

# Inside

INFORMATION ABOUT SWEDISH MATCH FOR SHAREHOLDERS AND OTHER STAKEHOLDERS

#1 february 2004

## Increased dividend to shareholders

Swedish Match reported stable earnings for 2003, despite a relatively unsettled year in the markets. Earnings per share increased for the sixth consecutive year, and the Board is proposing an increased dividend. Sales of snuff increased in all markets and margins improved. However, total sales fell 4 percent to 13,036 MSEK, largely due to currency movements and the weakening of the USD. In local currencies, sales increased 3 percent. Operating income declined by 6 percent in SEK. In local currencies, operating income rose 3 percent. **Page 2-3**

## Harm reduction gains ground

An increasing number of independent tobacco researchers believe it is unrealistic to expect tobacco use to be eradicated in the foreseeable future and instead advocate measures, collectively known as "harm reduction," to reduce the harmful effects of tobacco. Swedish snus is an example that shows the feasibility of this approach, say the researchers. They assert that public-health strategies should be reconsidered and focused on how to reduce harmful effects, particularly for the large group that continues to smoke. **Page 6-7**

## Share price up for fourth straight year

During 2003, the Swedish Match share price increased for the fourth consecutive year, rising 8 percent to a year-end price of 73.50 SEK on Stockholmsbörsen. Since the beginning of 2000, the Swedish Match share has risen nearly 150 percent, while Stockholmsbörsen as a whole has recorded a fall of about 50 percent. **Page 7**

## Board member with focus on brands

When Arne Jurbrant was elected to the Swedish Match Board, he came from a long career in the food industry, where brand-building is a cornerstone. Since brands have always been his passion, he finds it stimulating to sit on the Board of a company with such strong brands as Swedish Match. **Page 8**



# New order in the snus cooler

Now it will be easier for consumers to find what they are looking for in Swedish Match range of snus products. The products are being segmented according to portion size and characteristics to clarify the differences between the various brands. **Page 4-5**



## International debate regarding "Harm Reduction"

IN 2003, DESPITE THE FACT THAT it was a difficult year in many respects, Swedish Match succeeded in achieving a continued increase in earnings per share, the clearest evidence that we generate value for our shareholders.

Our performance in 2003 demonstrates the strength of our strategies: since 1999 we have built up a stable platform for balanced and long-term growth in phase with social developments regarding tobacco. At the center of this are our smokeless products, particularly the snuff, which continued to generate excellent earnings last year.

The success of snuff reflects a major long-term change in consumption and is based on scientific findings about the harmful effects of smoking. Last year, this focus intensified through international debate on "harm reduction," which involved many tobacco and health experts, and which we describe in more detail in an article on pages 6-7.

It is a debate that is of prime significance for Swedish Match, particularly considering that it is being conducted by a number of internationally highly respected researchers and health specialists, and because it indicates how a socially responsible company like Swedish Match can contribute to reducing the damaging effects of smoking.

The research and development that Swedish Match initiated 20 years ago led us to create, a few years ago, a dedicated product category for Swedish snus, protected by the **GOTHIATEK**® quality standard. The standard imposes stringent limit values on the ingredients used in snus, following similar measures in the pharmaceuticals and food sectors.

These developments have been taken up in the harm-reduction debate and may give an indication of where the tobacco debate could be headed in the future. In this case, Swedish Match will be at the forefront, due to its ambitious aims and expertise developed over many years.

Lennart Sundén, CEO

Swedish Match Inside is a magazine for Swedish Match's shareholders. The print run is 83,000 copies of the Swedish version and 3,600 copies of the English version.

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**PRINTING**  
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☆☆☆  
**SWEDISH MATCH**

SWEDISH MATCH 2003:

# Continued strength and stability strong cash flow

Swedish Match continued to demonstrate strength and stability in 2003, despite a relatively unsettled year in the markets. Earnings per share increased for the sixth year running, and the proposed dividend to shareholders has once again been increased. Sales of the flagship product, snuff, increased in all markets and margins improved. "Swedish Match stands strong, having achieved a further improvement in its cash flow and a good capacity to continue generating shareholder value," comments Sven Hindrikes, chief financial officer.



Sven Hindrikes.

**T**he year 2003 was characterized by global uncertainty related to the war in Iraq and, initially, doubts regarding economic developments, continued relatively large currency movements, with an increasingly weak dollar, and further restrictions on the tobacco industry, including new warning labels on packages.

For Swedish Match this had the effect of reducing sales by 4 percent to 13,036 MSEK. In local currencies, however, sales increased 3 percent. Operating income also declined – by 6 percent in Swedish kronor. In local currencies, operating income rose 3 percent.

"Currency effects were substantial," says Sven Hindrikes. "This was due especially to the weaker dollar, which works against us when subsidiaries' earnings are translated into SEK. These are factors that are difficult for us to counter in the short term. So it's important to make it clear that we stood up well against the market competition in several product areas."

One such area is snuff, where sales

in SEK rose by 7 percent to 2,995 MSEK and by a full 12 percent in local currencies. In Northern Europe, sales volumes of snus in terms of cans sold rose by 4 percent, and in North America by 5 percent. Market share in the challenging US market rose by 9.2 percent. The margin for snuff improved further, from 44.2 percent to 46.3 percent, while operating income was up 12 percent to 1,386 MSEK.

"Snuff continues to be our major growth area, with excellent profitability. It is clear that our strategies are well in line with consumer and market trends. Snuff is increasingly accepted as a viable alternative offering a significantly lower health risk than cigarettes, and is attracting growing support in the international health debate."

In the dominant North American market, sales of cigars in local currencies increased during the year for both machine-produced cigars and premium cigars after a period of slow demand. The fourth quarter showed a strong increase for premium cigars. In Europe, on the other hand, demand was slow. Operating income declined

again due to currency effects and the cost of ongoing restructuring of the European cigar operations.

Operating income rose for pipe tobacco but declined for chewing tobacco, mainly as a result of the lower exchange rate for the dollar.

The two lights areas – matches and lighters – continued to face intense competition from low-cost countries, resulting in lower sales volumes and lower operating income. "In these areas, we are continuing with restructuring programs for 2004 and 2005, and have allocated 100 MSEK for this purpose in 2004," says Sven Hindrikes.

The income statement for the year showed a strong 9-percent increase in net income, which amounted to 1,558 MSEK. Sven Hindrikes explains:

"It is primarily the net interest income that improved as a result of strong cash flow, lower interest rates and the liquidation of a few interest swaps at a good profit. The Group's tax expense was also favorably affected by nonrecurring items."

Shareholders can also take pleasure

## Karsten Slotte proposed for Swedish Match Board of Directors

PRIOR TO THE ANNUAL GENERAL MEETING, the Nominating Committee is proposing the new election of Karsten Slotte, 50, to the Board of Directors. The Committee also proposes the re-election of the Chairman Bernt Magnusson, Jan Blomberg, Tuve Johannesson, Arne Jurbrant, President and CEO Lennart Sundén and Meg Tivéus. Klaus Unger has declined re-election.

Karsten Slotte is President and CEO of Cloetta Fazer, a position he assumed in 2002. He joined Karl Fazer AB in 1997 as Division Manager and the following year he was appointed Executive Vice President of the company, which merged with Cloetta in 2000. Cloetta Fazer, the largest confectionery company in the Nordic region, has

annual sales of SEK 3 billion, with 2,100 employees. Karsten Slotte has held executive positions and served as president since the beginning of the 1990s at Cultor OY (Danisco Finland), LT-Tukku and Vasakvarn.

In its proposal to the Annual General Meeting, the Committee made particular note of Karsten Slotte's knowledge and experience in the area of branding within the fast-moving consumer goods sector in the Nordic markets. Given his broad international experience, Slotte is expected to contribute valuable knowledge to the Swedish Match Board.

"KLAUS UNGER, WHO WILL TURN 70 during the year, now wishes to retire from the



Karsten Slotte, President and CEO of Cloetta Fazer is proposed to the Board of Swedish Match.

Board after a long period of service in Swedish Match and 20 years as a Board member. He has unique expertise and we thank him for the invaluable contribution he has made to the Group's development," says Bernt Magnusson.

# Ability with increasingly

in the fact that the Group's hallmark – its strong cash flow – continues to improve:

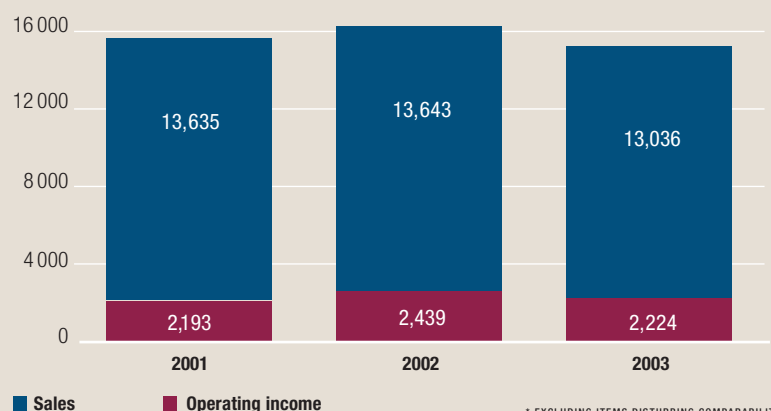
“As a result of the excellent cash flow from operations, which increased from 2,585 MSEK to 2,638 MSEK, we were able to reduce our net loan debt by 777 MSEK to 2,715 MSEK. We achieved this despite the fact that we used a considerable amount of capital to repurchase shares and implemented some relatively large investments. The Board has also proposed a dividend increase.”

It is also a source of pleasure that the Group's efforts to trim working capital have been successful, resulting in a 23.6-percent improvement in the key figure of return on capital employed. The return on equity improved during the year from 35.2 percent to nearly 39 percent.

During the year, the Group repurchased 15.3 million shares at an average price of 62.83 SEK. At year-end, Swedish Match owned 23.3 million shares, or approximately 6.6 percent of the total number of shares. At the upcoming Annual General Meeting, the Board will request a renewal of its mandate to repurchase up to 10 percent of all of the shares in the company and cancel 15 million previously repurchased shares.

“Our policy of repurchasing shares is a good way to transfer value to shareholders,” comments Sven Hindrikes. “Earnings per share increase, which in turn increases shareholder value. The year 2003 will be the sixth consecutive year in which Swedish Match has increased its earnings per share and been able to propose a higher dividend.”

SALES AND OPERATING INCOME\*, JANUARY–DECEMBER, MSEK



	SALES, MSEK			OPERATING INCOME*, MSEK		
	Jan–Dec 2003	Jan–Dec 2002	Change %	Jan–Dec 2003	Jan–Dec 2002	Change %
Snuff	2,995	2,788	7	1,386	1,233	12
Chew. tobacco	1,146	1,333	-14	336	406	-17
Cigars	3,008	3,318	-9	393	522	-25
Pipe tobacco/ Accessoires	909	843	8	201	164	23
Matches	1,395	1,648	-15	83	221	-62
Lighters	599	700	-14	14	74	-81
Other	2,984	3,013	-1	-189	-181	—
<b>Total</b>	<b>13,036</b>	<b>13,643</b>	<b>-4</b>	<b>2,224</b>	<b>2,439</b>	<b>-9</b>

\* EXCLUDING ITEMS DISTURBING COMPARABILITY

## Intergration of two divisions



Ingemar Olsson, President Overseas Division

EFFECTIVE JANUARY 1, 2004, the Match Division is integrated with the Overseas Division. The organizational change is a consequence of the declining volume of match sales, particularly in Central Europe. During the past few years, Swedish Match production capacity has gradually been adapted to lower volumes through cutbacks at the plants in Europe. The integration of the Match Division with the Overseas Division creates conditions conducive to a further adaptation to lower cost levels. The management group of the new Overseas Division comprises: Ingemar Olsson (President), Lars Lindqvist (Business Development & Projects), Peter Hedlund (Finance) and Lennart Carlsson (Match Europe).

## Welcome to the Annual General Meeting of Swedish Match

THIS YEAR'S ANNUAL GENERAL MEETING will take place at 4:30 p.m. on Monday, April 26, 2004, at Stockholm International Fairs in Älvsjö, Stockholm. Registration for the meeting will begin at 3:00 p.m. Light refreshments will be served in conjunction with the Meeting.

Further information is available on our website: [www.swedishmatch.com](http://www.swedishmatch.com).

## Analysts' questions

The Swedish Match Group's results for full year 2003 were presented on February 11. A telephone conference was held with analysts from banks and brokerages in conjunction with the presentation of the report. Here is a sample of the questions raised and the answers given:

### JONAS PÅLSSON, ABG SECURITIES:

“The volume of sales of snuff in the US declined during the fourth quarter, compared with the third. What happened, and what are you expecting to happen in 2004? I was also wondering what lies behind the decline in cigar sales in Europe in the second half year.”

### EMMETT HARRISON, INVESTOR RELATIONS:

“The third quarter was exceptionally strong, primarily due to Timber Wolf achieving double-digit growth. In the fourth quarter, although Timber Wolf remained at approximately the same level, a decline in sales of Sequoia had the effect of reducing total volume. At the same time, the launch of the new addition to the range, Longhorn, has so far barely begun to make an impact on sales figures. For 2004, I think we can expect a continued decline in the premium market, but an overall market growth of around 2–3 percent. That would be enough to enable us to continue to capture market share.”

### LENNART SUNDÉN, CEO:

“The sales figures for cigars in Europe were primarily affected by major changes in taxation, and also changes regarding warning labels, in several key European markets – such as France, Germany and the Netherlands. Reactions varied between different markets – in terms of inventory build-up, for example – so it's difficult to say what the overall effect will be in the coming year.”

### GORM THOMASSEN, CAZENOVE:

“Can you comment on the progress of the launch of the new tobacco chewing gum, Firebreak, and its effect on earnings for chewing tobacco?”

### LENNART SUNDÉN:

“It's too early to say much more than that the launch is still in an early phase. It was initiated at 300 sales locations and gradually expanded during the year in response to a favorable reception. This has resulted in a certain impact on earnings for chewing tobacco.”

### JOHAN GRABE, ENSKILDA SECURITIES:

“When do you expect a ruling from the European Court on the case involving the EU prohibition on the sale of snuff?”

### BO AULIN, CHIEF LEGAL COUNSEL:

“The German case was referred to the European Court of Justice in November 2002, and since it normally takes about two years before court proceedings can begin, the case will not be heard before the end of 2004 at the earliest, though the beginning of 2005 would be more likely.”

### HENRIK FRÖJD, ALFRED BERG:

“What exactly is the case based on and what result do you anticipate?”

### BO AULIN:

“We are challenging the legal basis for the ban on snuff, a ban that also conflicts with several legal principles regarding the exercise of power by the EU. Legally, therefore, we think we have a crystal-clear case. However, political influences cannot be ruled out, even in a court of law. We are optimistic nevertheless. It's such an absurd ban that it is doomed to disappear whether or not we win this case.”

# New product range chart overall picture of snuff products

Consumers of snus will soon find it easier to navigate around Swedish Match extensive range of snus products. A clearer segmentation of the various brands and products is currently being implemented, based on portion size and characteristics. This is the aim of Swedish Match nomenclature project currently being put into practice in Swedish retail.

The aim is to make Swedish Match portfolio of snus products clearer and more precise for consumers and retailers. Additional aims are to make it clearer that Swedish Match is the manufacturer of the products and to establish the **GOTHIA TEK®** standard as a guarantee of quality.

“We have never actually explained in detail what our products represent, what they contain and how they taste. This has made it difficult for consumers to instantly find what they are looking for in our range,” says Camilla Kuylen-

stierna, International Brand Manager for snus within the North Europe division, who is heading the nomenclature project.

“EACH BRAND HAS ITS OWN IDENTITY, personality and characteristics. This will continue to be the case. The nomenclature project aims to make a clearer distinction between the various brands. By labeling more clearly that the products are from Swedish Match, we want to take advantage of the fact that we are the market leader and a Swedish company with documented R&D, high-

## SNUS ASSORTMENT 2004

### LOOSE

Snus som du själv portionerar

**LOOSE**

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### PORTION

**PORTION**

Portioner i standardstorlek

<p><b>ORIGINAL PORTION</b></p> <p>Mörka och fuktiga portioner med tydlig doft och arom.</p> <div> <p><b>GENERAL</b></p> <p>Fukt: <input type="checkbox"/> Lite <input checked="" type="checkbox"/> Mycket <input type="checkbox"/> Mild <input type="checkbox"/> Kraftig                      Tobakssmak: <input type="checkbox"/> Lite <input checked="" type="checkbox"/> Mycket <input type="checkbox"/> Mild <input type="checkbox"/> Kraftig</p> <p>Kraftigt och kryddigt snus med viss pepprighet och inslag av citrus.</p> </div> <div> <p><b>GROVSNUS</b></p> <p>Fukt: <input type="checkbox"/> Lite <input checked="" type="checkbox"/> Mycket <input type="checkbox"/> Mild <input type="checkbox"/> Kraftig                      Tobakssmak: <input type="checkbox"/> Lite <input checked="" type="checkbox"/> Mycket <input type="checkbox"/> Mild <input type="checkbox"/> Kraftig</p> <p>Robust men väl avrundad och smak av ren tobak.</p> </div>	<p><b>WHITE PORTION</b></p> <p>Vita portioner. Rinner mindre och håller smaken längre.</p> <div> <p><b>GENERAL</b></p> <p>Fukt: <input type="checkbox"/> Lite <input checked="" type="checkbox"/> Mycket <input type="checkbox"/> Mild <input type="checkbox"/> Kraftig                      Tobakssmak: <input type="checkbox"/> Lite <input checked="" type="checkbox"/> Mycket <input type="checkbox"/> Mild <input type="checkbox"/> Kraftig</p> <p>Kryddigt snus med någon pepprighet och inslag av citrus.</p> </div> <div> <p><b>GROVSNUS</b></p> <p>Fukt: <input type="checkbox"/> Lite <input checked="" type="checkbox"/> Mycket <input type="checkbox"/> Mild <input type="checkbox"/> Kraftig                      Tobakssmak: <input type="checkbox"/> Lite <input checked="" type="checkbox"/> Mycket <input type="checkbox"/> Mild <input type="checkbox"/> Kraftig</p> <p>Robust men väl avrundad och smak av ren tobak.</p> </div>
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<p><b>MAXI</b></p> <p>Portioner i dubbel standardstorlek</p> <div> <p><b>GROVSNUS</b></p> <p>Fukt: <input type="checkbox"/> Lite <input checked="" type="checkbox"/> Mycket <input type="checkbox"/> Mild <input type="checkbox"/> Kraftig                      Tobakssmak: <input type="checkbox"/> Lite <input checked="" type="checkbox"/> Mycket <input type="checkbox"/> Mild <input type="checkbox"/> Kraftig</p> <p>Robust men väl avrundad och smak av ren tobak.</p> </div>	<div> <p><b>TRE ANKARE</b></p> <p>Fukt: <input type="checkbox"/> Lite <input checked="" type="checkbox"/> Mycket <input type="checkbox"/> Mild <input type="checkbox"/> Kraftig                      Tobakssmak: <input type="checkbox"/> Lite <input checked="" type="checkbox"/> Mycket <input type="checkbox"/> Mild <input type="checkbox"/> Kraftig</p> <p>Djup, fyllig och lite jordig smak av mörk tobak och torkade örter.</p> </div>

**MINI**

Diskreta portioner

<p><b>ORIGINAL PORTION</b></p> <p>Mörka och fuktiga portioner med tydlig doft och arom.</p> <div> <p><b>GENERAL</b></p> <p>Fukt: <input type="checkbox"/> Lite <input checked="" type="checkbox"/> Mycket <input type="checkbox"/> Mild <input type="checkbox"/> Kraftig                      Tobakssmak: <input type="checkbox"/> Lite <input checked="" type="checkbox"/> Mycket <input type="checkbox"/> Mild <input type="checkbox"/> Kraftig</p> <p>Kraftigt och kryddigt snus med viss pepprighet och inslag av citrus.</p> </div>
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# gives products

quality products and a long history of manufacturing snus products,” continues Camilla Kuylenstierna.

A mention should also be made of **GOTHIA TEK®**, the quality standard developed by Swedish Match. The **GOTHIA TEK®** quality standard represents scientific control, expertise and consumer safety.

**THE NOMENCLATURE PROJECT** is based partly on two extensive consumer surveys, with focus groups comprising both snus consumers and consumers who use snus and other tobacco products.



Each brand has its own identity, personality and characteristics, says Camilla Kuylenstierna, responsible for the nomenclature project.

In Swedish Match range of snus products, Swedish snus comprises loose-weight snus and portion-packed snus. Portion-packed snus is available in a range of portion sizes (mini, large and maxi) and flavors. The portion pouches also have different characteristics: Original (moist, dark pouches) and White (white pouches).

When the consumers in the focus groups took part in a taste test, two main characteristics determined how they sorted the portion-packed snus pouches: “dark and wet” or “white and dry”. The latter are white snus portions that run less. The dark, wet portions are moistened to produce a more rapid secretion of saliva. Consumers regarded this information as being far more important than differences in the manufacturing processes.

**AS A CONSEQUENCE OF THE SURVEYS**, portion-packed snus will now be sorted by the size of the pouches: Mini, Large and Maxi. The three sizes can then either be moistened (Portion Original) or unmoistened (White Portion). General is available both as loose-weight snus and portion-packed. The portion-packed segment also includes General Original Large and General White Large.

On new packaging and in new sales materials, portion size will be denoted using a color code: black for loose-weight snus, yellow for mini portions, blue for large portions and wine-red for maxi portions.

**THE ENTIRE RANGE OF SNUS PRODUCTS** will be presented in accordance with the new principles in all new information materials produced (consumer brochures, shop displays, cash trays). Flavor information is provided for each

brand. For loose-weight snus, this information concerns the strength of the tobacco taste and the granularity of the brand. The latter determines the consistency and “feel” of the hand-rolled portion.

Moistness and tobacco strength are graded for portion-packed snus. In addition, a flavor analysis is provided for the various brands, both loose-weight and portion-packed, using a language reminiscent of that used in wine-tasting. For example, the General brand is described as “Strong and spicy, slightly peppery and with a hint of citrus.” The Tre Ankare brand is described as having a “deep, rich and slightly earthy flavor of dark tobacco and dried herbs.” The Göteborgs Rapé brand is said to have a “mild tobacco flavor, slightly sweet and with a hint of fresh herbs and juniper berries.”

The appearance of the cans and refrigerators will also be changed in accordance with the new principles.

A lot of information must be fitted into the limited space on the cans. However, Swedish Match will have slightly more space than previously. The **GOTHIA TEK®** standard will be printed on the base of the can, together with the health warning text, the declaration of contents and the best-before date.

“Our new product range chart clarifies the breadth of our range. We are showing that Swedish Match products cover all segments of the market. The size of the portfolio and the rate of turnover of our products mean that we generate substantial revenues for every store that sells our products. This also makes it easier for us to attract distributors for new products and conduct discussions on profitability,” concludes Camilla Kuylenstierna.

## New variants and flavors

Swedish Match is constantly expanding its product range. Below we describe a selection of our product launches during the past six months.

### Cigars

To celebrate the birth of a new princess in the Dutch royal family, the Willem II brand launched a new cigar, Willem II Grand Royal. The package is in a striking shade of orange – the house color of the House of Orange, the Dutch royal family.

The premium cigar brands Partagas and Punch have recently launched new products: Partagas Spanish Rosado, with a new and unique wrapper from Honduras, and the spicy Punch Gran Puro, which consists entirely of Honduran tobacco. During the autumn, Kahlua, a premium cigar with



a flavor of the well-known coffee liqueur, was also launched.

Two new masterpieces have been created under the Hoyo de Monterrey brand name. A new, spicier variant of this hand-rolled cigar has been developed, and Honduran artist José Rodríguez has created an elegant image for the brand by decorating a limited series of cigar boxes with paintings based on motifs from life in Honduras.

### Pipe tobacco

Borkum Riff has launched its new GOLD Cherry & Vanilla flavor in a metal package. A well-rounded cherry flavor is comple-



mented with a delectable aroma of vanilla to create a refined experience for the connoisseur.

Borkum Riff has also recently launched its first tax-free product, combining four selected product variants with a foldable pipe-rack specially designed for Borkum Riff – all packaged in an elegant presentation box. The package is accompanied by flavor barometers and product descriptions in several languages.

### Lighters

The Firepower utility lighter is a new product for household use. In common with Swedish Match Cricket disposable lighters, Firepower is designed on both functional and attractive lines.



04

portioner

**WHITE PORTION**  
Vita portioner. Rinner mindre och håller smaken längre.

**CATCH DRY LICORICE**  
Fukt:  Lte  Mycket  Mild  Kraftig  
Tobakssmak:  Lte  Mycket  Mild  Kraftig  
Mycket mild tobakskaraktär med framträdande smak av lakrits.

**CATCH DRY EUCALYPTUS**  
Fukt:  Lte  Mycket  Mild  Kraftig  
Tobakssmak:  Lte  Mycket  Mild  Kraftig  
Dominant smak av eucalyptus och mynta med inslag av citrus.

**CATCH DRY LYCHEE**  
Fukt:  Lte  Mycket  Mild  Kraftig  
Tobakssmak:  Lte  Mycket  Mild  Kraftig  
Mild och söt med framträdande inslag av tropiska frukter.

STANDARD AND GUARANTEE FOR SWEDISH SNUS  
**SWEDISH MATCH**



**gives snus key role in reducing cigarette smoking**

Focus on reducing the harmful effects of smoking and save lives! With this as their rallying call, a number of respected researchers are challenging the views that prevail among health policy-makers and tobacco critics worldwide. Forty years after the risks associated with smoking became known, anti-smoking efforts have met with only limited success. It seems increasingly unrealistic to expect that tobacco will be eradicated in society within the foreseeable future. Why not focus instead on reducing the harm caused by tobacco, by adopting the harm reduction approach? Swedish snus shows that this is possible, maintain these “dissidents.”

### **GOTHIA TEK®: Harm Reduction in practice**

SWEDISH MATCH'S SUCCESS with Swedish snus is based on a deliberate strategy of creating a tobacco product that poses as few risks as possible to consumers. This objective was already expressed in the vision formulated by Stefan Gelkner in the mid-1980s:

“The use of our snus products must not give rise to any greater health risks than food products in general, and this fact shall be known to both the consumers and the authorities.”

Today, Stefan Gelkner is President of the North Europe Division, which includes snus. Together with scientific advisor Inger Wahlberg, he led the process of developing Swedish snus into a distinct product category.

Swedish Match Swedish snus is produced in accordance with a proprietary product and quality standard, **GOTHIA TEK®**, based on a number of limit values for the content of Swedish snus and a stringent quality standard for the entire production process, from raw materials to storage in retail outlets. Through a rigorous selection process for purchasing, newly developed methods for handling and processing tobacco and adaptation of the production process to the standards that apply to food, Swedish snus has become an effective alternative for reducing the harmful effects of tobacco use. And this is the purpose of the harm reduction strategy.

**D**uring the past few years, harm reduction strategies have assumed an increasingly prominent role in the international tobacco debate. This was clear, for example, from the lively discussions at the major international tobacco conference in Helsinki in August 2003, where snus as a method for reducing smoking was on the agenda.

It also became clear, during the presentations describing the limited success achieved by anti-smoking campaigns, that cigarettes still have a firm grip on their consumers 40 years after the dangers of smoking were first identified.

Despite the fact that the dangers of smoking have been well documented since as early as the 1960s, approximately 1.2 billion people in the world still smoke. Although consumption in the industrialized countries is declining by about 1.4 percent per year, it is increasing steadily at about the same rate in the developing countries.

THE WORLD HEALTH ORGANIZATION (WHO) has stated that there is nothing to indicate that the harmful effects of smoking will decline in the next few decades. The organization's statistics suggest that smoking will lead to 500 million deaths among today's global population.

Most governments and organizations involved with public health in the developed countries have been working to reduce smoking since the 1970s. The approach used has been to try to remove all tobacco products from the market, primarily through information campaigns and other measures – aimed particularly at young people to prevent them from starting to smoke. In addition, measures have been taken to protect nonsmokers from passive smoking.

“Naturally it has been difficult for all those committed to the cause to accept the impossibility of eradicating tobacco use and the fact that it seems likely we will have to live with harmful tobacco use for a very long time to come, contrary to the optimistic aims.” This is how Inger Wahlberg, Scientific Advisor at Swedish Match for many years, sums up the occasionally heated debate on harm reduction.

It could be claimed that efforts to support adult smokers trying to quit have been inadequate, in terms of both public-health campaigns and in the health- and medical-care sectors. The words of well-known British Tobacco researcher Richard Doll are often quoted: “Smokers have been regarded as hopeless cases lost in their nicotine dependence.”

IN CONSEQUENCE, A NUMBER OF independent tobacco researchers in many countries have begun to question the approach adopted by antismoking campaigns. They point out that there is nothing to indicate that smoking will be eliminated – or even reduced to any significant extent – in the foreseeable future. This being so, should we not reevaluate our public-health strategies and ponder how we could effectively reduce the harmful effects, particularly for the sizeable group of people who already smoke?

Two researchers, Nigel Gray and Peter Boyle of the department of epidemiology and biostatistics at the European Institute of Oncology in Milan, expressed their thoughts on the subject as follows in an article in the leading medical-research journal *The Lancet* in September 2003:

“There are lessons to be learned from the real-world experiment in harm reduction with Snus in Sweden. The most important is that nicotine addiction can be diverted from cigarettes to an orally absorbed nicotine-delivery product.

...If we accept that nicotine addiction is here for the foreseeable future, new and better nicotine products are needed. Any risks linked with such a product are dwarfed by the magnitude of the tobacco problem. This product will not be achieved without political acceptance of the concept.”

BASED ON THESE AND SIMILAR IDEAS, a growing number of researchers have begun studying “The Swedish Experience” and published their results in scientific journals →

### **The Harm Reduction concept in the scientific literature:**

*“If snus is a gateway drug, it is more likely to be an exit from cigarette addiction than an entry point.”*

*“Despite a total tobacco consumption among Swedish males on par with most other countries of Europe, the incidence of lung cancer in Sweden is the lowest and oral cancer among the lowest in Europe”*

# Share price rises for fourth consecutive year

During 2003, the Swedish Match share increased 8 percent to a year-end price of SEK 73.50 on Stockholmsbörsen. This means last year was the fourth consecutive year that the share price continued to rise. Since the beginning of 2000, the Swedish Match share has risen nearly 150 percent, while Stockholmsbörsen as a whole has recorded a fall of about 50 percent as a result of the market collapse that mainly affected IT and telecom companies. The secret behind the share's long-term performance pattern is Swedish Match's stable financial position, with favorable profits and cash flow. The company's share buyback program has also led to an improvement in key ratios,

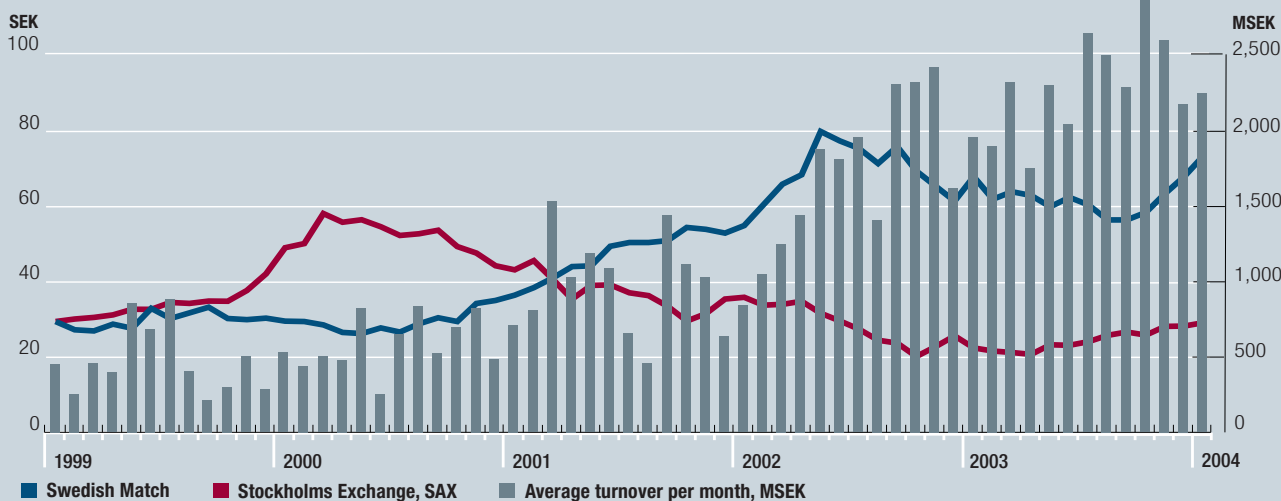
such as earnings per share.

During 2003, share prices on Stockholmsbörsen rose by an average of 30 percent, after three years of decline. With its 8-percent price rise during the year, the Swedish Match share failed to keep pace with the index. The performance of the Swedish Match share confirms that it is regarded as a defensive stock investment that often outperforms the index when there is a general market downturn, but performs slightly more weakly when there is a general upturn.

The general stock market rise has been supported by a worldwide economic recovery accompanied by continued strong consumer demand, particularly in

the US. Low interest rates and low inflation have contributed to a fundamental sense of optimism in the world economy. The upcoming presidential election in the US, combined with the budget deficit and the declining exchange rate for the USD, are among the elements of uncertainty that could have an impact on the future trend of the stock market. Swedish Match is also affected by the weak dollar, which can be expected to play a role in the market valuation of the share. Swedish Match's ambition is that the share will continue to be a good long-term investment for the company's shareholders.

## SHARE PRICE AND TURNOVER DURING PAST FIVE YEARS



and at various conferences during the past two years.

In February 2003, five researchers led by Clive Bates of Action on Smoking and Health in London, summarized their views in a paper entitled "EU Policy on Smokeless Tobacco," in which they drew attention to the need to establish clear objectives for efforts to curb smoking: "The aim is not in itself to campaign against tobacco. Instead, it must be to reduce the burden of disease and death, mostly from cancer, cardiovascular disease and lung disease, arising from tobacco use."

With this as their starting point, the researchers argue in favor of regulating tobacco use so that consumption is steered toward less dangerous products.

"This is an interesting development, which ought in practice lead to the establishment of limit values for tobacco products," comments Inger Wahlberg. "It is clear that the harm reduction strategies have been encouraged by the success of Swedish snus in the Nordic region. It is fair to say that Swedish Match, by virtue of the limit values defined through its own research and established for its GOTHIA TEK® standard, has in fact applied its own self-regulation, focusing on what is most important for tobacco consumers, namely, to reduce health risks."

BO AULIN, SENIOR VICE PRESIDENT, Corporate Affairs at Swedish Match, points out that there is also another dimension to the harm reduction strategies: "Everybody – particularly smokers – has the right to full and

accurate information regarding the risks associated with various products. The EU's ban on snus is a major obstacle preventing tobacco consumers from obtaining information about and choosing a tobacco product that has been scientifically proven to be less hazardous than cigarettes."

The five researchers agree on this point. They say that the debate should not get bogged down in "pro-snus versus anti-snus" arguments. Instead, it is a matter of "the right of smokers to choose harm reduction, as against the health establishment's insistence that the only valid choice for smokers is to quit or to die as an addicted cigarette user."

The debate on possible regulation of



Inger Wahlberg, research leader in Swedish Match.

tobacco products and their content indicates that the ban on snus may be replaced within the EU by a system of limit values, perhaps based on Swedish experience with Swedish snus. This line of argument has been pursued by a number of researchers working in the US, who also recommend regulation or control of tobacco products aimed at developing less harmful nicotine alternatives to cigarettes.

At the 3rd International Conference on Smokeless Tobacco in September 2002, David Sweanor of the Non-Smokers Rights Association in Canada expressed the view that harm reduction strategies suggested "a role for oral tobacco use to reduce the risks facing smokers and those exposed to tobacco smoke."

Dr. Brad Radu, Professor of Oral Pathology at the University of Alabama, was quoted by the local newspaper, the Birmingham News, in December 2002:

"In my opinion, the Swedes have shown that if safer products are available, smokers can switch to them. It is not nicotine that kills; it is smoking."

*"Smokers are ready to reduce cancer and other health risks both by quitting and by reducing to occasional smoking. Among Swedish males both routes are enhanced by the use of snus."*

*"Swedish men have provided a model for a public health strategy that could save lives in the US. ...The Swedes have demonstrated that if safer products are available, smokers can transition to them."*

*"For my own part, I am convinced that any cancer risk associated with the use of Swedish moist snus is minimal."*

## TOTAL RETURN

Total return, %	
2003	11
2002	25
2001	56
2000	32
1999	4

## KEY FIGURES

### Earnings per share, SEK

2003	4.68
2002	4.10

### Shareholders' equity per share, SEK

Dec 31, 2003	12.21
Dec 31, 2002	11.72

## SHARE PERFORMANCE

### Jan 1, 2004–Jan 1, 2004, %

Swedish Match	-3
SAX	6

## OWNERSHIP STRUCTURE

### Largest shareholders at December 31, 2003\*

Shareholder	Portion of share capital, %
Alecta, Sweden	5.0
Fidelity Funds, US	4.7
Robur Funds, Sweden	4.0
Capital Group Funds, US	3.7
Janus Funds, US	3.6
Fourth AP Fund, Sweden	3.4
Singapore Investment, Singapore	2.0
Third AP Fund, Sweden	1.6
First AP Fund, Sweden	1.3
SEB Funds, Sweden	1.1
Total for above 10 shareholders	30.4
Others	69.6
TOTAL	100.0

\* Excluding shares owned by Swedish Match.

\* Registered with VPC as direct shareholders or nominee shareholders.

Source: SIS Ägarservice AB.

## NEW SHAREHOLDER SERVICE



As a shareholder in Swedish Match, you can now use a new service on our website to control how much and what type of information you wish to receive, and specifically, how you would like it sent to you. As an alternative to ordinary post, you can choose e-mail or SMS to your mobile.

You can find the new service on our website: [www.swedishmatch.com/prenumerera](http://www.swedishmatch.com/prenumerera). Here you can order from our service offering. To protect your personal information, you will receive a personal login password. You can change your user profile whenever you wish.

You can request the following services via Swedish Match's subscription service:

- Update on share performance direct to e-mailbox or mobile
- Subscription to annual report and interim reports
- Subscription to shareholder magazine
- Reminders of dates for year-end report and other activities
- Ordering of press releases

# Lifelong passion for brands

When Arne Jurbrant was voted onto the Swedish Match Board of Directors two years ago, he had just finished a long career in the food industry, a sector characterized by a strong focus on brand-building. He regards the experience he gained there as one of the most important attributes he can bring to the work of the Board.

**I**t was a major step in Arne Jurbrant's life when he left the position of operational president of Kraft Foods Nordic Region. At that time, in 2001, he had spent well over 20 years in various posts as president, first at General Foods and then at Kraft Foods – assignments that constantly demanded his full attention.

"You live day and night with jobs like that, and in practice the job also has to be your hobby. It also requires the full backing of your family and colleagues, so it is a major adjustment to be able to plan your day and your life along new lines," says Arne Jurbrant.

Now he only does things he finds enjoyable, which includes being an instructor and mentor for students at the Stockholm School of Economics.

"It's my way of giving something back and supporting young people at the outset of their careers. The contact with them is also very enjoyable. I don't get paid for it – it's something I do entirely for my own enjoyment," he says.

**ANOTHER ENJOYABLE ELEMENT** in his new life, without question, is his Board assignment with Swedish Match, particularly since it is a company with very strong brands, and brands have always been his passion and one of the main reasons why he stayed so long at General Foods and Kraft Foods.

It began with the coffee brand Gevalia, which is sold in just about every store in Sweden. During the turbulent years in the

1980s and early 1990s, the food industry underwent a dramatic restructuring, and Gevalia's owner, General Foods, was first purchased by Philip Morris and then merged with Kraft Foods, which had also been acquired.

"In 1992, when we got our hands on Freja Marabou in one of the last really big transactions, we added a number of fantastic brands to our portfolio," recalls Arne Jurbrant.

**WHAT FASCINATED HIM** over the years was that, while owners come and go, the brands go on living a life of their own.

"In the food industry in particular, the brands are often old and well-established in their local markets. It is of little interest to consumers whether General Foods or some other company owns Gevalia, so it is natural that the greatest value in an acquisition lies in the brands. Brands are not something you interfere with, remove or replace. Instead, measures to improve coordination or achieve economies of scale – in purchasing for example – are handled behind the scenes."

Being a company with leading brands is, in turn, an incredible strength.

"Companies with strong brands, such as Kraft and Swedish Match, are secure in their role and in the conviction that their products are so good that customers will seek them out. They build up the traffic in the stores by themselves, without having to plead to be let in. They are consistent and treat everyone alike, because they know



that without their products there will be no volume sales. For this reason, it must be a formidable task to be a competitor to Swedish Match – not a job I would want to attempt."

**BRAND-RELATED ISSUES** are seldom listed as a separate agenda item when the Swedish Match Board meets. But they form a natural common thread that runs through all of the long-term and strategic planning work with which the Board is concerned.

"After all, the entire company is built on the strength of the brands. So it is important to have people on the Board with a background in that area," says Arne Jurbrant.

But at the same time he considers it important for the Board to include people with experience of the conditions that apply to all the different business aspects, as well as a broad spectrum of specialist expertise, understanding of figures and international experience.

"I hope – at any rate this will be my aim – that I can contribute to Swedish Match's development and future through my experience in all of these areas," says Arne Jurbrant.

When Arne Jurbrant was newly elected to the Board, he formulated his impression of Swedish Match as follows:

"The company has impressive financial strength, with a fantastic cash flow. It is my impression that it is a company that constantly generates good news and has a formidable capacity to implement whatever it decides to do."

What would his comment be now, after two years on the Board?

"The image I had then applies to an even higher degree today. Getting to know the company from within has also been an even more positive experience than I had expected. The company is characterized by a consistently implemented strategy and a solid grounding of the corporate culture in every department. The successes also make it easier to deal with setbacks when they occur. After all, running a business is not a question of traveling first-class all the way. But Swedish Match has the resources to influence its future instead of simply adapting to external demands."

## 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 2003 was 15,115. The Swedish Match share is listed on Stockholmsbörsen (the Stockholm Exchange) (SWMA) and the Nasdaq Exchange (SWMAY).

KEY FIGURES		
MSEK	2003	2002
Net sales	13,036	13,643
Operating income <sup>1)</sup>	2,224	2,439
EBITDA <sup>1)</sup>	2,889	3,090
Net income	1,558	1,429
Income per share after tax, SEK	4:68	4:10
Dividend per share, SEK	1:70 <sup>2)</sup>	1:60
Return on shareholder's equity, %	38.9	35.2

<sup>1)</sup> Excluding items affecting comparability  
<sup>2)</sup> Proposed dividend

### 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



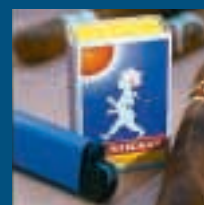
Along with smokeless tobacco, cigars and pipe tobacco have been identified as a growth sector for Swedish Match. The products are sold in large parts of the world, with particular emphasis on North America, Europe and South Africa.

#### 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.

