

Inside

INFORMATION ABOUT SWEDISH MATCH FOR SHAREHOLDERS AND OTHER STAKEHOLDERS

#2 june 2004

Good start to 2004

Snuff continued to perform well, with sales and operating income increasing in all major markets during the first quarter. The recovery of cigars, with increased sales and a strong improvement in operating income, was also positive. Group sales for the first three months amounted to 3,002 MSEK – on par with the year-earlier period. **Page 2-3**

Sven Hindrikes appointed CEO

Sven Hindrikes was appointed President and CEO of Swedish Match, replacing Lennart Sundén, who has left the company. Lars Dahlgren was appointed CFO. **Page 2**



European Court to hear snus ban case

In June, the European Court will begin hearings regarding the ban on snus sales in the EU. Swedish Match takes the view that the snus ban violates several fundamental principles within the EU and is hopeful that the Court will lift the sales ban. **Page 3**

Tobacco veteran takes his leave

After 46 years in the Swedish tobacco industry, Klaus Unger can call himself "Mr. Tobacco" without blushing. He made a strong contribution to the company's strategy of internationalization and focusing on smokeless products. At the AGM, he left the Swedish Match Board. **Page 10**

Corporate Governance in shareholders' interests

Swedish Match is in the forefront among Swedish companies in realizing the aim of enhancing openness and clarity in corporate governance issues. Among the incentives are the tough and extremely detailed new regulations in the US covering the entire control chain from the company's shareholders to the Board of Directors and President and on down to financial management and reporting. **Page 4**

Strong show of shareholder commitment at AGM

SWEDISH MATCH
Välkommen till
Bolagsstämman
2004

SWEDISH MATCH

Attendance at Swedish Match's Annual General Meeting earlier this year broke all records. The meeting offered several new features compared with prior years. For example, shareholders had the opportunity to listen to reports on the work of the Board of Directors and its committees. The meeting approved an increased dividend and elected Karsten Slotte, President of Cloetta Fazer, as a new Board member.



LARS DAHLGREN COMMENTS ON THE FIRST QUARTER OF 2004:

A good start to the year

“Swedish Match has enjoyed a good start to the new year and I am confident about the outlook for the rest of the year,” says CFO Lars Dahlgren, following the presentation of the first-quarter results. Snuff continued to perform well, with increased sales and operating income in all major markets. The strong recovery of cigar operations was also positive, with a sharp increase in sales and a strong improvement in operating income.



Our strategies stand firm

THE FAVORABLE OUTCOME OF OPERATIONS during the first quarter of 2004 shows that Swedish Match's strategies are continuing to bear fruit, with further profitable growth and increased value for shareholders.

It is important for me to emphasize that the Group's strategies stand firm. We are a unique tobacco company, a world leader in those niches that are growing in our industry. We are focusing on developing a broad product portfolio, with strong positions in markets where our products have current or future potential to achieve profitable volumes.

We have a strong competitive advantage in that our strategies are formulated in harmony with social trends. Greater restrictions are being imposed on smoking in a growing number of countries. Our expertise within snuff and smokeless products makes us a global leader in terms of providing effective alternatives for the many people who wish to give up smoking.

In recent years, we have also launched long-term initiatives to develop new smokeless products and conquer new markets. We plan to further develop our leading position in the global cigar market as living standards improve in Eastern Europe and Asia. Similarly, we intend to take advantage of the profitable opportunities opening up in the future. During the year, we are expecting a ruling by the European Court of Justice regarding the legality of snuff in the EU.

The purpose of our strategies is to provide our shareholders with a long-term and competitive increase in the value of their investment in Swedish Match. This primarily involves continuously managing and developing our ongoing operations. We will complement this ongoing task with dividends and buyback programs; capital that is not needed in operations will be restored to shareholders. Including this year's dividend, we will have transferred SEK 7.2 billion to the shareholders through dividends, buybacks and redemption programs during the period 1999–2003.

Sven Hindrikes, President and CEO

The first quarter of 2004 started out well for Swedish shareholders and Swedish companies in general, with an upturn in the economy, a general rise in sales and growing profits. Swedish Match – which is relatively unaffected by economic cycles – is no exception. Sales during the first three months of the year were about the same as during the corresponding year-earlier period, at 3,002 MSEK. In local currencies, however, sales rose by 5 percent. “The US dollar continues to be weak against the Swedish krona, thus reducing our overall earnings when we translate the earnings from our North American operations,” explains Lars Dahlgren.

Operating income also increased. During the first quarter of the year, a settlement payment was received from the US competitor US Smokeless Tobacco (UST). Last year, Swedish Match took legal action against UST for “disturbing” Swedish Match's marketing and sales of snuff in the US. In March, a settlement was reached, whereby UST agreed to pay 200 MUSD and to transfer its cigar operations to Swedish Match. After deduction of legal expenses, this gave rise to an income item affecting comparability of 1,417 MSEK in the first-quarter accounts, resulting in operating income of 1,877 MSEK for the first three months of the year. UST's cigar operations will be transferred to Swedish Match during the second quarter.

“OUR NORMAL EARNINGS show an increase of 4 percent to 535 MSEK, a pleasing result in view of the negative currency effects. The sizeable payment from UST has further strengthened our balance sheet and enhances our capacity to carry out share buybacks in the longer term,” says Lars Dahlgren.

After financial items and tax, the Group's earnings per share amounted to SEK 3.32, of which SEK 2.50 derived from the UST settlement.

Snuff sales continue to be positive, with further success in Northern Europe and the US. Total sales rose by 9 percent to 751 MSEK. Volumes – measured as the number of cans sold – increased slightly more in the US (+5 percent) than in the Nordic region (+3 percent). Swedish Match's share of the total US market amounted to 9 percent during the period.

During last year we launched a new snuff brand, Longhorn, in the North American market to a favorable reception from both retailers and consumers.

The strong sales trend combined with price increases and productivity improvements meant that operating income rose by 16 percent to 353 MSEK, in spite of the negative currency effects resulting from translation to SEK.

“We are especially pleased that the operating margin was restored to 47 percent,” says Lars Dahlgren.

CIGAR OPERATIONS SHOWED a highly positive trend during the quarter. After a

couple of years of stagnating demand, the business area developed and launched a number of new products, mainly in the machine-made cigar segment. The results of these efforts are now being seen in the form of strong volume growth in the US.

“The market is growing again and we are in an ideal position, with the launch of our new flavored cigar products within the White Owl brand strengthening our market share. Additionally, we have been able to implement certain price increases,” continues Lars Dahlgren. “After a period of stagnation, demand is also now increasing for our premium cigars – exclusive hand-rolled cigars – in the US, where we are the number one player, with products including the leading Macanudo brand. In Europe, on the other hand, volume growth is still fairly unevenly spread between the various markets. Overall, volumes in Europe were on par with those for the corresponding period last year.”

Cigar sales during the first quarter increased in total by 7 percent to 687 MSEK, and by 15 percent in local currencies. Operating income rose by 30 percent to 104 MSEK, but was affected by negative currency effects.

The other two tobacco product areas, chewing tobacco and pipe tobacco plus accessories, are continuing to perform well. The market for chewing tobacco is in steady decline. However, the lower sales in this prod-

Changes in Group management

SVEN HINDRIKES has been appointed President and CEO of Swedish Match. Hindrikes served as Chief Financial Officer (CFO) for nearly six years and is thoroughly familiar with the Group and its operations. Positions held by Sven Hindrikes before joining Swedish Match included working for ABB in Canada and Mexico. He returned to Sweden in 1994 and joined Swedish Match in 1998.

Lars Dahlgren has been appointed CFO. Lars Dahlgren has worked at Swedish Match since 1996. Having served in various positions internationally within the Group, he has extensive experience of working at management level. Lars has worked in Group Finance since May 2002, reporting directly to the CFO and focusing primarily on business analysis and follow-up, as well as company acquisitions and divestments.



Lars Dahlgren CFO and Sven Hindrikes President and CEO at the Annual General Meeting

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
Ljungbergs, Klippan

☆☆☆
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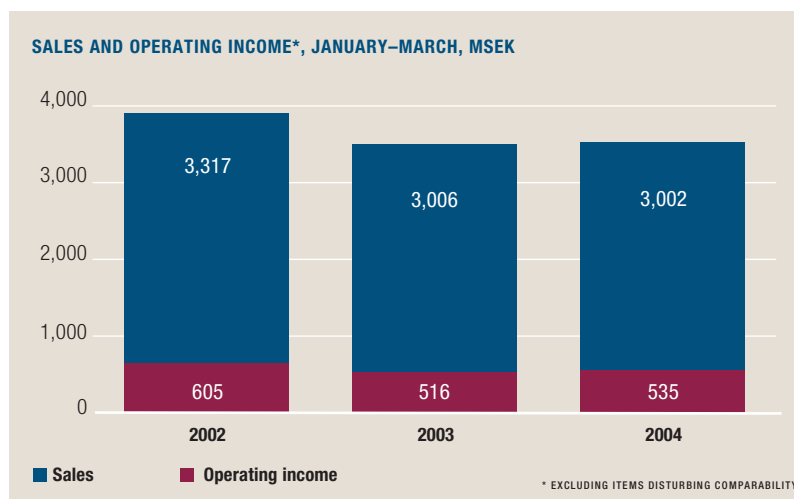
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uct area were offset by price increases. Operating income declined by 13 percent to 73 MSEK, but was unchanged in local currency. Pipe tobacco is displaying a similar trend, with lower volumes during the quarter. However, operating income was raised by 13 percent to 52 MSEK through higher prices and improved productivity. Both product areas continue to be characterized by strong cash flow and strong margins.

MATCHES AND LIGHTERS are struggling with a decline in demand and fierce international competition from low-price producers. "These are areas where we have significant market shares, valuable brands and global distribution, providing us with synergies for the entire Group," continues Lars Dahlgren. "We are not satisfied with the current trend, and we will continue to structure and streamline our production and distribution to achieve acceptable margins. Our European match operations are currently undergoing a restructuring program, and we are reviewing our structure and costs globally."

The matches product area reported an operating loss of 30 MSEK, after a provision of 46 MSEK was made for rationalization of European match operations. In the case of lighters, we succeeded in increasing volumes in a number of markets despite the competition, but pressure on prices combined with the strength of the EUR against the USD continued to depress earnings, which amounted to 7 MSEK.

The first quarter of the year leaves Swedish Match financially stronger than ever. Net debt amounts to 830 MSEK, compared with 2,715 MSEK on December 31, 2003. Cash flow from operations amounted to 1,905 MSEK, compared with 402 MSEK for the year-earlier period. Liquid funds, including current investments, totaled nearly SEK 4 billion. While the



	SALES, MSEK			OPERATING INCOME, MSEK		
	Jan-Mar 2004	Jan-Mar 2003	Change %	Jan-Mar 2004	Jan-Mar 2003	Change %
Snuff	751	689	9	353	305	16
Chew. tobacco	254	295	-14	73	84	-13
Cigars	687	644	7	104	80	30
Pipe tobacco/ Accessoires	211	214	-1	52	46	13
Matches	324	348	-7	-30	38	
Lighters	147	151	-3	7	9	-22
Other	628	665	-6	-99	-46	
Total	3,002	3,006	0	460	516	-11

improvement was primarily attributable to the settlement with UST, the underlying cash flow from operations was also strong during the quarter.

"FOR THE PAST FEW YEARS, our policy has been to create value for shareholders by buying back shares when the Group has funds available that are not immediately needed in operations, and provided we do not jeopardize the Group's

long-term financial stability. During the first quarter, we bought back approximately 1.5 million shares for an average price of SEK 72.38 per share. We have every opportunity to continue to restore value to the shareholders in this manner," says Lars Dahlgren. The Annual General Meeting on April 26, 2004 renewed the mandate to buy back up to 10 percent of the total shares.

Hearings in the European Court on the snuff ban case

ON JUNE 8, THE EUROPEAN COURT OF JUSTICE heard two cases concerning the ban on the sale of snuff within the EU.

The two cases originate, respectively, from the High Court in the UK and the regional administrative court in Minden, Germany. Both cases were referred to the European Court for adjudication of the legality of Article 8 of the relevant EU directive, which bans the sale of snuff. Since both cases relate to the same matter, they were addressed at the same time by the European Court.

"We take the view that the snuff ban violates several fundamental principles of EU law, including, but not restricted to, the principle of the free movement of goods within the EU countries," says Bo Aulin, Chief Legal Counsel at Swedish Match. "But we also consider

that the ban should be lifted against the background of the scientific support that exists for products with lower health risks, such as Swedish snuff, as an alternative to cigarettes.

"However, a judicial process always involves a degree of uncertainty," continues Bo Aulin. "But even if the European Court rules that the ban is not unlawful, we are convinced that it will still be removed within a few years, since it is so obvious that it does not benefit public health or serve any other social purpose."

In a recently published scientific study in the European Journal of Epidemiology, it was estimated that some 200,000 of the 500,000 smoking-related deaths each year in the EU could be avoided if other countries in Europe adopted a Swedish pattern of tobacco

consumption. The study* maintains that the lower level of smoking-related mortality in Swedish men is linked to the use of snuff.

Ola Wiklund, Professor of European Community Law at Stockholm University, commented on the hearing in the Aftonbladet newspaper on March 30:

"The issue to be examined is whether the ban is necessary to protect public health. It is contrary to the principle of the free movement of goods – a principle that carries a lot of weight. I will not be surprised if Sweden is soon able to begin exporting snuff."

* "The burden of mortality from smoking: Comparing Sweden with other countries in the European Union," Brad Rodu and Phil Cole.

Analysts' questions

Swedish Match presented its Q4 interim report on April 26. In conjunction with this, a telephone conference was held, during which Group management answered questions submitted by analysts from banks and brokerages.

MICHAEL SMITH, J P MORGAN:

"Snuff sales in the Nordic markets rose by only 2-3 percent this quarter. What was the reason for this? Does it mean that you are losing market share to competitors?"

SVEN HINDRIKES, CEO:

"No, we have been exposed to competition in the Swedish market for the past three years, so this isn't the reason, but rather the fact that the historical growth rate of 4-5 percent is difficult to maintain in a limited market with limited population growth."

GORM THOMASSEN, CAZENOVE:

"Sales of Timber Wolf in the US market seem to have declined slightly. What is the reason for this?"

SVEN HINDRIKES:

"The competition is intensifying, making it more difficult to maintain the enormous growth that Timber Wolf has enjoyed up until now. However, we will continue to invest in strengthening the Timber Wolf brand and its market position. In terms of US sales of moist snuff in general, the marginal decline for Timber Wolf was offset by our new brand in the value price segment, which has proved to be a success."

VIRGINIA HÉÉRIBOUT, CDS IXXIS SECURITIES:

"What is the outlook for cigar operations, primarily in the US but also in Europe?"

SVEN HINDRIKES:

"We had an excellent start to the year in the US for our machine-rolled cigars, not least thanks to the launch of a number of flavored products. We assess that the outlook will continue to be positive, although it is uncertain whether the growth rate during the first quarter can be sustained for the rest of the year. Premium cigars have also shown a positive trend in the US. With regard to the European markets, the situation is mixed, partly due to increases in tobacco tax in some countries. For the year as a whole, however, we assess that volumes will be at least on par with last year."

GORM THOMASSEN:

"The EU tobacco directive is currently being revised at the same time as your case is about to be heard by the European Court of Justice. Will the two legal processes be coordinated in any way?"

BO AULIN, LEGAL COUNSEL:

"I have also heard speculation of this kind but I can't see how such coordination would take place. I believe that the two processes are entirely separate, even though both the revised directive is expected at the end of the year, when we also hope the court will give its ruling."

DAVID IRELAND, ABN AMRO:

"You have taken legal action against Gustavus, a competitor in Sweden. What is this about?"

BO AULIN:

"We believe that they are guilty of misleading advertising and that they are sponging off our brands. All our other competitors have their own packaging and own design, but Gustavus has, among others, chosen to exactly copy the form of our cans and imitate our brand designs."

Corporate Governan

“Taking care of our shareholders” has always been a strategic priority at Swedish Match. In recent years, however, requirements have been tightened with regard to how companies organize and report their entire chain of oversight and control routines, particularly from the point of view of shareholders. New policies and additional supervisory bodies have been introduced and procedures have been rigorously formalized. For Swedish Match, the company’s listing on the US Nasdaq exchange has been an incentive to act, and it has responded by implementing Corporate Governance – “The Mid-Atlantic Way.”

Observant readers of Swedish Match’s annual reports in the past few years will have noticed a section on Corporate Governance. We were virtually unique in Sweden in this respect until last year, 2003, when a number of large Swedish companies followed suit.

This coincided with a number of major financial scandals in the US, when Enron and WorldCom suddenly became global household names. In rapid response to the scandals, the US introduced a new law, the Sarbanes-Oxley Act, the most important financial legislation since the 1930s.

The stringent and very detailed new regulations imposed tighter require-

ments on US companies – and in important respects also foreign companies listed on US exchanges – regarding the entire chain of control from the company’s shareholders to the Board and President and down to those responsible for accounts and reporting in subsidiary companies.

“With our shares listed on the US Nasdaq exchange and with almost 5,000 US shareholders, we have had to adapt to the new US regulations,” explains Bo Aulin, Senior Vice President, Corporate Affairs, and Chief Legal Counsel, who is responsible for much of the practical work. Suppressing a good-natured sigh, he continues: “It has been a huge task: Swedish culture, traditions, attitudes and corporate life are very different from business in

The most striking changes relate to the Board. Since Swedish Match is a company that focuses on its shareholders, the Board set up a Nomination Committee and a Remuneration Committee back in 1996. These committees



Bo Aulin

“Taking care of our shareholders” has always been a strategic priority at Swedish Match.”

the US. But basically, we now have several new functions that improve oversight and control and we have formalized existing procedures that were already working well.”

have gradually been assigned clearer mandates and duties.

“Perhaps the most significant consequence of the Sarbanes Oxley Act for our part is the Board’s Audit Committee, which was set up last year to provide extended support for the entire Board. We also set up a Disclosure Committee, consisting of senior executives in the company who examine all financial information,” continues Bo Aulin.

CONTROL AND SCRUTINY COMMITTEES

THE NOMINATION COMMITTEE

is appointed annually by the Annual General Meeting. It comprises Bernt Magnusson, Björn Franzon, Staffan Grefbäck and Marianne Nilsson. The Committee is tasked with preparing and submitting proposals to the Annual General Meeting for the election of Board members and the size of the fees paid to members of the Board of Swedish Match. The Committee meets as often as necessary, normally 2-3 times each year, but at least once a year. The Nomination Committee naturally comprises representatives of some of the largest Swedish owners but will recommend Board members who represent knowledge, experience, impartiality and integrity and who supply the Board with the strength and expertise to represent all shareholders in an equal manner.

THE REMUNERATION COMMITTEE

is appointed internally within the Board of Directors. The Chairman of the Remuneration Committee is Bernt Magnusson, who is also Chairman of the Board. Other members are Jan Blomberg and Arne Jurbrant. The Committee discusses and resolves remuneration issues that involve matters of principle or that are otherwise of significant importance, such as options programs and profit-sharing systems. It also prepares questions for decisions by the Board concerning salary, terms of employment, pension benefits and bonus systems for the President, and approves the corresponding benefits and terms for management personnel who report directly to the President. The President may not participate in discussions relating to his own terms of employment. The Committee meets as often as needed, but at least twice a year. It often seeks advice from external consultants, for example to obtain knowledge about levels of remuneration in the industry and in other large companies. Remuneration committees of boards of directors have faced a delicate and demanding task in recent years since remuneration levels and terms of employment in Sweden and abroad have been the subject of heated debate and fierce criticism.

THE AUDIT COMMITTEE

– a new element in Swedish businesses – has been the subject of much debate in Sweden. Legislation clearly stipulates that the Board in its entirety is responsible for all inspection and supervision of the company’s organization and management. What happens then when these tasks are “delegated” to an Audit Committee? In Bo Aulin’s opinion, the Board of Swedish Match is aware that it “can only delegate powers and never responsibility. It is the Board of Directors that is ultimately responsible for the company’s internal control systems, which in turn are intended to safeguard shareholders’ investments and the Group’s assets.” The Audit Committee, whose members are elected internally within the Board of Directors, currently comprises Jan Blomberg (Chairman), Karsten Slotte and Meg Tivéus. The Committee supervises the routines for accounting, financial reporting and auditing within the Group. “The Committee primarily scrutinizes the quality, accuracy and reporting of the financial accounts in addition to inspecting internal financial controls and supervising the work of the auditors. This entails that the Committee makes preparations for the procurement of audit services and checks that the auditors possess the right qualifications and are impartial. The auditors are then elected by the Annual General Meeting.

The audit procurement process prior to the 2004 Annual General Meeting has been completed and four auditing firms were invited to submit tenders and made presentations to the Committee. The Annual General Meeting elected KPMG as the new auditors for Swedish Match, in accordance with the Audit Committee’s proposal.

THE DISCLOSURE COMMITTEE

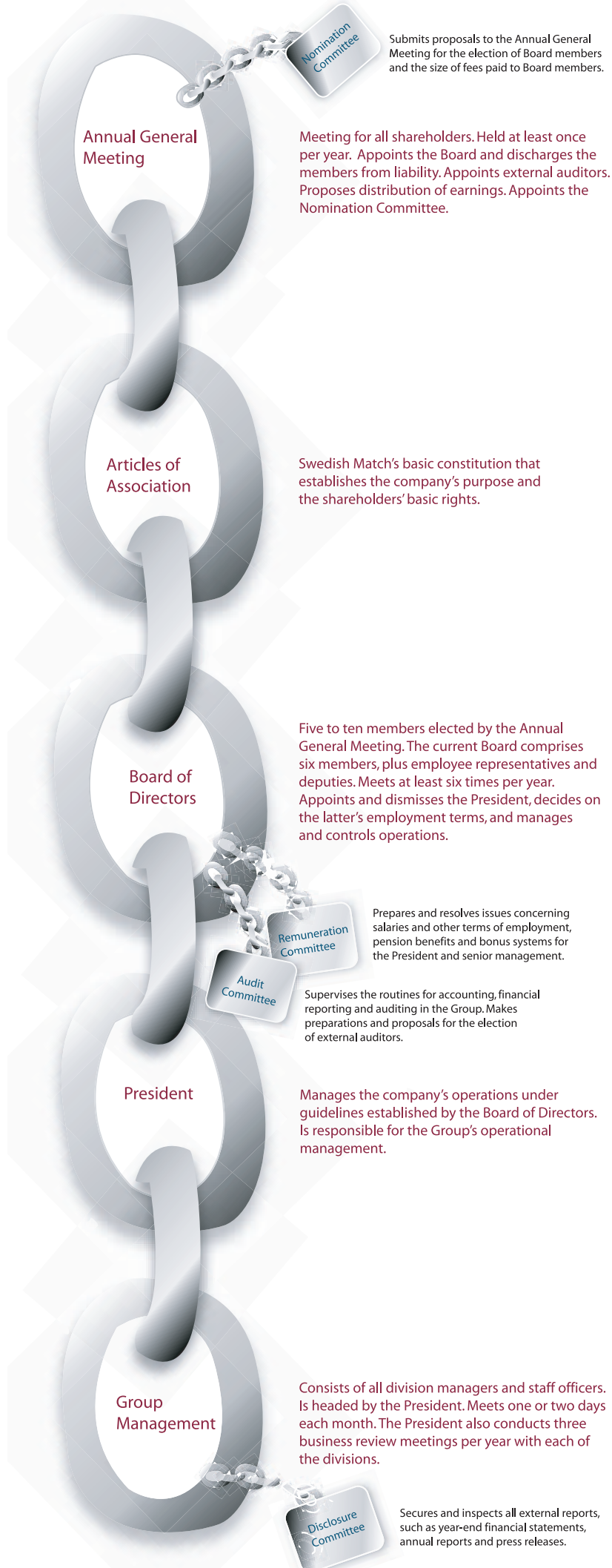
is a fairly typical element of Corporate Governance in the US, and one that Swedish companies will have to adapt to. Its members comprise various executives within the Group who are responsible for producing financial reports: Bo Aulin (Chairman) and the heads of Investor Relations, Corporate Control and Corporate Communications. Pursuant to the requirements of the US Sarbanes-Oxley Act, the Committee is required to secure and inspect all external reports, such as annual reports, year-end financial statements, interim reports and press releases.

This may not sound so onerous, but the Committee also has a formal responsibility, whereby the President and CFO are personally accountable and must solemnly attest in writing the accuracy of the contents of the company’s US accounts in accordance with Form 20-F. Swedish Match has thus come a long way in its Corporate Governance work. However, further measures lie ahead. The US regulations are becoming increasingly refined, with detailed guidelines and rules regarding relations with financial consultants at corporate finance firms, analysts and brokers, journalists and fund managers. We can expect these developments to spill over to Europe.

The Swedish Government has also appointed a Public Confidence Commission that has proposed various new rules to strengthen confidence in companies. The Commission has worked together with representatives of the Swedish business sector to prepare a Code of Conduct containing further guidelines on how to improve Board procedures and increase the transparency of financial reporting.

ce at Swedish Match

Management and control chain



What is Corporate Governance?

THE ANGLO-SAXON CONCEPT of Corporate Governance refers to oversight and control of companies, although it is now also used in the same context with reference to countries.

There is no simple definition of the concept. However, most people agree that Corporate Governance involves "the mechanisms – laws, rules, standards, bodies and behavior – between shareholders, the Board and the company management designed to secure for shareholders and lenders their fair share of the company's wealth and returns."

This definition only covers those parties who have "taken a risk in the company," that is, invested capital in the company in the form of shares or loans. In recent years, however, there has been a tendency among certain groups to expand the concept of Corporate Governance to include more or less all parties with an interest in the company, such as:

Employees who invest their knowledge and experience, customers and suppliers who buy and deliver goods and possibly issue credit, and the local community and society at large which also have a close relationship with the company. Proponents of expanding the notion of Corporate Governance often refer to corporate social responsibility (CSR). They mean that companies today must assume far greater responsibility, covering not only shareholders and investors but also the environment and a broad social responsibility.

In the past 20 years, Corporate Governance has become an increasingly clear and important element of corporate life. Developments have often accelerated following corporate scandals, such as the recent Enron and WorldCom scandals in the US and the Skandia scandal in Sweden.

THE OECD, THE ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, whose members include the world's richest countries, has had Corporate Governance on its agenda since the mid-1990s and has prepared five main principles that member countries should adopt. These provide slightly more detailed definitions.

Corporate Governance must:

- protect shareholders' rights
- ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights
- recognize the rights of stakeholders as established by law and encourage active cooperation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises
- ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company
- ensure the strategic guidance of the company, the effective monitoring of management by the Board, and the Board's accountability to the company and the shareholders.

Record attendance a

Attendance at Swedish Match's Annual General Meeting earlier this year broke all records. More than 600 shareholders had registered to attend and, as usual, demonstrated their strong commitment to the company and its operations. They were to hear about yet another year of outstanding share performance and an average annual increase of 20 percent in earnings per share over the past five years, which in turn ensured that the proposed increase in the dividend to SEK 1.70 was approved. "Not a bad piggy bank," as one shareholder representative expressed it.



I registreringsdisken rädde fullt tryck.

This year's AGM contained additional new elements compared with previous years. On this occasion, the shareholders had the opportunity to listen to reports, not only on the work of the Board of Directors, but also on the activities of the Audit Committee, Remuneration Committee and Nomination Committee – a consequence of the desire for increased openness and clarity in issues concerning corporate governance, auditing and controls, and remuneration policies.

The incentive programs in exchange-listed companies in Sweden have been the subject of animated debate during the past year, and Board Chairman Bernt Magnusson informed the Meeting about the basic principles that apply within Swedish Match.



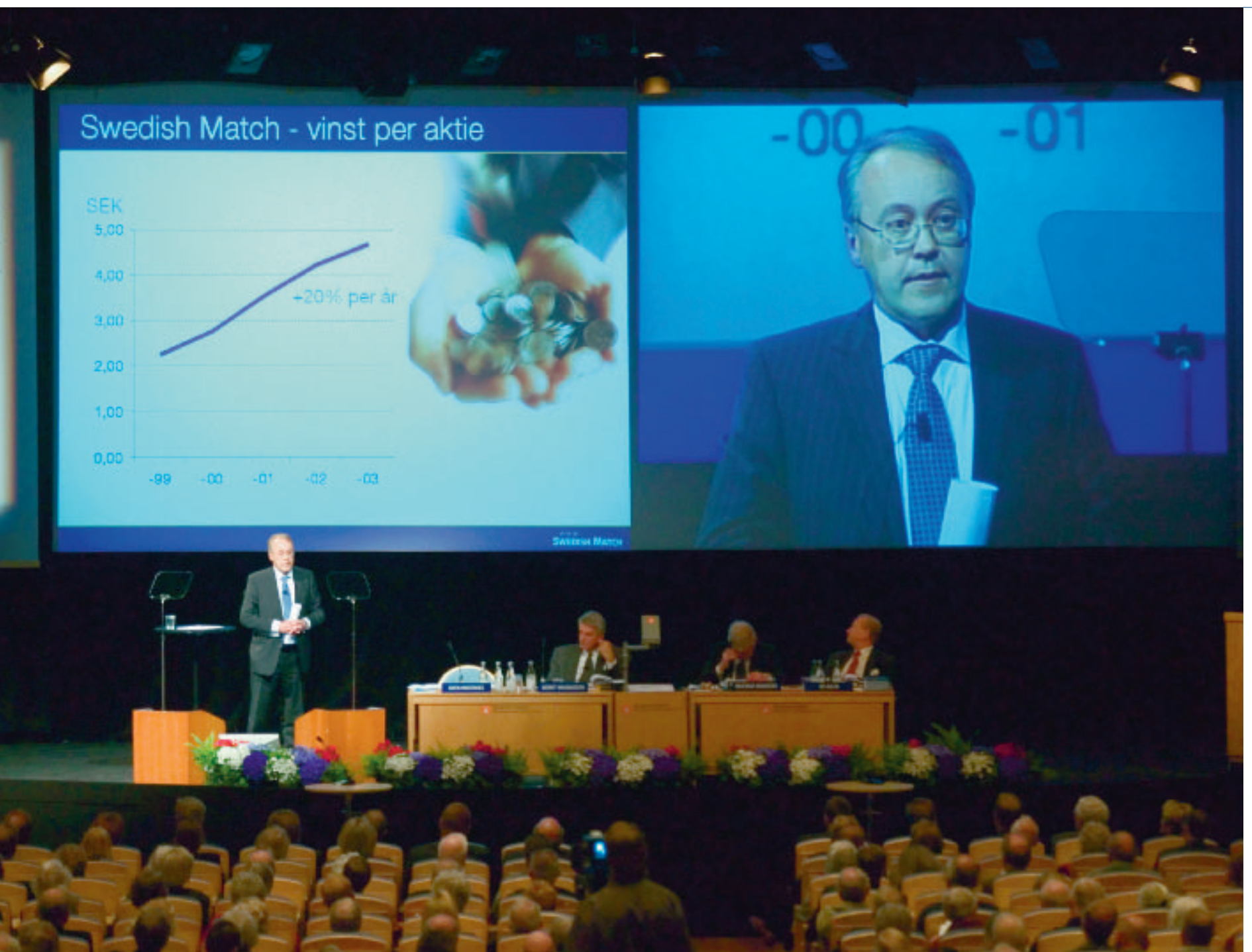
Journalist and author Harald Norbelie is one of the foremost experts on the City of Stockholm and its history. He has written several books describing the city and its streets, buildings and inhabitants, and the changes it has undergone. In conjunction with the Meeting, he entertained an interested audience with an illustrated talk on the history of tobacco in Stockholm – a segment of history that includes extensive tobacco plantations and legendary snus and cigar producers.

"Our programs must be designed so as to combine the interests of management and shareholders," he noted.

"Moreover, they must be communicated with the greatest possible openness, must be simple to understand, measurable and reasonable, and have a ceiling. In addition,

only favorable returns and earnings per share will be rewarded."

According to Swedish Match's options program, for the maximum allotment of options to occur, the return on shares must be 20 percent better than an index comprising a number of comparable tobacco-



at AGM



Nick Booth, Board Chairman of Boston-based Wellington Asset Management has had Swedish Match in his stock portfolio for four years, and has no regrets.

company shares, and earnings per share must be 20 percent higher than the average over the past three years.

The Board of Directors had proposed to the Annual General Meeting a new purchase option program for 2004 with essentially the same conditions that had applied previously. According to the proposal, the program will cover 58 senior executives and not exceed a ceiling of 24,150,000 SEK, which corresponds to 30 percent of the total remuneration payable to the persons in question.

The options system prompted a certain amount of discussion at the Meeting, and some delegates were of the opinion that the options program should be scrapped altogether. However, an overwhelming majority of votes were in favor of the program, which was described by several major shareholders as the best in the Swedish market.

"I have been a Swedish Match shareholder for four years and directly or indirectly control 32.7 million shares – and am very pleased about it. It is an extremely well-managed company with an admirable focus," commented Nick Booth, Board Chairman of Boston-based Wellington Asset Management. "Based on an international comparison, I do not therefore believe that the Swedish Match management is adequately compensated."

Bernt Magnusson agreed that the amounts were low in an international perspective.

"But we must view this issue from a Swedish viewpoint, and in that context they are reasonable," he said. "However, I also wish to emphasize that the requirements for receiving the full allotment are very stringent – I have never seen anything comparable in any other company – and this accounted for the fact that the allotment last year was only half the maximum amount."

Tore Lidholm, from the Swedish Shareholders' Association, was critical of how little is happening in the company.

"It is an excellent and financially successful company, but I see no clear development, no vision," he said.

Bernt Magnusson countered that it was a deliberate policy on the part of the Board to be cautious with the shareholders' money:

"We have consciously refrained from high-risk empire-building and focused primarily on organic growth. As a general rule, there are few acquisition targets that are worth considering, and they are often extremely costly. We do not want to risk the shareholders' money through excessively large-scale expansion."

The Meeting reelected Jan Blomberg, Tuve Johannesson, Arne Jurbrant, Bernt Magnusson and Meg Tivéus to the Board. Karsten Slotte, President of Cloetta Fazer, was newly elected to the Board. Klaus Unger, who had declined reelection, was warmly applauded for his services (see also separate article). Chief Legal Counsel Bo Aulin also received enthusiastic applause for the settlement reached with UST, whereby Swedish Match will receive 200 MUSD in compensation.



Douglas Sagell purchased his first Swedish Match shares last year and does not regret the decision. He likened the Swedish Match share to the boar Särimmer of Norse myth, which could be slaughtered and eaten every day, since it was reborn each evening.

Sven Hindrikes' address to shareholders

Distinguished shareholders,

You own a unique company in the tobacco industry. During the past few years, the industry has undergone major structural changes through acquisitions and mergers. Swedish Match has succeeded in turning these challenges into a business opportunity that has provided the platform for our present and future strength, particularly in smokeless products and cigars.

Swedish Match generates a strong cash flow, which we have used for profitable acquisitions in the cigar and pipe tobacco product areas. Surplus funds have been distributed to shareholders through share buybacks and dividends. In addition, we can report excellent growth in the snuff product area, in terms of both sales and earnings. In combination, these strategies have produced high returns for you as shareholders.

Permit me to continue by presenting a more detailed picture of today's Swedish Match, after which I will comment on the past year, briefly touch on developments during the first quarter and conclude with some thoughts about the future.

Sales during the past year amounted to SEK 13 billion. Today Swedish Match is an international company whose brands and products are distributed to millions of consumers in 140 countries. The company has approximately 15,000 employees.

We have concentrated on building a broad portfolio with leading and strong positions in many markets. Many of our brands occupy niches that are growing within the industry. Thanks to our international reach, we can exploit market potential on a global scale, which is a significant future competitive advantage.

Our main growth product, snuff, has

historically shown a strong volume increase. Sales during the past year amounted to SEK 3 billion.

Swedish Match is the only company that has international operations in the main markets for snuff. We are the market leader in the Nordic region and number two in South Africa. We are number three in the US market, where we have been increasing our market share for a number of years.

Over a five-year period, sales have increased by an average of 18 percent per year, while operating income has increased by 17 percent per year.

In Sweden, snuff production takes place at our plants in Gothenburg and Kungälv. We produce snuff for the North American market in Owensboro, Kentucky, and for the South African market in Boksburg, on the outskirts of Johannesburg.

In Sweden, snuff, or snus as it is called in Sweden, has undergone a unique change of status – after once having lagged far behind cigarettes in sales terms, the product has staged a fantastic comeback and more than doubled its sales volumes since 1970. Today, snus is accepted in all social classes and is used by both men and women. About half of the roughly 1 million users are former smokers, and women make up a substantial proportion – numbering nearly 200,000.

The US is the world's largest snuff market – about four times the size of the Scandinavian market. The total market is growing and currently amounts to approximately 880 million cans. Our sales and share of the total market have increased each year, and our market share is currently around 9 percent.

Timber Wolf is a strong brand that has been on the market for nine years. Longhorn, a new brand launched last year, was

favorably received by consumers.

In South Africa, we sell nasal snuff under the Taxi brand, following our acquisition of the family company Leonard Dinger in 1999.

CIGARS

As a result of our acquisitions in the US, Swedish Match is today the world's second largest cigar company, with some 30 brands that are sold in more than 90 countries. Annual sales amount to SEK 3 billion.

Production of cigars takes place at plants in Belgium, Germany, Indonesia, Alabama in the US, Honduras and the Dominican Republic.

Swedish Match sells and markets a broad range of cigars in the US. Demand for flavored cigars is increasing, and for this reason we have launched a number of new product variants with considerable success within the framework of the White Owl brand. Volumes are increasing – a trend that has strengthened during the first quarter of this year.

In the exclusive market for hand-rolled cigars, Swedish Match is the largest in the US, with a market share of approximately 25 percent. Our main brand is Macanudo, the world's top-selling premium cigar. But we also have a number of other classic brands, such as Partagas, La Gloria Cubana and Hoyo de Monterrey.

Cigar sales in Europe are dominated by machine-made products, and Swedish Match's market share is about 15 percent. La Paz is one of the better-known cigar brands in Europe.

CHEWING TOBACCO

With our strong Red Man brand, we are among the leaders in the North American market for chewing tobacco. Another of

our brands, Southern Pride, which we introduced in 1998, has shown a favorable volume trend.

PIPE TOBACCO

We are a leading player in pipe tobacco. Borkum Riff is one of the world's best-known brands, with which we have achieved export successes in Asia and other regions. Other strong brands are Boxer and Best Blend in South Africa and Half and Half in the US. South Africa is the largest single market. Together, these product areas account for a sales value of SEK 2 billion.

MATCHES AND LIGHTERS

We supply consumers in 140 countries with our matches and lighter products. We have major production facilities in a number of countries.

The brands for matches, while often local, are very strong. Some examples are Solstickan in Sweden and Three Stars in a number of other countries.

In the lighters product area, Cricket is the best-known brand. The combined sales value for matches and lighters amounts to SEK 2 billion.

THE SHARE

Permit me to say a few words now about the Swedish Match share. Earnings per share increased from SEK 2.26 in 1999 to SEK 4.68 in 2003, which is an average growth rate of 20 percent per year. This increase in earnings has contributed to a highly favorable price trend for the share. The percentage increase in the share price has shown a considerably more favorable trend than an index for Stockholmsbörsen. During the past five-year period, from April 1999 to April 2004, an investment in



The AGM in a nutshell

The Annual General Meeting is the highest decision-making body in a limited liability company, pursuant to the following key wording of the Swedish Companies Act: “the shareholders’ right to resolve on the company’s affairs shall be exercised at the General Meeting of Shareholders.”

To participate in the Annual General Meeting, a person must be registered in the share register as a shareholder on the date of the Annual General Meeting, and must have notified the company of his/her intention to attend the Meeting no later than the date specified in the Notice of Annual General Meeting. The shareholder is not obliged to attend the Meeting in person, but may be represented by a proxy with a written, dated letter of attorney. A few years ago, a regulation was also introduced entailing that companies owning proprietary shares are not permitted to utilize these shares to vote at the Annual General Meeting.

The Annual General Meeting must be held within six months from the end of the fiscal year, when the Board of Directors must submit the Annual Report and the Audit Report.

The Annual General Meeting always resolves on the following four matters:

1. Adoption of the income statements and balance sheets
2. Treatment of the company’s unappropriated profit or loss as stated on the adopted balance sheet
3. Discharge from liability of the Board members and the President
4. Other business that the Board is responsible for deciding on in accordance with the Companies Act or the Articles of Association

All shareholders have the right to take initiative at the Annual General Meeting. However, any shareholder who wishes for a matter to be discussed at the Annual General Meeting must submit a written request to the Board in good time so that the item can be included in the Notice of Annual General Meeting. This is an important document which must include a proposed agenda with clearly defined and numbered agenda items. For public limited liability companies, it is sufficient to publish the Notice of Annual General Meeting in a national newspaper. Shareholders must receive the financial statements and the audit report two weeks prior to the Meeting, in accordance with current practice in most larger companies. However, the law states that it is in fact sufficient if these documents are available at the company and copies are sent to shareholders who request them.

The Annual General Meeting appoints a Chairman of the Meeting, unless stipulated otherwise in the Articles of Association. A voting list is prepared containing the names of all the shareholders present. The voting list and the agenda must be approved by the Annual General Meeting.

The Board and the President are required by law to disclose the following:

1. Any circumstances that may affect assessment of an item on the agenda, and
2. Any circumstances that may affect assessment of the company’s financial situation.

If the company is a parent company, this disclosure requirement applies to the entire Group. In listed companies, the disclosure requirement is met through the President’s address and the ensuing question session.

An item may always be put to the vote if this is requested by a shareholder. However, the law describes in detail when and how voting is to take place as well as the required majority for various decisions.

Minutes from the Annual General Meeting must be available from the company not later than two weeks after the Meeting. A copy of the minutes shall be sent to all shareholders who request it.

Swedish Match has generated a price gain of 190 percent. No other company in Stockholmsbörsen’s list of the most actively traded shares has matched this performance.

Today, Swedish Match has nearly 95,000 shareholders. Among our largest shareholders are the Swedish mutual fund companies Alecta and Robur and three of the AP funds. Among the fund managers outside Sweden we find Wellington Fidelity, and Janus in the US. Foreign ownership is concentrated to the US and the UK and currently amounts to 63 percent.

Dividends and share buybacks are key elements in our strategy for creating shareholder value. We have a clearly stated philosophy to the effect that capital not required for operations should be returned to shareholders through buybacks and dividends.

Including this year’s dividend, a total of SEK 7.2 billion has been transferred to shareholders in the form of dividends, share redemption programs and buybacks during the period from 1999 up to and including 2003. If we also include the increase in market value, a total of SEK 21 billion was distributed to shareholders during this period.

Dividends have steadily increased. An increase of SEK 0.10 to SEK 1.70 is proposed for 2003.

Following this review, I would like to comment briefly on developments during the past year:

- Sales declined by 4 percent to 13,036 MSEK, but increased by 3 percent in local currencies.
- Operating income declined by 6 percent to 2,224 MSEK, but increased by 3 percent in local currencies.
- Net income rose 9 percent to 1,558 MSEK.
- Earnings per share rose 14 percent to SEK 4.68, which is a good increase considering the negative currency effects during the year.

NOW I WOULD LIKE TO COMMENT briefly on the different product areas:

Snuff continued to show favorable growth. In Sweden and the US, volumes increased by 4 percent and 5 percent respectively, in terms of numbers of cans sold. Sales rose 7 percent to 2,995 MSEK. Both operating income and the operating margin improved.

Sales of cigars declined by 9 percent, mainly due to negative currency effects. Operating income was down 25 percent, largely due to a weak start to the

year combined with negative currency effects and costs for restructuring in Europe.

Although consumption of chewing tobacco and pipe tobacco is declining every year, these product areas still generate favorable earnings and strong cash flows thanks to the strength of the brands. The figures for chewing tobacco were adversely affected by the weakness of the dollar, while the strengthening of the rand in South Africa had a positive effect on pipe tobacco.

Both match and lighter operations are exposed to tough price competition, and volumes declined in a number of markets. The product areas are currently undergoing a restructuring program and profit margins have come under pressure – a trend that is expected to continue for some more quarters. We are not satisfied with this trend and intend to work hard to increase margins.

Today we can present developments during the first quarter of the current year

Sales amounted to 3,002 MSEK, on par with last year. In local currencies, sales rose 5 percent. The first quarter includes a number of nonrecurring items, such as:

- revenue of 200 MUSD resulting from a settlement in a claim for damages against the American snuff producer US Tobacco,
- costs of 46 MSEK for restructuring match operations in Europe.

Excluding nonrecurring items, operating income improved by 535 MSEK – an increase of 19 MSEK compared with the year-earlier period. So we have had a good start to the current year, and I feel highly confident about developments during the remainder of the year.

Now I would like to say a few words about the future of Swedish Match

The major portion of Swedish Match’s earnings derives from sales in markets where we hold leading positions, meaning the Nordic countries, the US, South Africa and Brazil, to name the most important of these markets. In the future, we plan to orient our strategy toward strengthening our positions in these countries.

We are also constantly on the lookout for new business opportunities. Since cigars are a classic luxury product, consumption tends to increase as living standards rise. This means that there is long-term potential in many markets, especially in Eastern Europe and Asia. But certain segments of the

large European and North American cigar markets are also showing favorable growth, and we therefore plan to intensify our efforts to launch new products in these segments.

Within the framework of our strategy regarding smokeless products, we are cultivating new markets for snuff in Russia and India. Last autumn, we initiated a consumer test in Tokyo of a new tobacco chewing gum, Firebreak, which is an attractive alternative for cigarette smokers. After conducting a test launch for a few months, we see positive trends and plan to expand our efforts in this area during the year.

Our strategy has been formulated in harmony with trends in society. In various countries, smoking in public premises and workplaces is subject to increasing restrictions. In Sweden, we are the world leaders at reducing smoking, as well as having the lowest frequency of tobacco-related illness – and this in spite of the fact that tobacco use as a whole is as extensive here as in most other developed countries. Researchers call this phenomenon “The Swedish Experience.” Swedish Match is playing a key role in this trend, since snus is the main alternative for cigarette smokers who want to quit.

At present, the sale of snus is prohibited in the EU, with the exception of Sweden. The European Court of Justice is to begin an examination of the legality of the ban on June 8 this year, and its ruling is expected before year-end. If the ban is lifted, as we believe it will be, this will open up considerable potential for Swedish Match. But we will also have to deal with trends and patterns of consumption that will take a long time to change, so it is important not to have unrealistically high expectations of rapid results.

NOW LET ME SUM UP. You are the owners of a unique company in the tobacco industry. Through our focus on

- organic growth
- profitable acquisitions
- ongoing efficiency-enhancement measures in our operations, and
- share buybacks

we have secured an extremely high return for you, our shareholders.

With our well balanced and diversified product portfolio, and with continued support from you, our shareholders, I am convinced that in the long term we will continue to see positive developments for Swedish Match.



Profile of Swedish Match shareholders

The average Swedish Match shareholder is male, 53.4 years of age and owns 100 shares (median). Slightly more than half of the company's shareholders live in the three metropolitan regions of Stockholm, Gothenburg and Malmö. Gothenburg is clearly overrepresented, probably a legacy from the spin-off from Volvo in 1996. One in four private shareholders have their shares in a custody account.

The above information is what can be gathered from Swedish Match's computerized share register. We know nothing about shareholders' incomes or wealth, car ownership, tobacco habits or how often they light a fire using a lighter or match from Swedish Match.

Shares in Swedish Match are owned by 94,800 Swedish private individuals. The total shares held by private individuals only amount to slightly more than 10 percent of the share capital. In terms of numbers, private shareholders dominate in the share register and at Annual General Meetings, and also in terms of the number of copies of Inside and financial reports distributed.

However, many more Swedes have an indirect interest in Swedish Match through funds. Alecta owned 4,2 percent and Robur 3,7 percent in the end of March. Further six percent is held jointly by the National Pension Funds. Consequently, millions of Swedes have an indirect interest in the company's performance.

Swedish Match shares are slightly more 'male' than the average share. Among the

15 companies with the most shareholders, Swedish Match ranks in 10th place, with the percentage of females among private shareholders at 39 percent, which is slightly higher than for Volvo and Ericsson, but lower than the banks. Swedish Match has to a large extent inherited Volvo's shareholder structure following the spin-off in 1996.

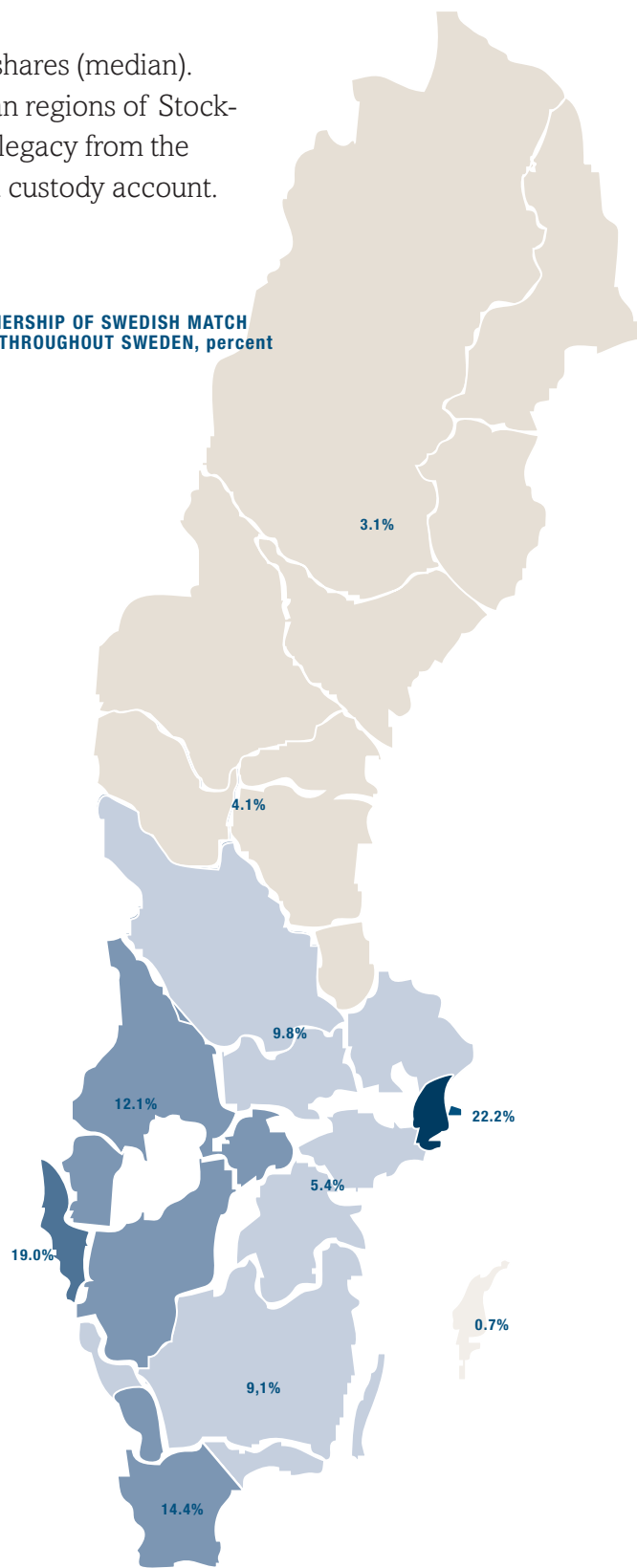
On average, men hold 10 percent more shares than women, which is why the percentage of shares held by women only accounts for 36 percent of the total value.

Shareholders represent a mature segment of the population. The average (median) age of the Swedish population is 40, while the median shareholder is 51.6 years old and the median Swedish Match shareholder is 55.7 years of age. This is clearly older than for companies such as Framfab and Ericsson, but lower than for the banks. For companies with many new shareholders, the average age is normally lower.

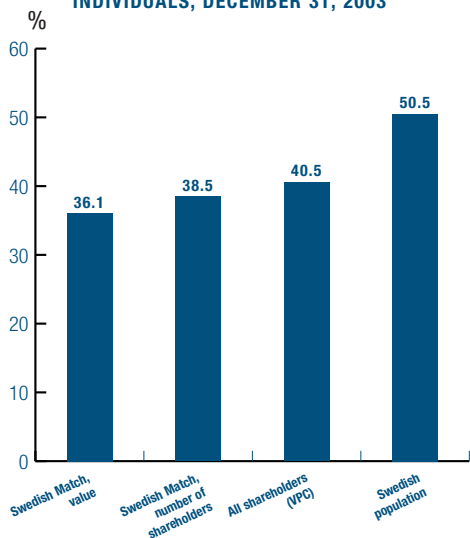
Older shareholders own more shares. The average (median) privately owned share is held by a person aged 57.7 years.

Share ownership in general is spread evenly throughout Sweden, with slight overrepresentation in the Stockholm region and underrepresentation in the Mälardalen area, the area surrounding Lake Vänern and the Bergslagen area. Ownership of Swedish Match shares is also spread throughout the country, but with considerable overrepresentation of the Gothenburg area and, to some extent, also Stockholm, Skåne and the area surrounding Lake Vänern. There is a clear underrepresentation of shareholders in Östergötland, Mälardalen and Norrland (northern Sweden).

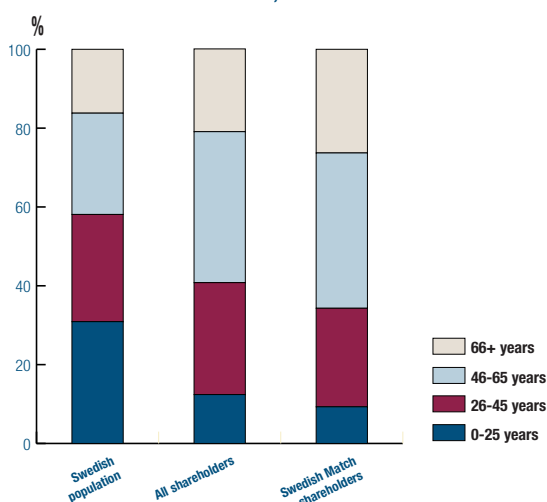
PRIVATE OWNERSHIP OF SWEDISH MATCH SHARE SPREAD THROUGHOUT SWEDEN, percent



PERCENTAGE OF WOMEN AMONG PRIVATE INDIVIDUALS, DECEMBER 31, 2003



AGE STRUCTURE, DECEMBER 31, 2003



Swedish Match is one of Sweden's most popular shares. Only 10 Swedish-based companies have more shareholders. In terms of market capitalization, Swedish Match is ranked in 21st position.

Swedish listed companies with the most shareholders. Source: VPC

Rank	Company	Total shareholders, Dec. 31, 2003	Market cap, SEKM, Feb. 29, 2004
1	Ericsson	961,646	351
2	TeliaSonera	869,962	157
3	Nordea	503,000	151
4	FöreningsSparbanken	395,141	74
5	SEB	325,709	78
6	Volvo	208,540	102
7	H&M	188,390	145
8	Billerud	170,108	7
9	Investor	133,299	60
10	Skandia	121,916	34
11	Swedish Match	98,418	25



KLAUS UNGER LEAVES SWEDISH MATCH

“Mr Tobacco” bows out

When Klaus Unger resigns from the Board in connection to this year’s Annual General Meeting, he will be able to look back on a 46-year career in the Swedish tobacco industry. He has made a substantial contribution to making Swedish Match what it is today, an international company with a clear and consistent strategy focusing on smokeless products. And he is confident about the company’s prospects: “Things will go well as we have the answers to pressing needs, namely to offer alternatives to cigarette smoking.”

Klaus Unger has lived with the tobacco industry since 1958. He witnessed at first hand how the Swedish Tobacco Monopoly became Svenska Tobaks AB, where, over time, he came to hold positions such as Marketing Manager, Head of Marketing, President and Board Chairman. He has also implemented a number of acquisitions of tobacco companies outside Sweden. While he was President of Procordia United Brands, the company acquired Swedish Match. Klaus Unger remained as President of the merged operations until 1996, when the company was listed on the Stockholm Exchange and on NASDAQ under the name Swedish Match AB. In the same year, Klaus Unger was elected to the Board of Swedish Match.

Klaus Unger’s associates don’t call him “Mr Tobacco” for nothing!

IN ACTUAL FACT, IT ALL STARTED out as a consulting assignment. Klaus Unger was a market researcher and the newly formed EC had begun to question the appropriateness of the state monopolies. The Swedish Tobacco Monopoly requested Klaus’s services to prepare for deregulation of the market – which took place in 1961, when the monopoly was abolished. A few years later, Klaus Unger was appointed Marketing Manager at Svenska Tobaks AB.

At around the same time, cigarette smoking was also gradually called into question. Snuff (snus), which had once been a big seller in Sweden, began to see a revival in the late 1960s, particularly among the male population.

“During this era, the company began to

modernize its product philosophy. It invested in research, setting up the Medical Expert Council and an internal research department,” relates Klaus Unger.

When Klaus was appointed President of Svenska Tobaks AB, the company still offered a complete range of tobacco products, and this remained the case for several years after the formation of today’s Swedish Match.

“However, my predecessors at Svenska Tobaks had interpreted the signs of the times very accurately. Cigarettes increasingly became a burden. The future lay with smokeless products,” says Klaus Unger.

DURING HIS YEARS AS PRESIDENT of Swedish Match and in conjunction with the upcoming stock exchange listing, it became increasingly necessary to carefully consider the true *raison d’être* for the company in the future.

“The conclusion reached by my successor and the Board was unanimous: the company would no longer handle cigarettes.”

From the adoption of this standpoint, the strategy that Swedish Match still essentially retains today emerged:

“We shall be a company that focuses on two primary areas. The first is harm reduction, or, in other words, substitute products for smoking that minimize the harmful effects of tobacco. Our second area of focus concerns what I would term ‘cultural or gourmet products’. Such products include cigars and pipe tobacco, but also matches, which are part of Swedish industrial culture. One mustn’t lose sight of the fact that tobacco has always existed as a source of pleasure. Enjoying a fine cigar is a

pleasurable experience!” says Klaus Unger.

ANOTHER STRATEGICALLY important major theme during Klaus Unger’s years in leading positions has been internationalization.

“We realized back in the 1970s that we had to expand internationally, since the Swedish market was too small. We also possessed a high level of tobacco expertise in Sweden, which meant that we felt we could hold our own against the competition.”

The first step was taken with the international launch of Borkum Riff, which took the US market by storm. The company also began to acquire cigar manufacturers, and when the time came to introduce snuff products, there was only one market worth considering, and that was the US. This gradually led to the acquisition in 1985 of Pinkerton Tobacco Company, which has served as the foundation for the company’s continued success in the US.

It is easy to see that the far-sighted decisions taken during the past two decades have given Swedish Match a huge lead compared with its competitors.

“However, sustaining this market lead requires constant effort. It is therefore pleasing to see that the company is always highly prepared to meet new competition. When Svenska Tobaks merged with Swedish Match in 1992, few understood the problems associated with tobacco. Today, twelve years later, everyone in the Group knows what harm reduction entails. Being able to offer harm reduction is the company’s philosophy and major strength – and a condition for also maintaining our lead in the future,” says Klaus Unger.

In spite of this, the company constantly faces new challenges. Finding new markets and new products in turn necessitates ongoing marketing development.

“Take the EU as an example. Even if the sales ban on snuff is lifted, we cannot simply rest on our laurels. It will take major efforts to work up worthwhile volumes in the new markets. India is another example. Our sales there are hardly on a massive scale yet, but rather I would refer to our current activities as intensive care of small isolated markets.”

DURING HIS MANY YEARS in both operational and Board positions, Klaus Unger has been involved in much public debate regarding business conduct, management and Board responsibility. How does he view Swedish corporate culture today?

“In general, corporate culture in listed companies is highly developed, but it is also needed more than ever. It is important that it doesn’t become merely a formality, a section on corporate governance in the annual report. It must be a living and integral part of the company’s soul, otherwise you lose sight of the people. Most people identify themselves strongly with their workplace, which is often the second most important aspect of their life after their family. If you are dishonest, greedy or merely full of hot air, people become very disappointed, which may carry a high price for a company if it loses the trust of its employees.”

According to Klaus, Swedish Match has always endeavored to build up and maintain this trust.

“Naturally, the management of a listed company must be visible to the outside world but it is almost more important to be visible internally. It is a matter of showing respect and honesty and of being familiar with all levels within the company. The Board members normally visit two plants each year, in various locations worldwide. We take the time to go round and show that we appreciate each and every employee.”

IN THE RECENT INTENSIVE DEBATE regarding Board responsibilities in Sweden, one newspaper referred to Swedish Match’s Board as being ‘weak,’ a claim that angered Klaus Unger considerably.

“There’s no way we have a weak Board! We have extremely skilled colleagues spanning a range of backgrounds and experience. Our meetings are stimulating occasions, where everyone says what they think. The Chairman always makes sure that all the members have a chance to state their opinions, and he always speaks last so as not to suppress debate in any way. Of course, we may have differing opinions, giving rise to very frank discussions. The fact that we then unite behind a unanimous line of decision outwardly does not mean to say that we all simply knuckle under or agree to everything.”

HOW DOES IT FEEL TO LEAVE a company that has been part of his life for so long? What does Klaus Unger think the future holds in store for Swedish Match?

“I feel very secure with the company’s current orientation and with Bernt at the helm. Things will be fine. The signs are written on the wall: our long-term business policy means that we have the answers to pressing needs. We have a mission to fulfill and we do not need to foist our products on people,” concludes Klaus Unger, who is about to set off on vacation visiting gardens in Cornwall. At last, he will have time to cultivate his other major interests in life, such as gardening and travel – or a combination of the two.

Positive start to 2004

The Swedish Match share started the year on a positive trend. Since January 1, 2004, the share price has risen about 7 percent, from 73.50 SEK to 78.50 SEK (31 May), which means that the share price has almost reached the high levels achieved at the beginning of 2002.

After fluctuating around the 70 SEK level at the beginning of the year, the share price increased sharply at the end of March, approaching the 80 SEK level. Subsequently, a minor setback occurred during the unsettled period on world stock markets during April and May. However, the Swedish Match share lost less ground than the market average.

The rise is linked to the positive news relating to Swedish Match during the period. The settlement with US Tobacco in

March regarding the sale of moist snuff in the US gives the company approximately SEK 1.5 billion (USD 200 M). The stock market expects this capital contribution to facilitate further share buybacks during 2005. There has also been subsequent debate regarding a possible lifting of the EU ban on moist snuff since the European Court of Justice announced at the end of March that the matter will be brought before the Court in June. The Court will rule whether the current ban on moist snuff is in violation of the EU Treaty and acts of law.

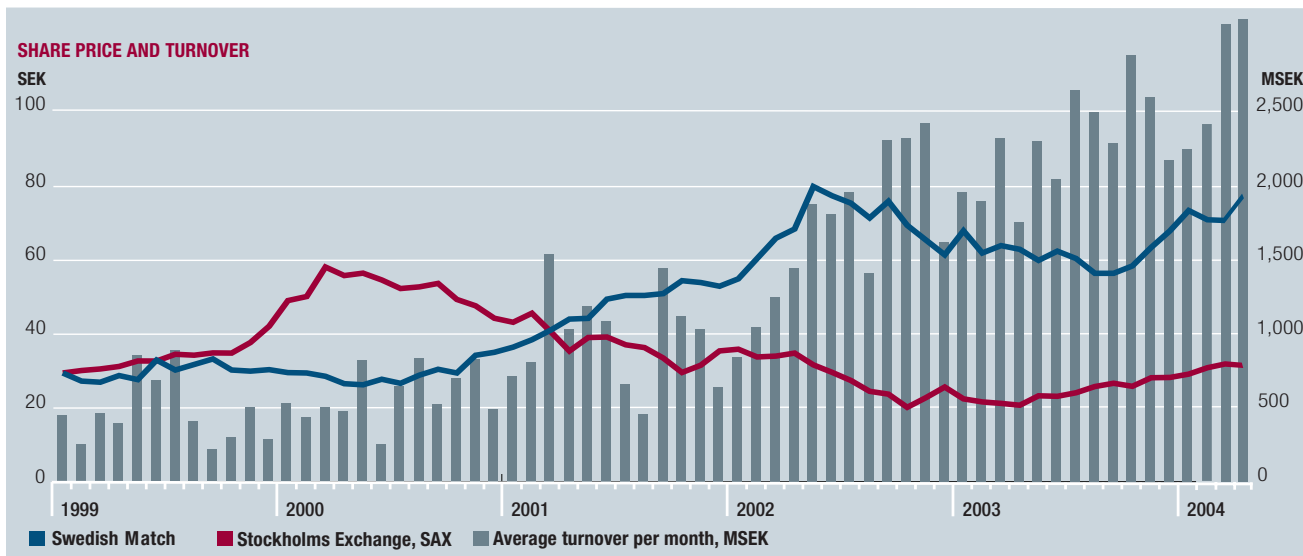
The market, and in particular the analysts, will monitor the case very closely and attempt to assess how this will affect the market outlook for moist snuff products.

Another factor that affects the share

price but is outside the company's control concerns movements in the USD exchange rate. A weak dollar means that Swedish Match reports lower revenues in SEK from US operations.

Several large international investment banks, such as Morgan Stanley and Lehman Brothers, have raised their target price for the share during the spring, and a growing number of banks and finance companies are now continuously monitoring the company and its shares.

Since 2000, the Swedish Match share has risen steadily from SEK 30. This represents a rise of more than 150 percent during this period, compared with a decline of more than 40 percent for the Stockholm Exchange as a whole.



TOTAL RETURN

Total return, %	
2004 (Jan 1 - May 31)	9.0
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–May 31, 2004, %

Swedish Match	6.8
SAX	6.2

Comments on Klaus Unger



Sören Gyll, Chairman of the Confederation of Swedish Enterprise:

"My acquaintance with Klaus began as early as 1984, when I became President of Procordia and he was President of Svenska Tobaks AB. He later became President of Procordia United Brands and was a member of our management group.

I came to know him as a highly competent person with the capacity to create an extremely positive atmosphere around him. He never seemed to feel a need to be in the spotlight himself, apart from when this was necessary, but always functioned in an unassertive way. He can sometimes appear to be rather formal, but that has the advantage that he is always surrounded by orderliness and all of his actions are consistent.

We still socialize privately from time to time, although not as often as we used to. The relationship has persisted since the Procordia days, when the management team established a social group that also included our families. Today we get together occasionally to go hunting.

In private, Klaus is an open and sociable person with a lively sense of humor. I also see him as a multifaceted person with broad cultural interests. It has been a long and consistently positive friendship that I value highly."



Bertt Magnusson, Board Chairman, Swedish Match:

"I know Klaus as a very discerning person. Furthermore, his knowledge of the industry is unparalleled. He is also very loyal to the company and has been an extremely strong presence in the Board.

Klaus's contribution to making Swedish Match what it is today cannot be emphasized enough. He is a living bearer of the Swedish Match tobacco concept as it has been developed over the years. Now, as we thank him for his service, we do so with a little more festivity than usual. He more than deserves it!

Klaus is leaving a void behind him in the boardroom and I will miss him very much. No doubt, however, I shall continue to call him on the phone when I need some good advice about the tobacco industry."



Bo Forslund, First Deputy Chairman of Föreningssparbanken, former MP

"I got to know Klaus when I was on the Board of Svenska Tobaks AB and, later on, Swedish Match. At that time, Klaus was the president of the company, and I had been elected to the Board as I was a member of the government's Standing Committee on Taxation. This was in the mid-1980s and early 1990s, when there was a lot of turbulence surrounding tobacco issues and the industry was influenced by strong political forces.

As a native of northern Sweden, I would describe Klaus as a 'real man.' He was one of the most congenial and likeable people I have ever met. I had tremendous confidence in him, as did many others. In fact, he commanded respect from everyone he met.

The strategic shift that was initiated during this time was also largely his doing, and we all know now that the decision to focus on snus was an intelligent and wise one.

Klaus is not a person who seeks the limelight, but I was impressed by him as a fantastic team leader. And to succeed in this respect, you can't dominate the scene all by yourself. However, this meant that things always went smoothly when Klaus was involved. He inspired confidence in people without needing to make himself the center of attention."

Maxi-pouch – twice as large

Swedish Match's consumer surveys show that there is demand from users of both portion-packed snus and loose-packed snus for a portion pouch in a larger format. Now it is here – the Maxi-pouch that is twice the size of the standard pouch. The launch in convenience stores began at the beginning of March and in supermarkets in May.

The full name of the product is Grovsnus Original Portion Maxi. Each portion pouch weighs two grams and a can contains 12 portion pouches (24 grams). The brand is, to say the least, well established – Grovsnus has been on the market since 1915.

"This is a product for which there is strong demand among users of portion-packed snus, but users of loose snus in particular have been looking for a larger portion pouch to which they can switch when they wish – in a social context for example. Some people have adopted the solution of inserting two portion pouches at a time; now they no longer need to do so. The Maxi-pouch is twice the size of an ordinary portion pouch," says Jan-Erik Knutsen, head of marketing in Swedish Match's North Europe Division.

Grovsnus is now available in four brand variants, all characterized by a pure tobacco flavor.

"A long tradition, a large and loyal customer base, and a tremendously strong brand. We are confident that Grov Maxi will soon be claiming its place in snus coolers throughout Sweden," says Jan-Erik Knutsen.





Settlement with UST adds new cigar range

Swedish Match North America and U.S. Tobacco have reached a settlement whereby UST will make a one-off payment of 200 MUSD (approximately 1,540 MSEK) to Swedish Match. Under the terms of the settlement, Swedish Match will also take over all of UST's cigar operations, with annual sales of about 11 MUSD (approximately 85 MSEK). The settlement marks the end of a legal dispute that began in July 2002.

Under the terms of the settlement, Swedish Match will take over the brands for the cigars produced by UST's subsidiary U.S. Cigar Sales Inc. Other assets, such as plants, tobacco plantations, inventories of finished products and tobacco stocks, will also pass into Swedish Match's ownership. The transfer will strengthen Swedish Match's position, particularly in the US market for premium cigars.

U.S. Cigar's plant is located in Danlí, Honduras, close to one of General Cigar's plants. The company also grows its own

tobacco in the nearby Talanga Valley. Among the best-known cigar families produced by the company in Honduras are Don Tomás and Astral. Connoisseurs rate Astral Talanga Valley Selection among the finest cigars produced in Honduras.

It has yet to be decided how the new operation will be integrated with Swedish Match. The agreement is expected to become effective in June this year.

Swedish Match brought its action against UST under the US antitrust legislation before a court in Kentucky in July 2002. The lawsuit followed a court judgment awarding another competitor a large

sum in damages from UST. The process has been under way since then, but in the meantime discussions concerning a settlement were initiated.

"This was because it was in the interests of both parties to put the affair behind them. It is expensive to conduct legal proceedings, as well as diverting much time and energy from normal operations," explains Fredrik Peyron, corporate attorney at Swedish Match.

"In addition, legal disputes always involve an element of uncertainty, given that you can never be 100-percent certain what the outcome will be. Now we know

the result, and we have also reached an agreement with which we are pleased," he adds.

THE SETTLEMENT ALSO REMOVES a major obstacle that has prevented Swedish Match and U.S. Tobacco from cooperating on other, industry-wide issues. Both companies share the same view regarding smokeless products and harm reduction, and there is much instructional and informational work to be done in this 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 2003 was 15,115. 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	2003	2002
Net sales	13,036	13,643
Operating income ¹⁾	2,224	2,439
EBITDA ¹⁾	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	1:60
Return on shareholder's equity, %	38.9	35.2

¹⁾ Excluding items affecting comparability

