

Inside

INFORMATION ABOUT SWEDISH MATCH FOR SHAREHOLDERS AND OTHER STAKEHOLDERS

#3 July 2004

Strategic focus lifts profits

The first six months of 2004 produced excellent results in most of Swedish Match's business areas. Sales increased somewhat, compared with last year, and amounted to SEK 6,377 M. In local currency, the increase was 5 percent. Operating income also increased and amounted to SEK 1,148 M, excluding restructuring costs. **Page 2-3**

Lars Dahlgren new Chief Financial Officer

Lars Dahlgren took over as CFO for Swedish Match on July 1. Previously, he held a position in which he worked with analyses, company acquisitions and divestments for Group management. Major tasks for the new CFO include the transition to the new International Financial Reporting Standards (IFRS) that take effect on January 1, 2005. **Page 2-3**

Top names in sailing on hand in Marstrand



Australian Peter Gilmour was among the top sailors visiting Marstrand and the Swedish Match Cup. Although already the winner of the 2003-2004 Swedish Match Tour, Gilmour is a perfectionist who prepares meticulously for each race. In this year's race, however, he had to settle for second place after a collision with another finalist. **Page 6**

Match king to retire



After 25 years in Swedish Match management, Massimo Rossi is a powerful symbol of the company's identity with his roots in matches and not least the Swedish Match brand. As he now retires, Massimo would like to be remembered for his work to save the Swedish Match brand and his contributions to the Solstickan foundation. **Page 8**

Hindrikes at the helm

Restoring matches to profitability is an important short-term goal for Sven Hindrikes, as he now takes over the helm of Swedish Match. The new CEO will focus on defending and strengthening the company's position in existing markets with attractive brands and constant product renewal. **Page 4-5**



JANUARY – JUNE 2004:

Financials stronger than

“We had a strong second quarter, and the outcome for the first quarter was also very favorable. This shows once again that our strategic focus produces profits. Financially, Swedish Match is stronger than ever, which provides an excellent foundation for the future,” says Chief Financial Officer Lars Dahlgren in his comments on the figures for the first six months. Sales and operating income increased, as did earnings per share. The recovery in cigar operations was further strengthened during the second quarter.

The first six months of 2004 produced excellent results in most of Swedish Match’s business areas. Sales increased somewhat, compared with last year, and amounted to SEK 6,377 M. In local currency, the increase was 5 percent. Snuff showed increased organic growth in all major markets, and the successes for the new machine-made cigars continued in the US, contributing to significant increases in sales volumes in that market.

Operating income also improved and amounted to SEK 1,148 M, excluding restructuring costs. The second quarter was strong, with an 11-percent improvement of operating income to SEK 613 M, excluding non-recurring effects. The settlement with UST that was completed during the second quarter and resulted in revenue of SEK 1,521 M, was reported as an item affecting comparability. Restructuring costs during the period amounted to SEK 160 M.

Earnings per share increased to SEK 4.39, to which the settlement with UST contributed SEK 2.68.

The Group’s profits continued to be somewhat depressed by the strong SEK

relative to the US dollar. The negative currency effect in translating foreign subsidiaries amounted to SEK 49 M during the period.

SNUFF SALES INCREASED by 8 percent to SEK 1,565 M. In Scandinavia, volumes increased by 2 percent, and in the US market, Swedish Match’s volumes increased by 6 percent. The operating margin remained strong at 45.8 percent for the entire period, despite costs for expansion if the new value-price brand Longhorn in the US.

“The value-price segment has grown strongly recently in the US market. We foresaw this trend and developed the new Longhorn product. During the second quarter, we increased sales in several states,” reveals Lars Dahlgren.

The success for Longhorn more than offset the decline in volumes for the Timber Wolf brand, which is being subjected to fierce competition.

“This development shows how important it is to work continuously with the product portfolio. The North American division has successfully followed trends and was right on target in the market,” says Lars Dahlgren, who remains optimistic about the US market.

Swedish snus is also being launched on a trial basis in some 150 stores, primarily in large cities.

“This will be exciting to follow. We are not only targeting Swedes in areas with a high Swedish population. Although there seems to be considerable interest, we expect many challenges and hardly foresee an explosion in sales,” says Lars Dahlgren.

In Scandinavia, snus sales increased by 2 percent.

“That is a lower rate of growth than we have been accustomed to. At the same time, I believe there is still growth potential, particularly among female smokers in Sweden. In Norway, on the other hand, where a ban on smoking in restaurants was introduced on June 1, we see continued growth.”

CIGAR OPERATIONS REPORTED very strong results for the period, with sales increasing by 10 percent to SEK 1,533 M. In local currency, the increase was 18 percent. Operating income increased by a full 41 percent to SEK 235 M. It should be noted, however, that the comparison is with a relatively weak first half of last year.

“Above all, machine-made cigars are increasing in the North American market, although premium cigars are also gaining. For machine-made cigars, the product adjustments with new variants and flavored cigars are showing results. Nearly half of all sales consisted of new variants that were launched over the past 18 months,” notes Lars Dahlgren.

In Europe, the trend was mixed, although total sales increased somewhat in certain markets, such as France, where growth of the total market was strong in certain segments. Increased tobacco taxes in certain countries, for example, resulted in market fluctuations. The rationalization

Praise for cigar operations

THE INTERIM REPORT for the first six months of the year shows once again the ability of the Swedish Match Group to create value. Excluding substantial nonrecurring revenues in conjunction with the UST settlement and restructuring costs, the increase in sales and profits was excellent.

Successful sales of snuff continue to show steady organic growth resulting in a doubling of sales over five years.

After these first six months, however, I wish to direct special praise to the cigar product area, which after some years of adversity succeeded in reversing the trend, particularly in the US, through its persevering efforts in the change program and in product renewal.

In recent years, a change has been noted in consumer demand in North America with respect to machine-made cigars. Increasingly, consumers want flavored cigars, a trend now spreading to Europe. Increased demand for handmade cigars has also been noted in North America.

Over the past few years, our cigar experts have been working to expand and renew the product portfolio. In the US, a broad range of product variants have been launched under the White Owl brand, and in Europe, the Wings brand, as well as products from our jointly owned company Arnold André, have been able to successfully satisfy consumer demand.

Swedish Match is now taking the lead and reaping the fruits of its century-old cigar expertise in new incarnation. The combination of this customer and market orientation and the constant striving to further rationalize operations has improved profitability. In local currencies, cigar sales increased by 16 percent during the first six months, while operating income increased by 41 percent.

At present, snuff and cigars are the two growth areas. Long-term profitability and excellent cash flow in other product areas, together with continued share repurchases and dividends, create an excellent foundation for a stable share value.

Sven Hindrikes, President and CEO

New CFO focused on high return and new accounting rules

Lars Dahlgren was appointed as new Chief Financial Officer of Swedish Match on July 1. He succeeds Sven Hindrikes, who was appointed President and CEO on June 1. Inside asked the new CFO to present himself.

“Congratulations on your new job as chief financial officer!”

“Thank you. I’m very excited. Swedish Match has made fantastic progress since the exchange listing in 1996. The company has proven to be very successful in creating value for shareholders. The company’s successful strategy remains firm, and I am taking on a very exciting and interesting job.”

“You have been working at Swedish Match since 1996. Tell us a little bit about your career with the company.”

“Before I started working at Swedish Match, I was a stock market analyst at an international bank. At Swedish Match, I began working with Group accounting. Putting the theory I had learned at the Stockholm School of Economics into practice was a valuable experience. My first international assignment was as finance manager at the lighter factory in the Philippines. It was a period during which I learned a great deal about how to run a business in a culture that is very different from Swedish society. Working in lighter operations was also very valuable, since you really learn about cost controls all along the chain from production to the market.

After the Philippines, I spent an interesting period at Vasatek in Lon-

don. That job placed me at the centre of the Group’s strategic development toward smokeless products. From there, I returned to the head office to work directly under Group management with analyses, company acquisitions and divestments.”

“What are your priorities in your new position?”

“My first priority is to ensure that Swedish Match can continue to generate a high return for our owners. At the same time, we will have to meet new demands in our accounting. Because Swedish Match is also listed on the US NASDAQ exchange, we need to build up a system for internal controls according to the regulations in the new Sarbanes Oxley Act in the US. This is a very substantial undertaking in which we will have to document all the processes underlying the figures presented in our final accounts and ensure

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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118 85 Stockholm
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REPRODUCTION
Scarena, Stockholm
PRINTING
Ljungbergs, Klippan

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SWEDISH MATCH

an ever

program for the European cigar operations continued during the period, resulting in costs of SEK 11 M.

Chewing tobacco and pipe tobacco continued to show a stable earnings trend, with operating margins of 29 percent and 23 percent, respectively. In Tokyo, the test launch continued of Firebreak tobacco chewing gum, which is now sold in some 700 stores.

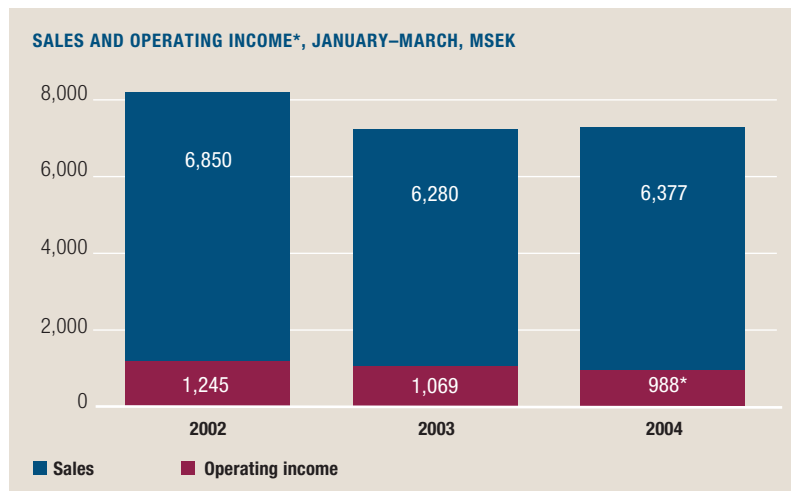
“MATCH SALES CONTINUED to show a generally declining trend, and profitability was not satisfactory. At the same time, there are still several market with stable profitability. Matches are an important product that creates distribution synergies for our sales force,” says Lars Dahlgren.

“We have now implemented a number of necessary rationalization measures to improve our competitive position. It is our hope that it will be possible to achieve satisfactory profitability in these operations in time, but further rationalization measures cannot be ruled out. We also see increased interest for such newly launched product as grill bags and fire starters.”

Match operations also face a market that remains harsh due to low-price competition and the weak USD. Nonetheless, operating income increased to SEK 14 M, which Lars Dahlgren regards as acceptable, given market conditions.

CONSOLIDATED NET FINANCIAL ITEMS for the period amounted to an expense of SEK 73 M, compare with income of SEK 50 M for the year-earlier period. However, the comparison is distorted by the realization of gains on two interest swaps that resulted in net financial income in 2003. Net debt decreased to SEK 1,489 M, compared with SEK 2,715 M on December 31, 2003.

Cash flow remained strong during



	SALES, MSEK			OPERATING INCOME, MSEK		
	Jan-Jun 2004	Jan-Jun 2003	Change %	Jan-Jun 2004	Jan-Jun 2003	Change %
Snuff	1,565	1,447	8	717	655	9
Chew. tobacco	536	589	-9	154	170	-9
Cigars	1,533	1,395	10	235	167	41
Pipe tobacco/ Accessoires	425	428	-1	96	91	5
Matches	664	691	-4	-81	69	
Lighters	292	305	-4	14	9	56
Other	1,362	1,425	-4	-147	-92	
Total	6,377	6,280	2	988	1,069	-8

the period, with operations generating slightly more than SEK 2 billion. During the period, a loan of SEK 673 M was amortized, and SEK 558 M was paid to the shareholders as a dividend. Investments amounted to SEK 131 M. Despite this, liquid funds increased by

SEK 568 M during the period.

“In summary, we are financially stronger than ever. This gives us a solid financial foundation to continue creating value for our shareholders in the future,” concludes Lars Dahlgren.

that the necessary controls are in place and operate as they should.

Another task facing us is that Swedish Match like other Swedish exchange listed companies must make a transition to the new international accounting principles IFRS as of January 1, 2005. This is part of an international harmonization, and the same rules will apply for all exchange-listed companies in the EU. One objective is also that the new rules should be more similar to those applied in the US, thus facilitating comparisons in an international perspective. For Swedish Match, this will primarily mean changing the way we report pension costs, goodwill amortization, options programs, financial instruments and biological assets. The latter refers to our poplar plantations, which are intended to ensure a reliable supply of raw materials for match manufacturing in certain markets.”

The transition to IFRS will entail considerable work for all economists in the Group. The change will mean that all subsidiaries must prepare reports in

accordance with IFRS, rather than Swedish accounting principles as previously.

Many figures must therefore be recalculated according to the new principles as early as this year, so we are already busy making preparations. When we publish interim reports and the year-end report next year, comparison figures must be published for this year in accordance with the new principles.

It is also our ambition to further enhance the contribution of finance to the company's business. By being able to quickly produce accurate and appropriate financial analyses, we can contribute to sound and profitable growth in all business areas.”

“What Swedish Match products do you use?”

“I use General portion snus. Occasionally I also enjoy a cigar. At home, we use many match products. We have a utility lighter for our grill, and when the autumn comes, we also use many fire logs in our fireplace.”



Analysts' questions

Swedish Match's interim report for the first six months of 2004 was presented on July 21. Publication was followed by a telephone conference during which Group management answered questions from analysts from banks and brokerages.

JONAS PÅLSSON, ABG SECURITIES:

“Given the decline for Timber Wolf in the US and the slower growth for snus in the Nordic market, how do you view the margin for snuff during the rest of the year?”

SVEN HINDRIKES, CEO:

“The US snuff market continues to grow. It is only Timber Wolf that has declined slightly due to very stiff competition in that market segment. We naturally hope to be able to achieve a turnaround for Timber Wolf and expect continued volume growth for Longhorn. At present, the operating margin is 46 percent. For the full year, a margin of 45 or 46 percent is probably the best indication that we can provide at the moment.”

FRANS HOYER, CHEVREUX DE VIRIEU:

“What is your reaction to the slower growth in the Nordic market? Has it surprised you? Is it a result of new competition?”

EMMET HARRISON, INVESTOR RELATIONS:

“Sales in the Nordic market have increased by two percent thus far this year, and we expect about the same increase for the full year. We do not believe that competition has had more than a marginal effect in the weaker sales. There are three serious competitors in the market. During the past three years, they have attained a market share of about three percent, corresponding to one percent each year. The weakening in sales is probably a reflection of the fact that we have such a high penetration among Swedish men. There is little potential for much greater growth. In Norway, however, we have seen strong growth.”

FREDRIK LILJEWALL, UBS WARBURG:

“Can we expect more restructuring measures in match operations?”

SVEN HINDRIKES:

“Even when we exclude the costs that we have incurred for the restructuring program that has now been completed, the underlying earnings for matches are not satisfactory. However, we have no new measures to announce at present.”

JOHAN SIVANDER, NORDEA:

“Can we also expect restructuring costs for the cigar operations that you took over from UST?”

SVEN HINDRIKES:

“We do not see any such need. We have now integrated these operations into General Cigar and naturally believe that there will be synergies from which we will gain.”

VIRGINIA HÉÉRIBOUT, CDS IXIS SECURITIES:

“What is your goals with respect to the margin on cigars? What can be done to improve it?”

SVEN HINDRIKES:

“Our goal is an operating margin of 18 to 20 percent within two to three years. Greater efficiency, new, attractive products and perhaps a better price situation will contribute to an improvement.”



SVEN HINDRIKES, NEW CEO OF SWEDISH MATCH

“Restoring matches to profitability most important right now”

Reversing the negative trend in the match product area is one of the most important tasks for newly appointed Chief Executive Officer Sven Hindrikes over the coming year. Defending and developing the most important existing markets is also a high priority. New acquisition opportunities are always being considered, but at the moment there are no prospects in sight, according to Sven Hindrikes.

When Sven Hindrikes was appointed as new president of Swedish Match, both he and Bernt Magnusson, Chairman of the Board of Directors, emphasized that the long-established strategy for the company would be retained. Sven Hindrikes sees this as self-evident.

“I have taken an active part over many years in developing the company in the direction that we have established. I would not have done so, if I took a different view or wished to pursue a different approach,” says Hindrikes.

On the other hand, priorities may certainly change, depending on competition and market trends. Sven Hindrikes

therefore sees restoring the match product area to profitability as his most important task over the short term.

THE NEW CEO thus also dismisses an issue that is often raised as to whether the match product area will be divested. Nonetheless, he does not rule out partnerships or alliances intended to strengthen Swedish Match’s market position.

“The action program now in progress is intended to restore profitability in matches. We are convinced that it is possible to reverse the trend, despite tough market conditions. Matches are an important part of our

operations due to the distribution synergies that they create in some markets,” says Sven Hindrikes, who envisions a slimmed down but profitable match product area.

That Sven Hindrikes is now at the helm will undoubtedly be evident in other ways, as well. He is perhaps more inclined to place emphasis on the most important existing markets, which are North America and Scandinavia. Given a company with Swedish Match’s strength, journalists and analysts naturally tend to show greater interest for possible acquisitions and the opening of new markets than the core business itself.

“However, we must not forget that the major portion of the company’s profits derives from established markets and that they still hold the greatest potential going forward,” emphasizes Hindrikes. “These are also the markets that generate organic growth. We must therefore constantly ensure that we have attractive brands and that we are receptive to consumer preferences. Over the past two years, we have been successful in doing so. We expanded and renewed our product range and are now beginning to see the effects in the form of increased sales volumes. It is particularly gratifying to note the strong recovery for machine-made cigars in the US, which was the result of innovative product development that was right on target in the market.”

ORGANIC GROWTH is one of the pillars in Swedish Match’s strategy. The other is acquisitions, an area where the established strategy once again remains firm. Although the company has substantial cash funds, growth by acquisition is not the easiest path.

“When we consider possible acquisition targets, we are very strict as to the criteria that they must fulfill. The most important criteria are that we must have the management resources to handle the acquisition, that there are synergies to be gained and that the price is right. There are some candidates, but the selection becomes limited when our criteria are strictly applied,” notes Sven Hindrikes.

“In recent years, we have nonetheless acquired three cigar manufacturers in the US and two pipe tobacco manufacturers in South Africa, all of which have proven to be profitable,” he adds. “We remain open for whatever opportunities that may arise, for example in conjunction with structural transactions in the industry. Primarily, it would be cigars, I believe. We are already number two in the world in cigars, but we are certainly interested in supplementary acquisitions that can strengthen that position. It’s just that there are no prospects in sight right now.”

Questions are sometimes raised as to whether Swedish Match is too restrictive with respect to acquisitions and too eager to satisfy shareholders with generous dividends and share repurchase programs. Sven Hindrikes, however, does not feel that the one is at the expense of the other.

“We have an extremely strong position that does not rule out the possibility of acquisitions. Our earnings capacity means that we are able to be generous to shareholders, while keeping opportunities open for acquisitions whenever the occasion may arise. There is no contradiction there,” he asserts.

WITH RESPECT TO THE CHOICE BETWEEN dividends and share repurchases, it is important to achieve the correct balance based on tax considerations, particularly for foreign investors. Repurchase of shares, in comparison with redemption, is also the best and simplest alternative for all shareholders.

“Since the exchange listing, we have therefore reduced the number of shares in the company by 30 percent. For our long-term shareholders, the result has been a very good return,” notes Sven Hindrikes.

WHAT DOES SVEN HINDRIKES expect from the new markets in which the company has primarily introduced its smokeless products?

“If we consider snus sales in Russia, the trend is excellent, but from a low level. The introduction of Swedish snus in the US is also in a phase of test sales, making it too early to talk about trends,” says Hindrikes, adding that he believes that the same will apply in Europe if the EU court lifts the ban on the sale of snus.

“As a matter of principle, it is extremely important that the ban is removed, since it is completely illogical. I cannot understand how cigarettes can be sold freely while snus, which is significantly less harmful to health, is banned. I therefore hope that the court will rule in our favor, and if not that politicians will see reason and remove the ban within the not too distant future,” he says.

This is not to say that Sven Hindrikes believes that there will be a snus boom in the EU. “I do not want to create false expectations. There is a tradition of using snuff in some countries that I believe will enable us to achieve long term growth in those markets. Otherwise, it will take time for European consumers to change their habits.

company,” observes Hindrikes. “Furthermore, it is a very strong performance culture that makes tough demands but which welcomes individual initiatives. Being able to retain skilled employees is also essential for our business, and very few people leave the company. For me, it is extremely stimulating to have the privilege of leading a company with such competent, high-performing and dedicated employees.”

HIS OWN LEADERSHIP STYLE is very hands-on. “I am genuinely interested in the business and feel strongly committed to finding solutions to all the tasks that we face,” says Sven Hindrikes. “I look more at the results that have been achieved, and I am less impressed by what managers and other employees say they are going to do. It is what you do – and what you have done – that count, not what you say you are going to do. I am not impressed by words, only solid achievements.”

FOR A HANDS-ON MANAGER, being out in the organization as much as possible is also important. “We are an internation-



Repeating the Swedish Experience in new markets will entail a long journey.”

Sven Hindrikes is naturally well qualified to describe the company culture in the organization that he will now lead. “I would say that it is a culture permeated by very open communication and strong loyalty towards the

al company with 93 percent of our employees outside Sweden. A strong company culture is therefore important to instill unity throughout the organization,” says Sven Hindrikes.

Owners are also a prioritized group for Sven Hindrikes, who spends an estimated four to five weeks each year in meetings with investors to ensure that there is no uncertainty regarding the company’s strategy.

“WE NATURALLY STRIVE to strengthen our positions in all markets that we prioritize. That demands working constantly to renew and enhance the product portfolio,” says Sven Hindrikes in describing Swedish Match’s future prospects.

“I believe that this is the right strategy and that it will lead to concrete results. Over the long term, I am strongly convinced that our smokeless products will become an increasingly accepted alternative to cigarette smoking. The future also looks bright for cigars. We see very attractive opportunities in new markets in Europe and Asia. This is a potential that will persist for many years to come,” concludes Sven Hindrikes.

FACTS/SVEN HINDRIKES

Born: 1950

Family: Wife and two sons

Employed at Swedish Match: 1998

Previous employment: ABB in Mexico, executive vice president of ABB Canada and of Linjebuss.

Education: M.Sc. in Economics from the Stockholm School of Economics

Interests: Has completed nine Vasalopp cross-country ski races and plays golf in the summer

Likes: A good cigar after a good dinner.

Lars Olof Löfman new head of Division North Europe

“Our division has made an incredible journey during Stefan Gelkner’s period at the helm. I am assuming control of an extremely well-tended operation,” says Lars Olof Löfman.

On July 1, Lars Olof Löfman assumed the position of head of Division North Europe after Stefan Gelkner, who is retiring. Lars Olof Löfman was employed by Swedish Match in 1987 as production manager and has most recently been employed as head of Development & Production within the division.

Like his predecessor, Lars Olof has extensive experience of production.

“I have been a member of the division’s management group for many years. Naturally, this means sharing the overall responsibility for business. It is not only about technology and production but also everything from personnel matters to marketing.

How will you make your mark on operations?

“The division has enjoyed a lengthy period of splendid development. Now, as I take over, it is in a situation where the external conditions are, to some extent, new, mainly because a number of new competitors have entered the market, backed by players with extensive resources.

“However, since I am a typically competitive person, this is nothing that frightens me. I like challenges of this kind. In addition, I have a great deal of faith in our solid and competent organization. I have tremendous trust in all of our employees and I am convinced we will continue to be able to uphold our position in the future.”



EU proposal expected on September 7

On June 8, the EU court accepted two cases pertaining to the ban on snuff. One case is from the High Court of Great Britain, while the other is from a regional administrative court in Minden, Germany. Both cases were referred to the EU court for a ruling on the legality of article 8 of the EU directive prohibiting the sale of snuff.

Following the court’s hearing on June 8, the Advocate-General, who is associated with the court, will present his proposal on September 7. Thereafter, the court will issue a final ruling on the issue. This ruling is expected to be issued some time around the first of next year.

Swedish Match in Poland

Swedish Match has acquired Jem Trading, a distribution company in Poland. The company has been a distributor of Swedish Match products in Poland. The previous owner, Daniel Shamail, will remain as president of the company, which will change its name to Swedish Match Polska. In 2003, the company’s sales amounted to about EUR 2.7 million.

Longhorn now sold throughout the US

Following test sales in eight states beginning in August 2003, The Longhorn snuff brand has now been launched throughout the US. Longhorn is a value price segment brand. Demand in this segment continues to increase and, to date, sales of Longhorn have exceeded expectations. Consumer acceptance has been extremely high and Longhorn represents an important complement to the Group’s snuff portfolio. Longhorn is marketed in two product variants, Fine Cut Natural and Longhorn Cut Wintergreen.





Swedish Match Cup with world star Peter Gilmore

With its 150,000 spectators during the first week in July, the Swedish Match Cup in match race sailing is one of Sweden's largest public events. The world's best sailors from the prestigious America's Cup come to the west coast of Sweden to participate in the event that all other organizers on the global Swedish Match Tour try to match.

One of the most well-known and merited sailors on the tour is the Australian Peter Gilmore. This summer, when he arrived for the final race at Marstrand with his Japanese Pizza-La sailing team, he was already the clear winner of the 2003-2004 Swedish Match Tour. In addition, he came to the island as a five-time winner during his ten years with the Swedish Match Cup and was naturally hungry for yet another victory.

Gilmore participated in all races during the 2003 – 2004 Swedish Match Tour. These included the opening event in Copenhagen in August 2003 and the autumn's races in Bermuda and Japan, as well as competitions off the Italian Mediterranean island Elba, in Croatia, on the Lake Constance and finally in Marstrand. Despite having participated in most of the races many times, Gilmore is always careful to arrive in good time and to make meticulous preparations before the start of each race. All organizers offer an opportunity to test the match racing boats for at least a few hours, since different boats are used in the different events. Although the Swedish Match Tour in collaboration with Pelle Pettersson and Gothenburg-based Maxi Nimbus has developed a match race boat that will be standard on the tour, it has thus far only been purchased for the newly started event in Portugal. Every opportunity to test the advanced competition equipment is thus welcome.

"Although we recognize most of the boats from previous years, considerable time has passed, so we need to refresh our knowledge and practice various maneuvers again," explains Gilmore. "The boats in Marstrand also have fine new rigs that we

need to learn about. There may be small details, such as the spinnaker halyard being on the port rather than the starboard side of the mast, and the pattern of movements on the boat needs to be adjusted to take the change into account," continues Gilmore.

Test sailing also provides a valuable opportunity to get a feel for the water and local conditions. Everything must be studied to minimize mistakes when the race is underway. Gilmore is methodical and in fact a perfectionist.

IN THE MIDDLE OF the race week, there is a Pro Am day when the sponsors and their guests are given an opportunity to participate in a special race. Mats Rosenqvist, who normally works in Swedish Match's Group Human Resources, was one of the chosen few who had a chance to join Gilmore in this year's race. Mats was assigned a position next to the Australian by the mainsail and was clearly enthralled by the experience.

"It was absolutely fantastic! We gave it everything we had, and at times there was less than half a meter between the boats. Gilmore gave me instructions the whole time as to how I should adjust the mainsail," relates Mats.

"Being part of the Swedish Match Cup is important for both employees and customers. Here we have a unique opportunity to make closer contact and to create values and culture," adds Mats.

EACH RACE DAY STARTS with an early morning meeting for all skippers during which lots are drawn for placement of the boats before the start of the day's race. The race managers and the chief umpire also participate in these meetings, so there is an opportunity to ask questions about everything from interpretations of the rules to the finer points of sailing instructions and the notice of race. Gilmore is experienced, well-prepared and knowledgeable. He nods knowingly during the short briefing and asks only a few curt questions as a

check. Race days end with a well-attended press conference at which attendance is obligatory for the helmsmen. This is followed by a debriefing with the umpires. At this meeting, the day's events are reviewed, and a detailed analysis is conducted of the umpires' rulings. The day ends with dinner at one of Marstrand's many restaurants, which take turns inviting the different teams to sample local specialties served in generous sailor portions.

"It is really nice of the organizers to let us try different restaurants during the week, to get out and meet not only the great people of Sweden but guests from all over the world" says Gilmore.

IN THIS YEAR'S Swedish Match Cup, the popular Australian had to settle for second place after having collided with another finalist, the New Zealander Russell Coutts, in the final sailing. It was a hard collision that knocked Coutts down in his boat.



Huge drama as Gilmore and Coutts collide

"My sight was blocked for just a second. The margins are so small that it was enough for us to crash," says Gilmore apologetically. "Winning in sport is not dissimilar to business, it is not always about being first it is about striving to be your best all the time and learning from the small mistakes you make so that you may be better next time" reflected Gilmore. Gilmore promises to return next year to compete for yet another victory at Marstrand. We look forward to his visit.

Peter Gilmore, five-time winner during ten years with the Swedish Match Cup.



Stable share price during most recent quarter

The Swedish Match share price has increased by 4.1 percent since the beginning of the year (as of July 7). If the dividend received by the shareholders is included, the total return for the share increased by 6.3 percent. Measured over the most recent 12-month period, the share price has increased by 30 percent, which is somewhat more than the market average. During the most recent quarter, the share price was largely unchanged. The increase occurred earlier during the year, a period when the news flow on the company was quite active, i.e. regarding the settlement between Swedish Match and US Tobacco and the negotiations in the EU

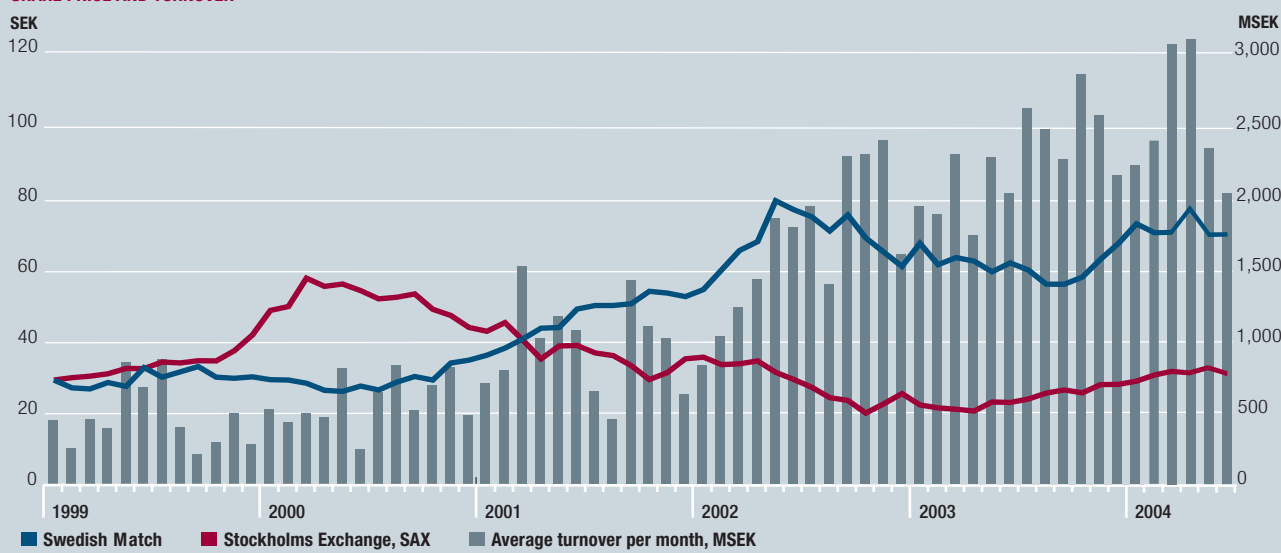
court regarding the legality of the EU's ban on snus. The case was taken up by the court in the beginning of June, and a ruling is expected toward the end of the year, or soon thereafter. This case is being closely monitored by market analysts who are trying to assess market potential in Europe. According to Swedish Match's assessment, even if the ban on snus were to be lifted, it would take time before snus becomes a major product in Europe.

The Stockholm Exchange as a whole (SAX) has risen 7.6 percent during the year. The interest rate increase that the US Federal Reserve implemented in June was expected and did not result in any negative

consequences for the stock market. The economic recovery in the US is gaining strength. At the same time, increasing oil prices, a weak USD and a tendency towards interest-rate increases makes the economic outlook difficult to judge. Clear trends are lacking,

Continued development of the stock market will be greatly affected by the interim reports for the first six months that will begin to be published during the summer months. Expectations are that corporate profits will remain strong. Swedish Match published its interim report on July 21.

SHARE PRICE AND TURNOVER



TOTAL RETURN

Total return, %	
Jan 1-Jul 7, 2004	6
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-Jul 7, 2004, %

Swedish Match	4
SAX	8

Swedish Match to sponsor Fredrik Jacobson Sweden's best golfer



Swedish Match is expanding its sponsorship program to support Sweden's best golfer, Fredrik Jacobson.

Fredrik is ranked number 12 on the prestigious world ranking list. After nine years on the European Tour, he has taken the step over to the US PGA Tour. And what a start! He has already guaranteed his card and right to play for the 2005 season with one top three and four top ten finishes.

Fredrik is 30 years old and has been playing professional golf for ten years. The Swedish Match sponsorship program is particularly suited to him, since he uses General snus.

Double tie-breaker finals in Swedish Open

The Swedish Open is a 55-year old classic Swedish tennis tournament. Swedish Match has been one of the main sponsors since 1993.

The tournament has grown to become one of the most prestigious clay-court tournaments in Europe in which most of the world's top players have participated on some occasion.

Two exciting finals decided the 2004 Sinsam Swedish Open at the beginning of July. Argentinean Mariano Zabaleta, won the men's singles, while the double championship went to Jonas Björkman/Mahesh Bhupathi.

The first-ever all-Argentinean final in the Sinsam Swedish Open's history was

played on center court when French Open champion Gaston Gaudio faced Mariano Zabaleta, his best friend and the defending champion in Båstad. The match went to a decisive tie break in which Zabaleta came away with a 7-4 victory. The win was the third in Zabaleta's career and his second in Båstad.

Shortly after the men's singles final, Jonas Björkman/Mahesh Bhupathi secured the doubled victory after a heart-wrenching final with two tie-break sets against Simon Aspelin and Todd Perry. The victory was Björkman's 36th and Bhupathi's 35th of their careers. Björkman has also won in Båstad four times, thus tying Järryd's record.



Bernt Magnusson, Chairman of Swedish Match, congratulates Mariano Zabaleta, this year's Swedish Open winner.

Pediatrician Staffan Jansson receives Solstickan Award

The 2004 Solstickan Award was granted to pediatrician Staffan Jansson for his "forceful and unselfish commitment to helping underprivileged children."

For each box of matches sold under the Solstickan brand, a percentage of the sale is donated to the Solstickan Foundation. Over a period of 68 years, just over SEK 100 million has been received by the Foundation. In conjunction with the award ceremony for this year's prize, Swedish Match president and CEO Sven Hindrikes announced that the company had decided to donate an additional SEK 5 million as a one-time grant for 2004.

At the Foundation's annual general meeting, it was reported that the thousands of small donations plus dividends, interest and gifts had amounted to more than SEK 2.1 million.



Pediatrician Staffan Jansson receives the Solstickan Award from Princess Christina.

25 years that gave Swedish Match an identity and continuity

Anyone who chooses to browse through Swedish Match's annual reports since the beginning of the 1980s will observe a long cavalcade of management figures and Board members who appear in pictures only to disappear again after a year or two. However, one generally smiling face can be seen year in and year out – Massimo Rossi. During his 25 years with Swedish Match, the baker's son from Italy has represented continuity and identity with the Group's core match operations and the name Swedish Match, a brand that he also reinstated to Sweden.

At the age of 62, the time has come for Massimo Rossi to sum up his lifetime achievement ahead of his retirement. Employed in 1975, he was rapidly promoted to President of the then Consumer Division (including Matches) and has spent most of his professional career in corporate management, most recently as Senior Executive Advisor, specializing in acquisitions and divestments.

THE CAREER SEED WAS PLANTED one dreary morning when Massimo, a teenager at the time, got up at four a.m. to help his father, a baker in the small fishing village of Lerici near La Spezia. At eight o'clock, he set off for school.



He fought to get the name Swedish Match back to Sweden. And he succeeded.

After taking his bookkeeping exams, his dream of another life took him to Stockholm in Sweden, where he arrived one morning on the night train from Copenhagen. An hour later, he had a job as a dishwasher at Café Nord at the Central Station.

"Yes, I had studied some Swedish, bought a grammar book and a dictionary. But I had never heard anyone speak

Swedish, so no one understood me. I picked it up quickly, though."

By now, it was 1968. Massimo applied for a student loan (which he has now paid back!) and graduated with a degree in economics from Stockholm University.

"Your first real job is always critical and I was lucky enough to gain employment at the major Scanraff project on the Swedish west coast despite being both an immigrant and slightly older graduate."

With interesting experience, good English and driving ambition, he went on to apply to Swedish Match, or Svenska Tändsticks AB (STAB), as it was called at the time. He was recruited by the executive vice president Sten Rystedt, who first checked him over to see if he "fitted in".

"Evidently, I fitted in so well that I was given a room next to the large boardroom in the magnificent former 'Match Palace' premises," relates Massimo.

BY NOW, SWEDISH MATCH WAS an expansive international conglomerate whose operations were based in the match industry. It was also a breeding ground for a series of prominent business executives, including

the Group's current Board Chairman, Bernt Magnusson.

"I am eternally grateful that he placed his confidence in me," says Massimo Rossi. "I worked for him in Nyon in Switzerland, where the head office of the Consumer Division was located. After a turbulent period, Bernt appointed me President of this division, which specialized in matches."

The 1980s were characterized by major deals and restructuring and Swedish Match was taken over by Stora in 1989. Massimo Rossi was placed in charge of selling his favorite division – matches, lighters and shaving products. However, the solution instead was a leveraged buyout, which Rossi himself organized. This was followed by a further deal, in which Rossi became a shareholder together with a British private equity firm and various Italian investors. "I became the Match King," he laughs.

THE TURBULENCE CONTINUED. In 1992, Procordia, a Volvo company, acquired the operations, which were now also complemented with tobacco. "I fought to get the name Swedish Match back to Sweden. And we succeeded." After further organizational turns, Swedish Match was listed on the stock exchange in 1996, with Göran Lindén as president and Bernt Magnusson as Board Chairman.

Massimo Rossi's flair for business became very apparent during this ten-year period characterized by intense restructuring with constant acquisitions and divestments. Since Swedish Match became a listed company, Massimo Rossi's main area of responsibility in corporate management has been acquisitions and divestments. "I have divested and acquired about 80 companies during my time at Swedish Match," he says.

Is there a red thread running through his professional career? He hesitates before responding...

"No, not really. My life path has been very individual and I am extremely grateful to Sweden and the many Swedes who have believed in me. Of course, I have worked hard and been successful. But this is nothing unique. In certain respects, I have been lucky, when you think of how I started out. You could say that I have been in the right place at the right time. There were certainly others who maybe were even better qualified than myself, but they weren't there when the opportunity arose.

"Perhaps a clue to my success is my social skills," he says without sentimentality or self-praise. "I like people, am interested in them as individuals and I show it. I think that this characteristic has given me an advantage in negotiations and relationships with buyers and sellers in all the deals in which I have been involved."

TODAY, HE INTENDS TO slow down a little. He will still be kept busy, however, traveling between various Board engagements in several funds in EQT, Sweden's largest private equity company, and in Finnpower Oy, a Finnish company. He is also Chairman of the Board of the Danish insurance company International Health Insurance. Rossi owns properties in Geneva, Rome and Stockholm. However, "home" these days is Italy, where his wife and two children live. His daughter is studying law and his son recently started his own company.

What would Massimo Rossi want to be remembered for? "Two things – for salvaging the name Swedish Match and bringing it back to Sweden and for my donation to Solstickan. When I had the financial means to do so, I set up a foundation and donated a sum of money. I have been very much involved in Solstickan's work and I sit on the foundation's Board of Directors. My wife and I are more than happy to pay back some of our debt of gratitude and make life a little easier for those who have not had the same opportunities as myself."