

# Inside

INFORMATION ABOUT SWEDISH MATCH FOR SHAREHOLDERS AND OTHER STAKEHOLDERS

#4 november 2003

## Snuff maintains strength

The snuff product area continued to perform strongly. During the first nine months of the year, snuff sales rose 6 percent to 2,223 MSEK, while operating income increased 11 percent to 1,027 MSEK. Pipe tobacco operations also posted higher sales and operating income. A number of positive signs were noted for cigar operations, particularly in the third quarter. During the year's first three quarters, total Group sales rose 2 percent in local currencies but declined by 6 percent when translated to SEK.

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## Tobacco chewing gum test-launched in Tokyo



Swedish Match has developed a totally new tobacco product, Firebreak tobacco chewing gum, which is currently being test-launched in Tokyo. The chewing gum is designed to give smokers an alternative to cigarettes. Tokyo was chosen for the test launch among other because Japan is the world's third largest cigarette market, where 52 percent of men are smokers.

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## Shareholder-friendly company

A shareholder-friendly company whose share is a good long-term investment. In the short term, currency movements may have a negative impact, which could lead to the earnings trend and share price remaining static for a while. These were some of the views expressed when Inside talked to three analysts about Swedish Match.

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## Meet the Board: Jan Blomberg

When the Swedish State's privatization activities gained momentum during the 1980s and 1990s, Jan Blomberg was at the center of the action, as vice president, first of Procordia, then of Pharmacia. He has been a Swedish Match Board member since 1996 and heads the newly formed audit committee.

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# One-of-a-kind snus plant

The world's most advanced snus production plant was inaugurated in Kungälv, Sweden, in September. The plant, which was designed by Swedish Match in accordance with a proprietary concept, represents a total investment of some 600 MSEK, making it one of the largest industrial projects of recent years in western Sweden. "The plant is a key element in our endeavor to remain the world's best snus producer. It is also a beautiful plant," noted CEO Lennart Sundén during the inauguration.

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## Fast-paced week with CEO

A week in the company of CEO Lennart Sundén is marked by a high tempo and long days, as well as the concentration and focus needed to ensure well-founded and strongly supported decisions on many key issues. Among the agenda items during the week when Inside followed the CEO were tied-up capital, IT security, the EU snuff ban, currency trends and the divisions' financial objectives.

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## Kungälv plant strengthens our quality promise

IT IS A MAJOR EVENT for the Group to be placing a new snus plant in operation this autumn. The last such occasion was in 1982, when we inaugurated the plant in Gothenburg. The investment of SEK 600 M confirms our strategies and will consolidate the success of our Swedish snus. The Kungälv plant is the symbolic culmination of more than 20 years of concerted research and development work. The result is a socially accepted tobacco product that has become an effective alternative for all those who want to quit smoking.

The fact is that demand for Swedish snus has increased so strongly during the past few years that without the new plant we would rapidly be faced with a shortage. But the Kungälv plant will provide far more than sufficient volume to meet the demand. It is equipped with state-of-the-art production technology, resulting in extremely high cost-efficiency, and its design is based totally on our **GOTHIA TEK**® quality standard.

This means that we can continue even more vigorously with the development of the special product category that Swedish snus has become thanks to our research and development efforts. The Kungälv plant will enable us to produce new generations of snus products with new characteristics. This makes the plant unique in the world.

Our aim is to constantly endeavor to reduce or minimize the alleged health risks in our Swedish snus and continuously advance our knowledge about the characteristics and use of our snus products. For this reason, we support independent research and focus our own research and development work on continuous improvement of our products.

For our consumers, the Kungälv plant will reinforce the promise implicit in the **GOTHIA TEK**® standard – that our snus production is always based on the most up-to-date knowledge available in regard to raw materials and production methods. The new plant is presented on pages 6-7.

Lennart Sundén, CEO

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**SWEDISH MATCH**

JANUARY - SEPTEMBER 2003:

# Snuff sales continue to incre

Swedish Match's net profit during the first nine months of the year improved by 17 percent. Sales of snuff forged ahead throughout the period, accompanied by a constantly improving operating margin. The third quarter also saw an improvement for cigar operations, in terms of both volumes and earnings. In addition, pipe tobacco operations showed increases for both sales and operating income.



Sven Hindrikes.

**S**wedish Match's total sales, in local currencies, increased by 2 percent during the period from January-September.

Translated to SEK, sales declined 6 percent to 9,692 MSEK.

"We are very pleased with the improvement in earnings during the year to date. This applies in particular to the third-quarter operating income of 624 MSEK, which is slightly higher than last year's figure of 620 MSEK. It is also pleasing to see that this improvement during the quarter applies to all three of our main product areas – snuff, cigars and chewing tobacco," comments Sven Hindrikes, Swedish Match's Chief Financial Officer.

**THE SNUFF PRODUCT AREA** continues to advance strongly. Sales during the first nine months amounted to 2,223 MSEK, a 6-percent increase. In local currency, sales rose 12 percent. In terms of volumes, this represented a 4-percent increase in northern Europe and a 7-percent increase in the US. Swedish Match now has a 9.2-percent market share in the US market.

Operating income for snuff rose 11 percent to 1,027 MSEK, and the oper-

ating margin has gradually improved during the year to date. The operating margin for the third quarter of 2003 was 47.9 percent, compared with 44.2 percent for full-year 2002.

**IN APRIL, SWEDISH MATCH** successfully launched two new brands of portion-packed snuff – General White Portion and Grov White Portion – in the Swedish market. During the third quarter, Longhorn, a new brand in the value-priced segment, was launched in the US market. During the year to date, Swedish Match has also intensified its efforts in new markets, particularly India and Russia.

In addition, a totally new and unique smokeless product – Firebreak tobacco chewing gum – was introduced in the market during October and is currently undergoing a trial launch in a limited number of stores in Tokyo.

**A NUMBER OF POSITIVE SIGNS** were noted for cigar operations, particularly during the third quarter. Most significantly, sales of machine-made cigars in the US improved strongly during the third quarter. The launch of a number of new machine-made cigars contributed

to the increased sales volumes. For the full nine-month period, sales rose by 4 percent in local currency.

Overall, the business area's sales during the period declined by 12 percent to 2,221 MSEK, mainly as a result of negative currency effects when the earnings of foreign subsidiaries were translated into SEK. Operating income for the period declined by 28 percent to 296 MSEK. Here too, currency effects made themselves felt, but other factors were the weak sales in both Europe and the US early in the year and the increased legal costs incurred by premium cigars in the US. The latter relate to a brand dispute in the US.

The operating margin for the business area as a whole, which had declined during three consecutive quarters, improved substantially during the third quarter to 15.6 percent, which is close to the figure for the corresponding quarter in 2002.

"We are very pleased that the negative trend that has prevailed since the end of 2002 was reversed during the third quarter," notes Sven Hindrikes.

**CHEWING TOBACCO**, which is sold primarily in the US market, showed an increase in both sales and operating

## Three analysts discuss Swedish Match

Swedish Match is investor-friendly and the share is a good long-term investment. In a short-term perspective, exchange-rate trends could have a negative impact, which is why the trend of profit and share price may continue to stand still for some time. This is the overall scenario to be drawn from discussions between Inside and three financial analysts.

### FREDRIK LILJEWALL, UBS Investment Bank "A distinctly shareholder-friendly company"

"As a tobacco company, there are a couple of sides to Swedish Match that set the company apart from the industry as a whole. First and foremost, it has snuff products, which are showing good organic growth, both in terms of volumes and revenues. This is highly unusual in a tobacco industry that in general is showing declining volumes. Moreover, Match has focused on niche segments within the tobacco industry. The company is not exposed to the often controversial cigarette industry." This is the assessment made by Fredrik Liljewall, an analyst at UBS Investment Bank.

Subject to a certain degree of concern about increased competition in the US, Fredrik Liljewall believes that the favorable growth shown by the company's core snuff operations will continue. However, in his opinion, the greatest immediate challenges for the company do not lie in the snuff area. They are to be found elsewhere.

Firstly, there are the company's cigar operations, an area in which Match is experiencing tough competition in the US mass market. The company is also affected by a shift in the mix within the premium segment. The trend is toward increased consumption in the lower-priced segments.

Secondly, the company's matches and lighters business is under severe

pressure from low-price producers in Asia. Swedish match is also negatively affected by the weak USD, since it is exposed to expensive production in a euro country such as the Netherlands, while sales are largely in countries with currencies that follow the USD.

Swedish Match is also considered very shareholder-friendly, since it passes on its good cash flow to shareholders in various ways.

"If the cash isn't needed to finance continued growth, paying it out to shareholders is an excellent idea. In our opinion, the company is undervalued."

In a short-term perspective, the share could be facing a sluggish period due to the uncertainty of currency movements, profit-taking and the

# rease in Sweden and the US

income in local currency, but after translation to SEK, sales declined by 14 percent to 880 MSEK, while operating income declined by about the same percentage to 264 MSEK. Pipe Tobacco and Accessories, on the other hand, benefited from the currency effects during the period, particularly the strengthening of the South African rand (ZAR). Sales rose 6 percent to 656 MSEK during the first nine months of the year, while earnings increased to 145 MSEK.

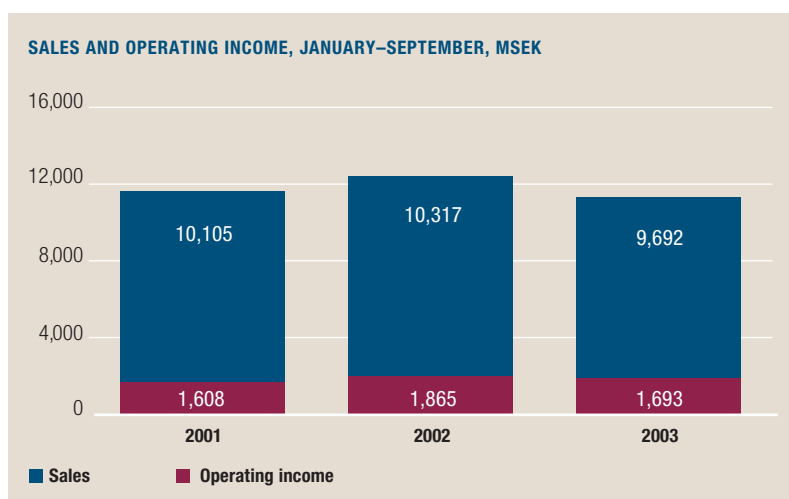
Sales of matches declined by 19 percent to 1,031 MSEK, while operating income fell from 177 to 78 MSEK. The worsened result was attributable to sharply decreased volumes in several European markets and negative currency effects when the earnings of foreign subsidiaries were translated to SEK. The first phase of a restructuring process was also charged against third-quarter earnings.

Finally, lighter operations are exposed to increasing competition from producers in low-cost countries, which exerts a negative impact on volumes.

Consolidated cash flow showed a further improvement during the period. Investments in fixed assets amounted to 384 MSEK, most of which related to the new snus plant that has now been placed in operation in Kungälv near Gothenburg.

**EARNINGS PER SHARE** have increased during the year by 22 percent. This figure includes negative currency effects in an amount of 171 MSEK and positive nonrecurring effects in the interest-rate and tax areas. Expressed as net amounts, however, these items had a neutral impact on earnings.

During the first nine months of the year, a total of nearly 14.8 million shares were repurchased, at an average price of 62.78 SEK, corresponding to a net total of 925 MSEK. This means



	SALES, MSEK			OPERATING INCOME, MSEK		
	Jan-Sep 2003	Jan-Sep 2002	Change %	Jan-Sep 2003	Jan-Sep 2002	Change %
Snuff	2,223	2,090	6	1,027	923	11
Chew. tobacco	880	1,023	-14	264	311	-15
Cigars	2,221	2,513	-12	296	411	-28
Pipe tobacco/ Accessoires	656	618	6	145	119	22
Matches	1,031	1,268	-19	78	177	-56
Lighters	454	535	-15	15	60	-75
Other	2,227	2,270	-2	-132	-136	—
<b>Total</b>	<b>9,692</b>	<b>10,317</b>	<b>-6</b>	<b>1,693</b>	<b>1,865</b>	<b>-9</b>

that approximately 2.4 million shares were repurchased during the third quarter of the year. This year's Annual General Meeting approved a reduction of share capital by 24 MSEK, to be effected by canceling 10 million shares. Following the registration of the cancellation in October, the company now

holds nearly 22.8 million shares, corresponding to 6.5 percent of the total number of shares. The total number of outstanding shares, net, after repurchases during the period amounts to 328.8 million.

market's preference for growth companies, rather than defensive investments, according to the UBS analyst.

#### JOHAN GRABE, ENSKILDA SECURITIES:

### "Trend reversal and positive surprises needed"

"Swedish Match is a unique company in many ways. The company's profit-generating snuff operations are still growing, by about 9-10 percent per year, which is unusual within the sector in which Match is active."

This is how Johan Grabe, an analyst at Enskilda Securities in Stockholm, describes Swedish Match. Grabe considers the company to be well managed but lists five areas that he currently keeps a special eye on. They are:

1. Cigar operations. Swedish Match has reported falling margins for the past four consecutive quarters. This trend needs to be reversed.
2. Snuff is maintaining its high margins, and has the potential to generate posi-

tive surprises, despite the launch of new products in the US.

3. Matches and lighters. More information is needed about how profitability will be restored.

4. Currency trends are creating problems, particularly the weak USD. About 40 percent of the company's sales are conducted in USD. The often unpredictable currency trends are making it particularly difficult to make any accurate forecasts about Swedish Match.

5. Earnings per share (EPS). Any notable increase in EPS is deemed unlikely during the coming year. One question is how Swedish Match plans to handle its extensive share repurchase program, which has contributed to a favorable EPS trend in the past.

The overall assessment from Johan Grabe is that Swedish Match has a moderately low market value. The downside in the share is thus regarded as limited, since growth prospects and profit potential are favorable over the longer term. However, Swedish match is a defensive share and could have dif-

iculty matching the more growth-oriented sectors of the market at present.

"I view Swedish Match as a share that is clearly worth buying for mainly long-term investors," says Johan Grabe.

#### JONATHAN FELL, MORGAN STANLEY

### "Lower risk than for other tobacco companies"

"Viewed in a three- to five-year perspective, Swedish Match has clearly outperformed all other European tobacco shares," says Jonathan Fell, analyst at the Morgan Stanley international investment bank. Swedish Match distinguishes itself from other European tobacco companies on a number of important points. Match is smaller than the sector giants and it is not exposed to cigarettes. This latter point is important, since cigarettes are a product area that has shown weak growth and is controversial in a number of respects. "This means that the level of risk for Swedish Match is lower than for other tobacco companies," says Fell.

## Analysts' questions

Swedish Match's nine-month report for the period January-September 2003 was published on October 23. During a subsequent teleconference, Group management met analysts from banks and brokerage firms. A selection of the questions and answers is presented here.

#### JONAS PÅLSSON, ABG SECURITIES:

"How much of the total sales volume for snuff in the US is attributable to the newly launched Longhorn, and has the new product had any affect on the margin for snuff – or what are the key factors behind the good margin?"

#### SVEN HINDRIKES, CFO:

"The launch of Longhorn was brief and effective, and the impact on the margin is minimal. The most significant factors behind the improved margin are the favorable trend of sales volumes for snuff, particularly in the US, Sweden and Norway, combined with effective cost control."

#### MICHAEL SMITH, JP MORGAN:

"The 47.9-percent operating margin for snuff during the third quarter is a good bit higher than the 44 percent you have forecast for the full year. Does this mean you will exceed your target this year?"

#### SVEN HINDRIKES:

"We did in fact say that we expected a margin of at least 44 percent. The best way to gain an indication of what is going to happen in the future is to go back 12 months and look at the sliding averages."

#### FRANS HOYER, CHEVREUX DE VIRIEU:

"Can you tell us how things are going for the new Firebreak chewing gum, how it is distributed and whether you are also aiming at markets outside Japan?"

#### LENNART SUNDÉN:

"Firebreak tobacco chewing gum is a totally new and unique product, which we have launched on a trial basis in the Japanese market. We distribute it via our normal distribution channels in Japan, but to date the trial is limited to around 400 stores in Tokyo. It is possible that we will also consider other markets, but how we proceed will depend on the results in Japan. We are monitoring developments extremely closely from week to week."

Morgan Stanley takes a positive attitude to Swedish Match's operations, but sees a number of areas that are problematic over the short term:

The company needs to broaden its snuff product offering in the US through the inclusion of more brands. There is too much dependence on Timber Wolf. In addition, the company needs to meet the growing competition in its important domestic market. Restructuring measures are required in the lighters and matches area to meet intensifying low-price competition.

A little further ahead, the prospects for the company appear to be bright, and according to Jonathan Fell Swedish Match will benefit from the shift from cigarettes to snuff products in an increasing number of countries.

"I would not be surprised if the current ban on snuff is lifted or increasingly relaxed within the EU."

In which case, Jonathan Fell feels that the current downswing could be a good time for long-term investors to buy the share.



Business Review meeting in Brussels, Tuesday 10h00



Group management meeting, Monday 08h30



Heading for Brussels, Tuesday 07h30



Time scheduling, Friday 15h00

A WEEK WITH CEO LENNART

# Conc an ensure

Press conferences, Annual CEO's job seems like a suc a day-to-day routine. Inside a "normal" work week in th that began on a Friday and focus at a brisk tempo, and and keeps things moving th analysis designed to genera

## FRIDAY

Our week with the CEO begins on a Friday at 8.15 a.m. Lennart Sundén has already been in action for several hours. As usual, he began the day by reading the newspapers at home. The Financial Times and Dagens Industri are standard fare, together with the major national morning papers. He is in the office before eight o'clock and begins by reading through post and e-mails.

The topic for the day's first meeting is Cash Race, the Group-wide project aimed at reducing capital tied up in operations. Together with CFO Sven Hindrikes and Magnus Heimburg, Group Treasurer, the CEO discusses the current situation compared with budget. Magnus Heimburg reports on which Group companies have arranged seminars for finance personnel and which have yet to do so. The three of them make a number of decisions concerning the continued development of the Cash Race program.

Then it is time for a visit by northern Europe's largest hedge fund, which invests in many companies and wants an up-to-date view of the Group's development after the second quarter. The CEO makes a presentation and answers the questions that are raised. Meetings of this kind occur frequently in conjunction with interim financial statements.

Lunch is taken in the company of Bo Aulin, Senior Vice President, Corporate Affairs and General Counsel.

A meeting to discuss the Group's IT-based information systems and IT security begins at 1.00 p.m. with Göran Streiffert, Senior Vice President, Group Human Resources and IS/IT, and IT manager Tord Jarelov. The issues were discussed the week before at a Group management meeting and the CEO is now to receive a more detailed status report. The CEO poses questions on this specialized subject – clearly interested in the problems regarding standardization and investment against the background of the Group's extreme decentralization. The problem of computer virus attacks is also discussed.

The CEO gives his support to the ongoing development plan in the IT area and a new meeting is scheduled for a later date.

Barely a pause before the next meeting, starting at 3.00 p.m., with Bo Aulin, Senior Vice President, Corporate Affairs and General Counsel, and company lawyer Fredrik Peyron. The CEO is given an update concerning ongoing legal cases in Germany, the UK and the European Court of Justice challenging the ban on sales of snus within the EU. It is an important matter for the Group to get the unreasonable ban on snus removed.

The close of the work day is devoted to time scheduling with the CEO's assistant Jane Hellers. Board meetings and management meetings are scheduled a year in advance, while other internal and external meetings may be scheduled three of four months in advance. The calendar is fine-tuned on a week-by-week basis. The CEO also finds the time to contact people who have been trying to reach him during the day via e-mail or telephone.

At 6.00 p.m. Lennart Sundén drives home to his house in the suburbs of Stockholm. His brief-case is bulging with papers.

## SATURDAY/SUNDAY

The weekend is devoted to family and friends. Throughout his career, Lennart Sundén has emphasized that there are two distinct spheres – the professional and the personal. He avoids mixing them. The personal sphere comprises himself, his family and friends, and it is with them that he spends his time at weekends. On Sunday evenings, however, he sits in his home office and goes through the timetable for the week ahead and reads reports and documents in preparation for upcoming meetings.

## MONDAY

Time for the week's Group management meeting, scheduled to last all morning, with the managers at the Stockholm office. Relatively informal. Jackets off, coffee and ginger biscuits

on offer. Together with Sven Hindrikes, Göran Streiffert, Peter Nilsson (head of Group Business Development) and Bo Aulin, Lennart Sundén reviews the events of the preceding week and makes plans for the week ahead, including the meeting that same evening with Swedish and international journalists. Presentations are checked, with all those present expressing their views, and final adjustments are made to the presentation theme and visual materials. A friendly mood prevails, with Lennart Sundén's laugh clearly audible from the corridor.

The meeting is followed by lunch with Group management colleagues in the staff cafeteria.

On to an external meeting in the afternoon in connection with a Board commitment in a Swedish listed company.

Back to the office at 4.30 p.m. for a meeting with Sven Hindrikes and Bertil Raihle, head of Corporate Control, at which the main topic – strategically important from a financial viewpoint – is the repurchase of the company's own shares. The CEO receives a detailed review of the implementation of the buyback program and its balance-sheet implications. Together they draw up an equity forecast for the rest of the year and a plan for the scope of the buybacks.

The day concludes with a press conference at the Operakällaren restaurant in Stockholm. The event is becoming something of a tradition, prompting considerable interest among leading business journalists. After the presentations and refreshments, the journalists cluster around the cigar-smoking CEO firing all manner of questions. Lennart Sundén ducks hypothetical questions, willingly provides background information about the industry's conditions and listens to the journalistic gossip, but knows where to draw the line. Home at 10.30 p.m.

## TUESDAY

Up at 5.30 a.m. At 7.20 a.m. the plane takes off for Brussels and the all-day

Lennart Sundén:

# Concentration and focus the well-supported decisions

Annual General Meetings, interim report presentations – in the media spotlight a succession of high-profile appearances on the public stage. But even CEOs have inside had the chance to accompany Swedish Match's CEO Lennart Sundén during in the real world of industry. A couple of longer trips forced us to choose a week and ended on a Thursday. Our impressions in a nutshell were: concentration and a CEO who is constantly in pursuit of knowledge and a CEO who is constantly in pursuit of knowledge through a process of questioning, discussion and generate well-founded and strongly supported decisions.

Business Review meeting with the Continental Europe Division. Reading and preparation with Sven Hindrikes occupy the entire flight to Valkenswaard in the Netherlands. They are assisted by Lars Dahlgren from Group Finance, who will be keeping the minutes of the meeting.

The BR meetings are perhaps the CEO's primary instrument for the day-to-day management of the Group and maintain a busy work rhythm throughout the year. Each division is reviewed once per quarter, making a total of 16 BR meetings each year. The business of the meetings is divided between reviews and follow-ups and the planning and initiation of projects and measures. The meetings are held locally at the divisions and usually include plant visits, but not this time. The carefully prepared agenda includes such standard items as financial review, sales, market activities, personnel and the change process, with numerous subtopics relating to more local issues.

The management team at Valkenswaard, a total of 13 persons including specialists, present the situation under some 20 agenda items, while the cigar ash accumulates in the ashtrays – this is the home base of the European cigar brands after all. Lennart Sundén chairs the meeting with intense concentration, fully focused on gaining a clear grasp of the figures that are presented. Any deviations, whether positive or negative, prompt a string of follow-up questions. Measures and new initiatives are discussed, the CEO provides feedback, listens and sums up the discussion in a number of decisions. The homeward flight from Brussels touches down at Arlanda at 10 p.m., and it is clear that it has been a long day as Lennart Sundén gets into the car for the drive home.

#### WEDNESDAY

Back in the office in Stockholm, a lengthy morning meeting is scheduled with Sven Hindrikes and Lars Dahlgren. It is an operationally important meeting about the divisions' finan-

cial objectives for 2004. As a result of the Group's global operations, currency movements are relatively important for the Group's financial statements in SEK. The Group Treasury has prepared various scenarios and assumptions about exchange rate developments. The discussion soon reveals another key aspect of the day-to-day work of a CEO – making risk assessments based on economic and political issues in various parts of the world. All three participants in the meeting prove adept at performing calculations in their heads in USD, EUR, ZAR and BRC as they apply new assumptions to the scenarios.

Later the same morning, Lennart Sundén fits in a meeting with one of Europe's leading business consulting firms that is eager to secure consulting assignments. He considers it important to keep himself up to date on the latest theoretical and practical findings in management science. It is clearly an instructive meeting, during which "Sundén the practitioner" has the chance to absorb a wealth of theoretical experience.

At 1.00 p.m. he begins a meeting with Göran Streiffert and his colleagues in Human Resources, Nina Eskelinen and Hanna Sundvall. The agenda items include planning of the development program for managers. There are plans for Lennart Sundén to assist in the role of Group strategies instructor in the concluding sessions of the program in a few months' time, when the participants report on their projects. Regarding the next agenda item – performance management – the CEO has a number of views on the new processes currently being developed to create even better support for managers and teams, so that they can utilize Group strategies to generate better results. The meeting resolves several issues and ties up a number of loose ends into a concrete decision to present proposals to the entire Group management at a future meeting.

The rest of the day is devoted to preparation for the following day's all-



On the way to the gym,  
Wednesday 19h00

day meeting with the North Europe Division and further planning of the calendar with Jane Hellers.

A training session at the gym in central Stockholm every so often helps to counteract all the hours of sitting. That's where Lennart Sundén heads later on Wednesday evening for an hour of intensive training.

#### THURSDAY

Up early again to take care of the final preparations for the Business Review meeting with the North Europe Division, the domicile of snus within the Group. The formal content is a repeat of the BR meeting in Valkenswaard. The meeting focuses on the division's strategy and marketing activities, and a forecast for the last quarter of the year is presented. The meeting with the nine members of the division's management group takes the entire morning and concludes with a joint lunch.

In the afternoon, the CEO meets Peter Nilsson and Chester Anderson from the business development group to discuss the test launch of the new smokeless tobacco product Firebreak, a tobacco chewing gum developed within the Group that is the first product of its kind in the world market. It will be launched on a limited scale in Tokyo in mid-October (see article to the right). The development of tobacco chewing gum is part of the Group's strategy of being a unique tobacco company that markets niche products in tune with social and consumer trends in growing markets.

## Firebreak tobacco chewing gum launched in Tokyo

DURING OCTOBER, Swedish Match initiated consumer testing of its smokeless tobacco product Firebreak in Tokyo. The product is a tobacco chewing gum developed within the Group and is the first product of its kind in the world market.

"The purpose of Firebreak is to offer cigarette smokers a satisfying alternative," says Chester Anderson, Director New Business Development, who is the project leader for the new product. "The consumer surveys we have conducted indicate that smokers are pleased with Firebreak.

"We want to develop, and offer to adult smokers, smokeless tobacco alternatives containing significantly lower levels of undesirable constituents, compared with cigarettes. Firebreak is a result of this strategy. The tobacco used in Firebreak, for example, is well under the limit values for undesirable substances that we established in our voluntary quality standard, **GOTHIA TEK®**."

SO FAR, THE TEST LAUNCH is being conducted on a very limited scale in a district in central Tokyo. The aim is to improve the basis for decision-making prior to a larger-scale commercialization. Tokyo was chosen for the test launch due to the high proportion of smokers among the population.

"The target group for tobacco chewing gum is adult cigarette smokers, and since Japan is the world's third-largest cigarette market, where over 50 percent of males smoke, we believe there is a clear potential for the product," continues Chester Anderson.

The launch was started at a central commuter station through which nearly 5 million passengers commute on weekdays. Since Firebreak is a tobacco product, it is subject to the same laws and restrictions that apply to other tobacco products. In Japan, for example, purchasers of tobacco products must be at least 20 years of age.

THE DEVELOPMENT AND TEST LAUNCH of the tobacco chewing gum is part of the Group's strategy of being a unique tobacco company working in harmony with social and consumer trends by selling niche products in growing markets.

"Firebreak should be seen against the background of our strategy of prioritizing organic growth," says Peter Nilsson, Senior Vice President of Group Business Development. "Some of our product categories are sold in stable or even shrinking markets in the West, which makes organic growth increasingly important.

"With our focus on smokeless products, we are fully in tune with social trends. Cigarette consumption is steadily declining in economically developed markets due to factors such as increased health awareness and local restrictions. Given these factors, it makes sense to offer smokers an alternative to cigarettes."





# Major decision

## Digital fireworks display crowns inaugural celebration

“A totally new workplace is always a pleasure for a municipality.”

These were the words of a visibly satisfied Leif Johansson, Chairman of Kungälv Municipal Executive Board, when he officiated at the formal inauguration of Swedish Match’s new plant in the Kungälv industrial park on Thursday, September 18.

Some 200 guests had gathered on this sunny September day to take part in the festive occasion. Dressed in protective headgear and overalls, with plastic over-socks on their feet, and after the obligatory hand-washing, they were guided around in groups in the new supermodern facility, until in due course Leif Johansson pressed the start button for the digital inaugural fireworks display.

Leif Johansson reminded those present that Swedish Match has certainly been a familiar guest for some time as a result of the yacht-racing series held in nearby Marstrand.

“But now we are on the threshold of a new relationship, and it is a great pleasure to be able to include this contribution to the heterogeneous business community in our municipality,” he said.

Swedish Match CEO Lennart Sundén related that it was a major decision that the Board of Directors took nearly three years ago when they gave the go-ahead for construction.

“But since then, the market has confirmed that our forecasts were correct and that a future expansion of production capacity was indeed necessary,” he noted.

“The new plant realizes our vision of creating a snus product free from health risks, and is a key factor in achieving our objective of producing the world’s best snus. It is also a very attractive plant,” added Lennart Sundén.

The main driving force behind Swedish Match’s snus vision is Stefan Gelkner, President of the North Europe Division.

However, he reminded the assembled guests that the first portion-packed snus was introduced no less than 30 years ago, under the name “Smokeless.”

“It was a total flop,” noted Gelkner wryly.

Nevertheless, the basic concept turned out to be sound, and after a few years portion-packed snus returned under the Tre Ankare brand name. And as everyone knows, the success story has simply continued since then. Accordingly, it was a very satisfied Stefan Gelkner who could point to yet another success for his vision:

“A plant designed by us, unique in the world, and built in record time to produce the second generation of snus – our White products.”

### FACTS ABOUT THE NEW SNUS PLANT

- On January 11, 2001, the ground was broken for Swedish Match’s new snus plant in Kungälv, Sweden. The plant was formally inaugurated on September 18, 2003.
- The snus plant in Kungälv is one of the largest industrial projects in western Sweden so far this century. The total investment in land, buildings, equipment, etc. amounts to approximately 600 MSEK.
- The plant has a floor area of approximately 23,000 square meters, distributed over seven floors.
- Snus production at the Kungälv plant began in March 2003. In full operation, the plant will employ a workforce of 120 persons and have a production capacity of some 120 million cans per year (the Gothenburg plant produces 210 million cans).
- Production at the Kungälv plant is devoted exclusively to a new type of portion-packed snus, NYPS, using a technology developed and patented by Swedish Match. NYPS differs from traditional portion-packed snus in several ways. For example, it is moistened using a new process designed to ensure that it runs less and has a more pronounced flavor. Some examples of NYPS products are General White Portion and Grov White Portion.
- The plant’s construction totally conforms to **GOTHIA TEK®**, Swedish Match’s unique production standard.
- The work environment and hygiene are two of the cornerstones in the design of the plant. Since the production of Swedish snus falls under the Food Act, the entire plant is regarded as a hygiene zone. The premises are bright and clean, and the noise level is exceptionally low.

CEO Lennart Sundén, Leif Johansson, Chairman of Kungälv Municipal Board, and Stefan Gelkner, President of the North Europe Division, share the honor of pressing the start button.

Lars-Olof Löfman, Stefan Gelkner and all the guests receive a guided tour of the supermodern plant clad in protective headgear and coats.

The inauguration was celebrated with a lunch in the plant.

# on results in attractive plant

## Unique plant built in record time

At 11:00 a.m. on January 11, 2001, the ground was broken for what is now Swedish Match's unique new snus plant in Kungälv, near Gothenburg. Not only is the Kungälv plant the world's most advanced snuff-production plant, but construction of the plant was also carried out substantially more rapidly than scheduled, based on a concept unique to Swedish Match. The inauguration in September was the symbolic culmination of many years of dedicated research and development work within Swedish Match.

**L**ead times have been short between initial decision, implementation and inauguration of the new plant. It was in August 2000 that Swedish Match's Board of Directors approved the construction of a new snus plant to meet the increasing demand in Sweden. It was also inherent in the decision that this would be the world's most advanced snus plant, using production processes fully in conformity with the **GOTHIA TEK**® standard.

As early as January 11, 2001 – only about four months after the Board's decision – the ground was broken to begin construction. And in mid-March 2003 – three months ahead of schedule – the plant went

into operation, with the start-up of production on the first production line. The second line started up during the latter half of April.

The task of leading the project fell to Lars-Olof Löfman, head of production and development in the North Europe Division. He was aided by a steering committee of 5-6 persons. Kenth Gamhed, who works with strategic projects in the division, was in charge of operative project management. Marie Lindström, production manager, became involved in the operation in January of this year to handle the recruitment of personnel and job orientation.



### This is **GOTHIA TEK**®

- Swedish snus from Swedish Match differs significantly from most other smokeless tobacco products in the world. To guarantee its unique quality, Swedish Match has developed the **GOTHIA TEK**® quality standard.
- **GOTHIA TEK**® is the result of decades of research and development, a program that has led to unique products, produced using a unique production process.
- The starting point for the standard is the stringent limit values set by Swedish Match for certain undesirable constituents in Swedish snus. These substances exist or are formed in nature and can occur in various types of crops, including tobacco. Some of these substances have been identified by researchers as possible health risks in high concentrations.
- The tobacco in Swedish snus produced in conformity with **GOTHIA TEK**® is constantly checked to ensure compliance with the internal limit values for undesirable constituents in every single product. Gene-modified tobacco is not accepted.
- All additives must meet the requirements in Swedish Match's ingredients policy, which means that they must be approved for use as food additives in those countries where the products are marketed. Moreover, in certain cases, Swedish Match's requirements are stricter than the legislation.
- In the production process, the tobacco is heat-treated – pasteurized – to render harmless the majority of the natural bacterial flora.
- As soon as it is packaged, snus is transferred directly to cold storage.
- All open handling, such as filling of consumer packaging, takes place in areas that, as a minimum, fulfill the national hygiene requirements for food-preparation premises.

## Share that flouts the market trend

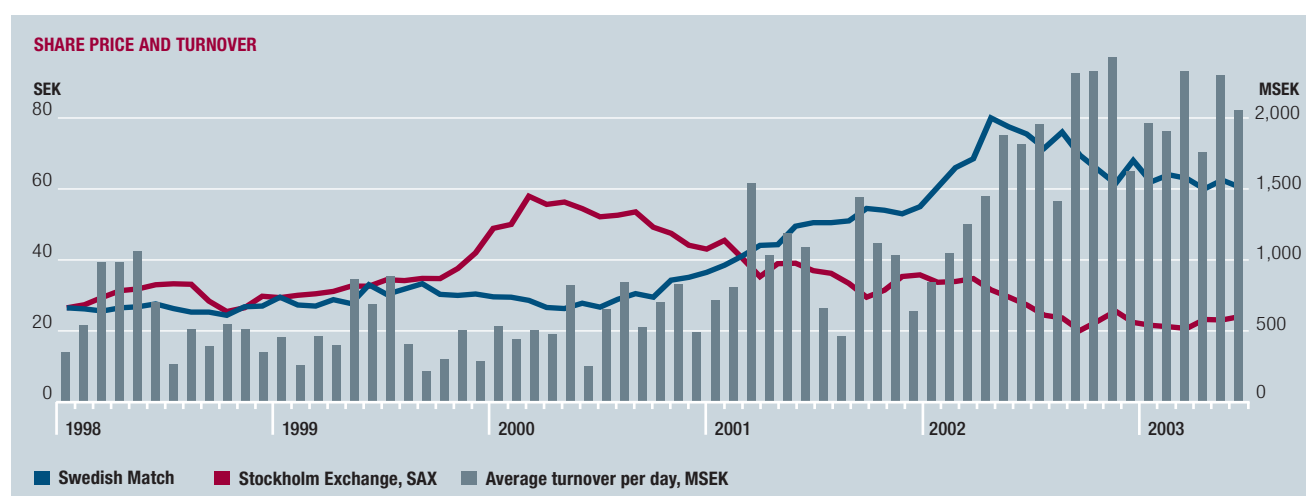
**S**tockholmsbörsen (the Stockholm Stock Exchange) has gained new momentum during the autumn, with share prices rising by slightly more than an average of 25 percent through mid-October. The market rise is attributable to improved profits for listed companies, signs of a strengthening of the US economy and the continuation of favorable inflation and interest-rate levels. The Swedish Match share has not kept pace with the general upturn but instead remains at around SEK 65, which represents a 4-

percent decline since the beginning of the year. However, the decline should be seen against the background that during the past few years the Swedish Match share has defied the general stock market downturn and been one of the market winners. In terms of its performance since the beginning of March 2000, the share price has more than doubled, while Stockholmsbörsen as a whole has declined by 55 percent during the same period. As is clear from the interviews with analysts on pages 2-3, Swedish Match is what is termed a

“defensive share” – a share type that often goes against the general stock market trend.

The company's short-term earnings prospects have also been questioned in the stock market, partly due to exchange-rate fluctuations, which have influenced the share's current performance.

Swedish Match aims to be a sound investment for its shareholders in a long-term perspective and is hopeful that this will be the case in the future, as it has been in past years.



### TOTAL RETURN

#### Total return, %

Jan 1–Oct 28, 2003	–2
2002	25
2001	56
2000	32
1999	4
1998	19

### KEY FIGURES

#### Earnings per share, SEK

2002	4.10
2001	3.40

#### Shareholders' equity per share, SEK

Dec 31, 2002	11.72
Dec 31, 2001	11.73

### SHARE PERFORMANCE

#### Jan 1–Oct 28, 2003, %

Swedish Match	–4
SAX	26



MEET THE BOARD OF DIRECTORS: JAN BLOMBERG

# Economist with strategic interests

He was at the heart of the action when the Swedish Government's commercial interests were radically transformed during the 1980s and 1990s. Jan Blomberg joined the Swedish Match Board of Directors in 1996 and now heads the Board's recently constituted audit committee.

**J**an Blomberg had actually considered becoming an authorized public accountant after completing his economics and business administration degree at the Stockholm School of Economics. But things did not exactly turn out as planned. After a few years working as an accountant, he switched tracks and joined the forest-products company SCA, where he remained for 17 years, during the last few of which he served as finance manager. After four years as vice president of the steel and forest-products company Uddeholm, he accompanied company president Sören Gyll to the corresponding position in the state-owned Procordia Group.

"This was the beginning of an incredibly fascinating period, characterized by huge changes in state-controlled commercial operations, that lasted throughout the 1980s and well into the 1990s. The changes involved both major restructuring within industries and modernization of the management of the state-controlled companies – moving away from regional politics and toward the commercial and market-based principles that apply to exchange-listed companies," relates Jan Blomberg.

Procordia itself was one of the key players in this process, particularly in the pharmaceuticals, food and beverages sectors.

Swedish Match was also purchased and integrated with Tobaksbolaget.

Procordia was introduced on the stock exchange in 1987 through a new share issue worth more than SEK 1 billion. The next step in the process was the acquisition of Volvo's food operations and its 40-percent interest in Pharmacia. This made Volvo as large an owner in Procordia as the Swedish State. In the early 1990s, the State and Volvo went their separate ways. The pharmaceuticals interests, comprising Pharmacia and Kabi, remained under state ownership, while the food and tobacco interests were relinquished to Volvo. Volvo in turn sold on the food interests to Norwegian company Orkla, while Swedish Match was listed on the stock exchange. It was at this point that Jan Blomberg was elected to the Swedish Match Board, together with Klaus Unger.

**AT THAT TIME**, Jan Blomberg was vice president and CFO at Pharmacia. But as everyone knows, the pharmaceuticals sector has not stood still either. In 1995 Pharmacia merged with the US company Upjohn, and this was when Jan Blomberg gradually decided to resign and devote all his time to Board work.

"The main reason was that the Parent Company ended up in the US and the head

office in the UK, and I was not interested in moving to either place. But it was also a natural move to change course, since I have been involved in Board work throughout virtually the whole of my professional career."

In addition to Swedish Match, Jan Blomberg is also on the Boards of Skandia Investment, Capio AB and Svenska Spel AB, as well as being Board Chairman of Handelsbanken Regionbank City.

**JAN BLOMBERG HAS NEVER** regretted not becoming an accountant.

"After all, the areas in which I have been involved over the years have been considerably more forward-looking. While it's true that I have always specialized in financial matters and have devoted my entire career to that area, there has always been a link to strategic issues, in which I have a strong interest, and this is also a major element in Board work."

In spite of everything, he has now assumed a role in which accountancy skills are a major factor, as chairman of Swedish Match's audit committee, which was established last year. The committee's main mandate is to "supervise accounting procedures, financial reporting and auditing within the Group."

"The need for Boards of Directors to

have a good insight into operations has increased sharply," notes Blomberg. "While Sweden, unlike the US, has not introduced new legislation, the focus on the responsibilities of Boards of Directors has nonetheless intensified. This was the background to the decisions by the Swedish Match Board to institute first a compensation committee, of which I am also a member, and most recently the audit committee. However, the forming of the committees does not mean that the Board has delegated responsibility, since the committees report to the Board, which retains collective overall responsibility."

**MORE STRINGENT REQUIREMENTS** also create more work.

"Yes, the amount of work required has increased considerably. There are more meetings, for example. Most Boards have six to eight scheduled meetings per year, plus a fair number of telephone conferences.

"But this also means that Boards of Directors are now much better informed and more closely involved in operations, and this naturally makes Board work more stimulating. In the case of Swedish Match, it is extremely interesting to follow the development of new products and markets, particularly in the snuff product area."

## SWEDISH MATCH IN BRIEF

Swedish Match is a unique company with a full range of market-leading brands within the snuff, cigar and pipe tobacco product areas – niche tobacco products – as well as matches and lighters. The Group's operations span the globe and its products are sold in 140 countries. The average number of employees during 2002 was 14,795. The Swedish Match share is listed on Stockholmsbörsen (the Stockholm Exchange) (SWMA) and the Nasdaq Exchange (SWMAY).

### Smokeless Tobacco

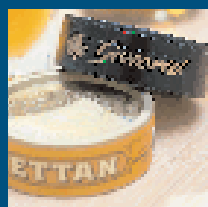
Swedish Match has a broad presence in the global market for smokeless tobacco

(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

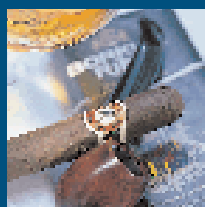
Along with smokeless tobacco, cigars and pipe tobacco

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

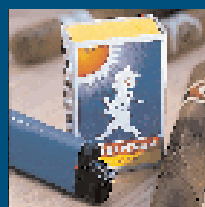
Swedish Match manufactures and markets matches and lighters globally.

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	2002	2001
Net sales	13,643	13,635
Operating income <sup>1)</sup>	2,439	2,193
Operating income before depreciation	3,090	2,863
Net income <sup>2)</sup>	1,429	1,228
Income per share after tax, SEK	4:10	3:40
Dividend per share, SEK	1:60	1:45
Return on shareholder's equity, %	35.2	28.3

<sup>1)</sup> Excluding items affecting comparability  
<sup>2)</sup> After financial items

☆☆☆  
**SWEDISH MATCH**