries except Sweden is a specific case of regulation. François Elvinger and Gerard Hoozeboom both sampled snuff in Marstrand. But even though they thought the prohibition was foolish both doubted that Swedish snus was a product for their customers. □

## Swedish Match Tour 2002/2003

Marstrand was the eighth and final leg of the Swedish Match Tour.

Next year's Swedish Match Tour is already under way:

July 9 -02	Trofeo Chall. Roberto Trombini	Ravenna, Italy
July 27 -02	UBS Challenge	Newport, Rhode Island, US
Aug 13 -02	Danish Open	Copenhagen, Denmark
Oct 12 -02	ADT Gold Cup	Hamilton Harbour, Bermuda
March -03	Steinlager/Line 7 Cup	Auckland, New Zealand
April 6 -03	Congressional Cup	Long Beach, California, US
Maj 27 -03	ACI HT Cronet Cup	Split, Croatia
June 5 -03	Match Race Germany	Langenargen, Germany
June 30 -03	Swedish Match Cup	Marstrand, Sweden



## Swedish Match at Swedish Open

**T**he Swedish Open tennis championship is a classic, 55-year-old Swedish competition. Swedish Match has been one of the principal sponsors since 1993.

The Swedish Open has become one of largest clay court tournaments in Europe and most of the world's best-known tennis players have competed at one time or another. This was underscored by the large number of attractive players in the starting field this year; their presence will further strengthen the popularity of the tournament and its position in the tennis world.

The Spaniard Carlos Moya won the

Swedish Open singles title this year. He thereby became the first Spaniard to win since Emilio Sanchez defeated Mats Wilander in the final round in 1986. The title was the second for Moya on clay this year. Jonas Björkman and Todd Woodbridge, the favorites, who had won the doubles title at Wimbledon a week earlier, also look the doubles trophy.

The Båstad tennis stadium, which was bathed in sunshine during the week of the championship, displayed its best side. Many tickets were sold in advance and approximately 38,000 spectators watched the competition from the stands. □



The players and the fans enjoyed the Swedish Open immensely. Swedish Match has been a main sponsor of the event since 1993.

# Market uneasiness dampens prices

The price of Swedish Match's shares has resisted the dismal stock market climate during the first half of the year. Up until July 19, the price of the Company's shares had risen 27 percent, from SEK 55.50 to SEK 70. The Stockholm Stock Exchange's SAX Index, which reflects the average trend of share prices, declined by 29 percent during the same period. Most of the substantial fall to date has occurred in the second quarter. During this period the SAX Index fell by 26 percent, while Swedish Match shares lost 7 percent in value.

The trend was similar on the Nasdaq exchange in America, where Swedish Match depositary receipts are listed. The Nasdaq Index has fallen by more than 30 percent since the first of the year.

Including the stock dividend for the year, SEK 1.45 per share, the total return to Swedish Match shareholders up to now this year amounts to 29 percent.

The good return last year (a total return of 56 percent) has thus continued during the first part of this year.

Swedish Match shares have developed better than any of the shares of companies on the Exchange's »big« list of most actively traded shares during the past eighteen months.

The striking decline for IT and telecom shares has recently spread to a number of sectors of industry and commerce, including banks and industrial companies. The companies that have shown the best resistance to the prolonged decline in share prices are con-

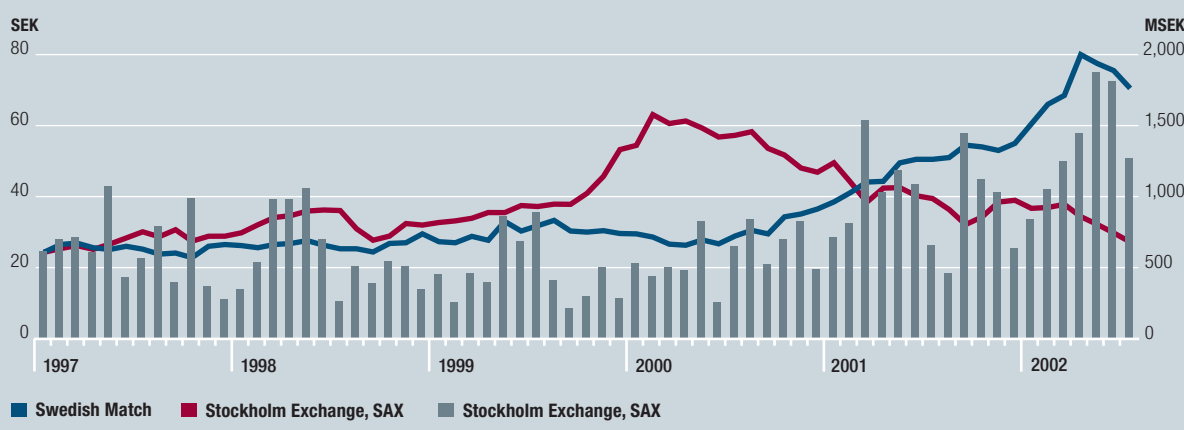
sumer goods such as Swedish Match, as well as real estate companies.

The current period in the market has been characterized by scandals involving the financial accounting of large publicly traded companies. Companies with high debt relative to earnings capacity have experienced sharp falls in the prices of their shares and -- in many cases -- have received downgraded classifications from ratings institutions.

Swedish Match is a financially strong company and the Company's outlook have been raised during the period. (See separate article.)

While the price of the Company's shares has fallen during the recent very turbulent period, the market's confidence in the Company still appears to be strong. □

## SHARE PRICE AND TURNOVER DURING FIVE-YEAR PERIOD



## TOTAL RETURN

### Total return, %

Jan-july 19, 2002	29
2001	56
2000	32
1999	4
1998	19
1997	15
May 15-Dec 31, 1996	9

(24% annual return)

## KEY FIGURES

### Earnings per share, SEK

2001	3.54
2000	2.76

### Shareholders' equity per share

Dec 31, 2001	11.73
Dec 31, 2000	12.22

## SHARE PERFORMANCE, %

### Jan-July 19, 2002

Swedish Match	27
SAX	-29

# Moody's raises outlook

On May 16 Moody's Investors Service raised its outlook for Swedish Match's creditworthiness from »stable« to »positive.« At the same time the agency retained its Baa1 credit rating for borrowing by Swedish Match.

A credit ranking consists of two parts: a designation (combination of letters) in which A is good and C is bad, and an outlook-evaluation that ranges from »positive« via »stable« to »negative.« It is not unusual for a change in outlook-evaluation to precede a change in credit rating.

»Moody's has made a small but significant change,« Group Treasurer

Magnus Heimborg notes. »It shows a different view of our operations than was the case a few years ago.«

IN ITS STATEMENT covering the change Moody's writes that the agency believes that Swedish Match will continue to benefit from its good market positions. The agency also notes that the Company shows a strong cash flow despite difficult international competition. Swedish Match's debt is balanced in a »comfortable manner« by the strong cash flow, according to Moody's. The Baa1 credit



Magnus Heimborg.

rating is thereby well founded, based on the agency's evaluation.

Standard & Poor's, the other leading rating institution, assigns its »A-« designation for Swedish Match's borrowing. Its outlook-evaluation was changed from »negative« to »stable« last year.

If Swedish Match should raise new loans, the agencies' upgrading of the Company can have positive effects in the form of lower interest costs. □

## NAMES AND NEWS



This year's Solstice Prize was awarded to Dorothea Rosenblad. The award was presented by Princess Christina, Mrs. Magnusson, Honorary Chairman

## Abraham's Children building bridges

DOROTHEA ROSENBLAD HAS BEEN awarded this year's Solstice Prize of SEK 100,000 for her creative concept in using playful teaching in the Abraham's Children project to give children an opportunity for mutual, respectful and peaceful co-existence in the multicultural modern Sweden.

»This Prize is a very great thing for us, and it was totally unexpected. Activities like ours are always facing problems in obtaining financing, and this means that we can now pay for a new printing of the teacher's handbook on religious instruction that is one of our most important tools.«

So says a happy Dorothea Rosenblad, who is now retired from her job as a high school teacher in religion studies in Rinkeby, a highly multicultural Stockholm suburb, and who is the founder of the Abraham's Children Foundation.

The Foundation has been in existence since 1991 and traces its origins to the deficiencies in the teaching of religion that Dorothea Rosenblad saw in today's Sweden.

»What I think is lacking are impulses to see what unites the great religions. If you do see, the ability to feel empathy for others' cultural patterns and traditions increases,« Dorothea Rosenblad says. »The patriarch Abraham/Ibrahim is, for example, the symbolic ancestor of Christians and Muslims as well as Jews.«

With this as an approach, Abraham's Children has developed its own method of teaching that is based on identification and insights into all periods, cultures and religions. Identification exercises in speech and written form help the students to understand other peoples' lives.

Additional information is available on the Abraham's Children Foundation website: [www.abrahamsbarn.org](http://www.abrahamsbarn.org)

## STIFTELSEN SOLSTICKAN

The Solstickan Foundation was established in 1936. At that time artist Einar Nerman, who was given the assignment of designing the cover for a new matchbox, created the »Solstickan lad,« which is today one of Sweden's best known symbols.

Revenue for the Foundation was created by raising the price for the Solstickan box by half an öre, producing funds that were to be used »for the benefit of children and the elderly,« according to the announcement. In recent years the objective of Foundation has been to serve as a »spearhead,« inspiring and supporting new concepts and pioneering ideas and initiatives.

During its 66 years, the Foundation has collected more than SEK 99 million with the help of the small surcharge on matchboxes and lighters. More than SEK 3 million is being distributed in 2002 by the Foundation's county committees for activities throughout Sweden and for research projects.

# The snuff enjoyed by popes and laborers celebrates its 180th birthday

With inventiveness and stubbornness Jacob Fredrik Ljunglöf succeeded in establishing »Ettan« (»The One«) as the first »nationwide« snuff in Sweden. Railroad laborers who carried the snuff with them as they moved along were successful marketers. But even Pope Leo XIII liked the taste. »Ettan«, which celebrates its 180th birthday this year, is one of Sweden's oldest active brands and as Swedish as a Midsummer maypole.

**A**s a young man, Jacob Fredrik Ljunglöf took over one of Sweden's oldest tobacco factories, with traditions dating back to the 1600s. In 1821 he began to produce snuff in his own name in Stockholm. But he was not pleased with the quality. The common method of preparing snuff in those days involved fermenting or »sweating« it at a high temperature for a number of months, sometimes for as long as half a year. Ljunglöf didn't like the taste. Moreover he had neither the money nor the space required for the storage of snuff.

In his Adolf Fredrik home parish, Ljunglöf has a good friend who was a world famous chemist and scientist: Jacob Berzelius. It was probably he who helped Ljunglöf develop a production method that was unique for its time. The new snuff only contained tobacco, salt, water and sodium carbonate (which is converted to bicarbonate in the snuff). It was manufactured in a week and sold as a fresh product.

THE RESULT WAS A SNUFF with a pure tobacco taste that still characterizes the proto-

type for Swedish snuff today. Ljunglöf's »Ettan« was born. The year was 1822. The snuff brand name was originally »Ljunglöfs No 1,« a common method of designating the highest-quality a factory produced. Jacob Fredrik Ljunglöf succeeded in making the general »No. 1« quality label his own brand name, commonly referred to as »The One.«

Jacob Fredrik Ljunglöf was enormously successful with his snuff and now – thanks to his stubbornness and inventiveness – was the only manufacturer of snuff with nationwide sales. Part of the success was due to the fact that the snuff was very popular with railroad workers who carried it with them as the railroad tracks were laid.

HOWEVER, IT WAS THE SON, Knut, who became the »Snuff King of Sweden.« He took over the business in 1850.

Knut Ljunglöf was a rough man with a big nose and an unflinching taste for fresh snuff. The combination of these characteristics made him one of the country's most successful businessmen in the 1800s.



Above: Rail workers were effective marketers of Ljunglöfs Ettan, the first nationwide moist snuff. Left: Examples of Ettan packagings.

Many persons asked him what the secret was behind his popular »Ettan« snuff.

He would then calmly point to his grandiose nose and answer:

»Here!«

Every morning there was a silver bowl with fresh snuff on his desk. With a silver spoon, he would force the snuff up his nose. He »tested« the aroma, sneezed in his multicolored handkerchief and nodded, pleased. The snuff was thereby approved for packaging and selling.

Knut Ljunglöf was obsessed by a passion for quality in everything around him, from shoe soles to ceiling lamps. For a long time he refused to export his snuff since he could not guarantee that it would be fresh when it arrived.

But Ljunglöf did make an exception for Pope Leo XIII who was delighted to receive shipments of Swedish snuff.

THE SNUFF KING was forced to abdicate when the Swedish Tobacco Monopoly Company (AB Svenska Tobaksmonopolet) was formed in 1915, and Ljunglöf's snuff factory was taken over by the State. The total profits of the tobacco industry would constitute a cornerstone in the Swedish people's national pension fund. Indignantly, the elderly Knut Ljunglöf then appears to have burned all the documentation pertaining to his life's work. His son Robert had to deal with the State's takeover of snuff production. But Ljunglöf's »Ettan« lives on. Today it is the second-largest brand of snuff, surpassed only by General. □

## SWEDISH MATCH IN BRIEF

Swedish Match is a unique company with a complete range of market leading snuff and chewing tobacco, cigars and pipe tobacco – tobacco's niche products – as well as matches and lighters. The Group's global operations generated sales of SEK 11,533 M in 140 countries in 2000. The Group has 13,672 employees. Swedish Match shares are listed on the Stockholm Exchange (SWMA) and NASDAQ (SWMAY).

### Smokeless Tobacco



Swedish Match has a broad presence in the global market for smokeless tobacco (snuff and chewing tobacco), with prominent market positions in the Nordic countries, North America and South Africa.

#### MARKET POSITION

**Snuff:** Market leader in the Nordic countries and South Africa and the third largest player in North America.

**Chewing Tobacco:** Market leader in North America

### Cigars and Pipe Tobacco



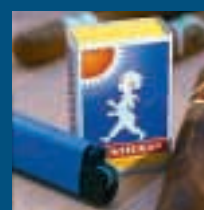
Along with smokeless tobacco, cigars and pipe tobacco have been identified as a growth sector for Swedish Match. The products are sold in large parts of the world, with particular emphasis on North America, Europe and South Africa.

#### MARKET POSITION

**Cigars:** World's largest cigar company, with a product range that covers all price segments.

**Pipe tobacco:** One of the world's oldest and largest producers of pipe tobacco.

### Matches and Lighters



Swedish Match manufactures and markets matches and lighters globally. The products are sold in more than 140 countries.

#### MARKET POSITION

**Matches:** World's leading manufacturer of matches and the only company with match production and sales operations in all parts of the world.

**Lighters:** One of the world's three largest manufacturers.

#### KEY FIGURES

MSEK	2001	2000
Net sales	13,635	11,533
Operating income	2,193	1,886
Operating income before depreciation	2,863	2,429
Net income	1,840	1,153
Income per share after tax, SEK	3:54	2:78
Dividend per share, SEK	1:45	1:35
Return on shareholder's equity, %	115.0	21.8

☆☆☆  
**SWEDISH MATCH**