

inside

INFORMATION ABOUT SWEDISH MATCH FOR SHAREHOLDERS AND OTHER STAKEHOLDERS

#4 november 2002

Earnings boosted by snuff

Organic growth of 5 percent was posted during the first nine months of 2002, supported by a strong volume trend for snuff. Operating income rose 16 percent to 1,865 MSEK and earnings per share by 21 percent to 3.11 SEK. The successes noted for snuff were reflected in a sharp increase in the margin on this product to 45.3 percent in Q3, compared with 38.5 percent a year earlier. Higher volumes, combined with changes in price and the product mix, and slightly reduced marketing costs were the main reasons for the improved earnings. **Page 2**

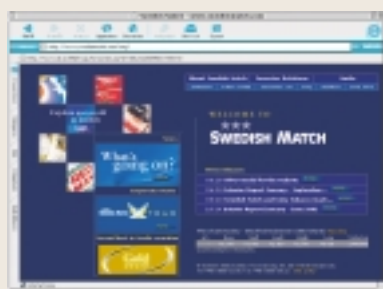
More efficient cigar production

The Group's cigar operations have completed a number of acquisitions in recent years and has been concentrating on integrating these new companies. The next step entails a focus on production, to make it more efficient. At the same time as production units are being merged, the machine park is undergoing a comprehensive upgrade. **Page 6**



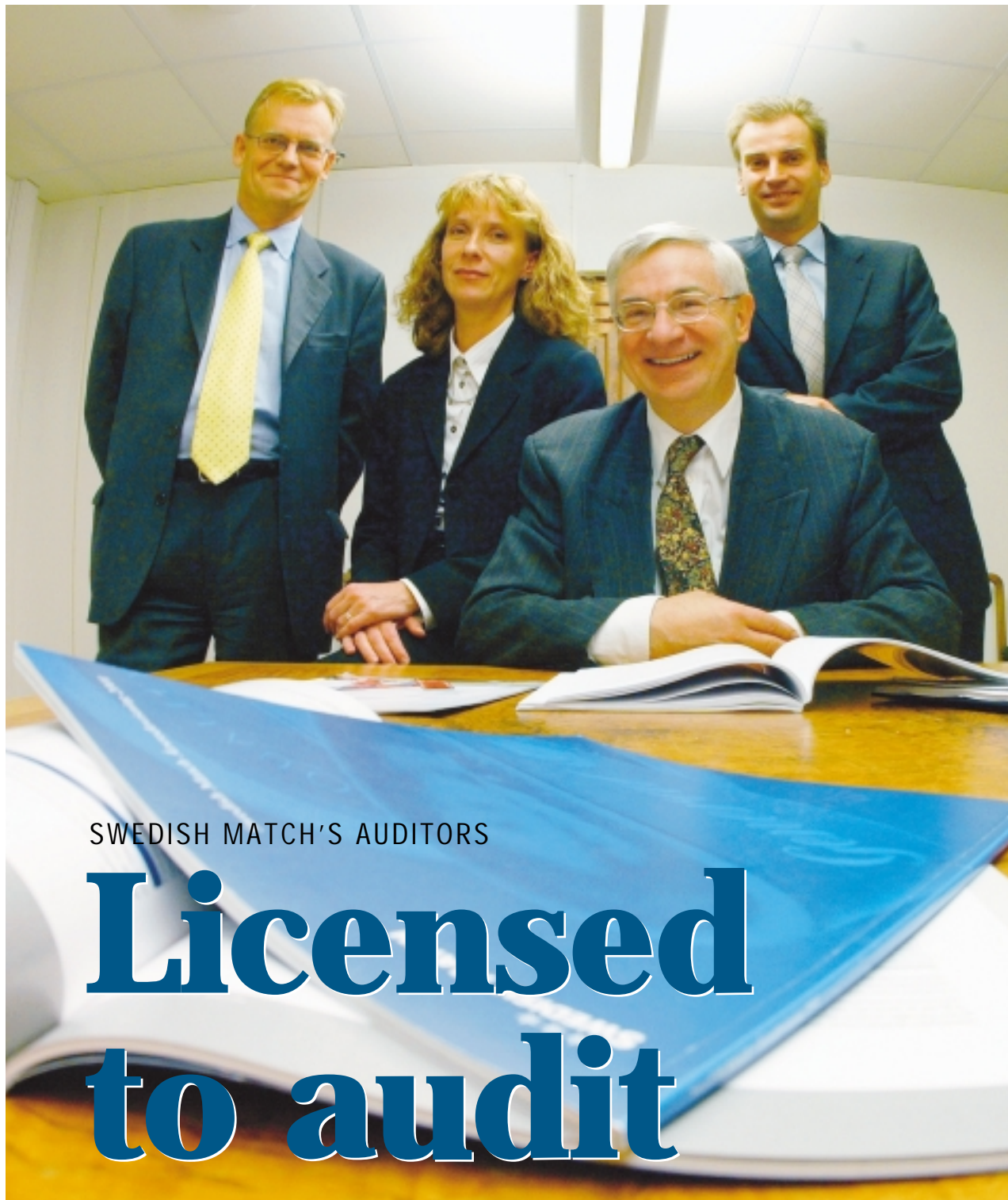
Swedish Match sues UST

Swedish Match has filed a federal anti-trust complaint against US Tobacco Company UST, due to this company's use of illegal methods to prevent competition. UST's sales-people have received a bonus if they succeed in eliminating competing products from retail outlets. The methods used include destroying store shelves and painting over or pulling down advertising signs. **Page 2-3**



Silver medal to the Swedish Match website

Swedish Match was awarded the silver medal in Webranking™ 2002, the leading survey of the websites of listed Nordic companies. Webranking™ subjects corporate websites to stringent requirements, whereby the websites have to adapt each year to new trends and changing capitalmarket demands. Swedish Match also won a medal in the international category, where it was ranked third. **Page 7**



SWEDISH MATCH'S AUDITORS

Licensed to audit

The annual audit is a never-ending process aimed at upholding the company's credibility and thus providing security for shareholders. The 40-line report featured in the Annual Report is actually the result of 20,000 hours of audit work, plus the work conducted by the Board and by many Swedish Match employees. The auditors above are (from left): Claes Dahlén, Susanne Sundvall, Åke Danielsson and Claes Janson. **Page 4-5**

International interest in the Swedish experience

In the past six months, nicotine addiction has been debated in a variety of international conferences, at which snuff has been presented as an alternative to cigarette smoking. The Swedish Experience has become an established concept and a change in attitudes to snuff is being noted in medical and health circles. **Page 8**



Strategy success

THERE CONTINUES TO BE A high level of uncertainty in our world. Stable improvement in the stock market remains a distant prospect and lately the experts have revised their forecasts for general financial trends to be less optimistic. Against this background, we are able to affirm that Swedish Match continues to provide increased profits and shareholder value.

During the third quarter of 2002, operating income increased by 16 percent and earnings per share rose 21 percent. We have now achieved an operating margin of at least 15.5 percent for 15 consecutive quarters with an average of 18 percent during 2002. Earnings per share has increased more rapidly than overall profit due to our share-repurchasing program.

Our strategies thus continue to prove successful. Key growth areas are snuff and cigars, where operating income for the first nine months continued to grow at a favorable rate, although cigars have leveled off. We are continually working to increase efficiency and to maintain and improve our margins. During the past quarter, we decided to further raise the tempo of the rationalization measures already announced within the area of cigars and to adapt lighters production to improve efficiency in the face of intensifying competition.

Our internal efforts to improve efficiency with regard to the tied-up capital also provided favorable results. We have succeeded in markedly reducing the amount of capital tied up which can be seen in our highly positive cash flow. There was a swing from a deficit in working capital of 163 MSEK during the corresponding nine-month period in 2001 to a net contribution of 59 MSEK in 2002.

This example shows that our Group is well structured, with successful products, stable earnings and a strong financial position. We nurture, maintain and build on this balanced structure, continuing to offer significant potential for increased value for Swedish Match's shareholders.

Lennart Sundén, CEO

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SWEDISH MATCH

INTERIM REPORT

Continued strong pe

Third quarter developments can be summarized as strong profits despite exchange rates unfavorable to Swedish Match. Organic growth amounted to 5 percent during the first nine months of the year, with strong volume development for snuff. Operating income rose 16 percent to 1,865 MSEK and earnings per share was up 21 percent to SEK 3.11. »We will increase the pace of our share buy-back during the fourth quarter,« says CFO Sven Hindrikes.



Sven Hindrikes.

Swedish Match's snuff operations continue to develop well. Organic growth in sales up to October was a full 18 percent and 16 percent after currency effects caused by the strengthening of the SEK against most of the other currencies in which Swedish Match sells. Snuff sales totaled 2,090 MSEK during January–September and operating income 923 MSEK.

Particularly pleasing is the fact that market share in the US increased a further 1 percent to 9 percent following a 10-percent increase in volume!

»OUR SUCCESS WITH SNUFF can be seen in extremely strong improvements in the margin for these products. During the third quarter, this amounted to 45.3 percent, compared with 38.5 percent for the year-earlier period,« comments Sven Hindrikes. »Increased volumes are the main explanation, although

changes in pricing and product mix, as well as somewhat lower marketing costs have also had a positive effect.«

The Group's other major product area, Cigars, has faced a tougher market climate during the first nine months of the year. In local currencies, sales were largely unchanged, but calculated in SEK, they declined 2 percent to 2,513 MSEK, due to the stronger Swedish currency. On the other hand, operating income developed well during the first nine months, increasing 14 percent to 411 MSEK.

»THE MARKET SITUATION for Cigars is fragmented,« explains Sven Hindrikes. »Demand for premium cigars is largely stable in the US and Europe. The same is true of machine-made cigars in Europe. On the other hand, US machine-made cigar volumes have decreased. We are currently working intensively with the product range and

marketing and will be launching new products. At the same time, we will be reinforcing the previously announced efficiency program in Cigars. We will implement further savings in Europe. This will entail laying off 140 employees in addition to the 150 previously stated.

Of the remaining two tobacco-product areas, Chewing Tobacco remained stable, with improved operating income and margin resulting from price increases and cost savings. Sales and profit margin for Pipe Tobacco fell. This is attributable to declining volumes in several markets and the weakening of the currency in the important South African market.

WITHIN MATCHES AND LIGHTERS, Matches continued to demonstrate improved operating income and favorable development of its margin, which was 14 percent during the nine-month period,

Swedish Match brings competition lawsuit against UST in US

Swedish Match has filed a federal anti-trust complaint in Kentucky against UST. Swedish Match accuses UST of using its near-monopoly status in an improper manner.



In its complaint, Swedish Match calls for a permanent injunction against UST's continued use of illegal methods to impede competition in the US snuff market and is demanding damages.

SWEDISH MATCH CLAIMS in its complaint that it has suffered damage as a consequence of UST's actions. Following the introduction of Timber Wolf in the US in 1994, the Group managed to take a 9-percent share of the US snuff market, despite the actions of UST.

»Swedish Match has expanded in the US, but we do not know how much greater this growth would have been without UST's illegal actions, which were designed to impede competition,« says Bo Aulin, Swedish Match's

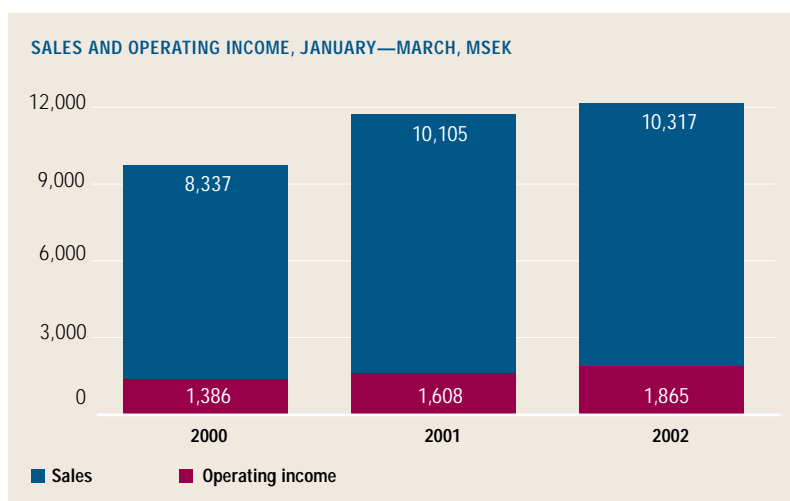
Performance for snuff

compared with 10.7 percent during the year-earlier period. Competition in the lighters area has increased, resulting in lower volumes. »We have already initiated a program of cutbacks and rationalization within Lighters,« says Sven Hindrikes.

In summary, the Group continues to develop well and to deliver strong profits for its shareholders. The cash-flow situation was extremely strong during the period, with 0.5 billion SEK being invested in the new Gothenburg snus plant and approximately the same amount being paid in dividends. Less operating capital has been tied up thanks to the efficiency program.

»THE STRENGTH OF THE Swedish krona has affected us quite a lot. The market has probably already begun to capitalize on Sweden's assumed introduction of the Euro, resulting in a one-off adjustment of the long-term value of the Swedish currency. Calculated in local currencies, we can see that the Group's underlying competitiveness is favorable. At the exchange rates for the third quarter of 2001, our profits for the same period in 2002 would have been 43 MSEK higher,« says Sven Hindrikes. »We are also continuing to save and rationalize. New measures totaling approximately 68 MSEK have been decided and will yield full effect during the latter half of 2003.«

Finally, he explains that the Group has been cautious in its repurchasing of shares during the past nine months. Approximately 2.2 million were purchased and, at the close of the period, holdings of the Group's own shares amounted to 6.4 percent of the total



	SALES, MSEK			OPERATING INCOME, MSEK		
	Jan–Sept 2002	Jan–Sept 2001	Change %	Jan–Sept 2002	Jan–Sept 2001	Change %
Snuff	2,090	1,799	16	923	691	34
Chew. tobacco	1,023	1,028	0	311	278	12
Cigars	2,513	2,586	-3	411	362	14
Pipe tobacco/ Accessories	618	697	-11	119	185	-36
Matches	1,268	1,254	1	177	134	32
Lighters	535	613	-13	60	74	-19
Other	2,270	2,128	7	-136	-116	
Total	10,317	10,105	2	1,865	1,608	16

number of shares. The share-price development was strong during the first six months. »With increasing liquidity

and a slightly lower share price, we will probably increase the buy-back pace somewhat.« □

General Counsel and Senior Vice President.

In 2001, UST's snuff sales amounted to SEK 15 billion, with a net profit of SEK 4.6 billion. To defend its lucrative market, UST has employed all possible means to force competitors out.

The complaint comes two months after the Sixth Circuit Court of Appeals upheld a ruling in a similar case that UST must pay USD 1.05 billion in damages to Conwood, another competitor in the US moist-snuff market.

IN ITS COMPLAINT, Swedish Match cites, among other information, evidence that came to light during Conwood's successful damage suit against UST;

- Stores exclusively selling UST's snuff were receiving thousands of dollars in bonuses, while those marketing competing brands were threatened with the withdrawal of UST's snuff.

- One retail chain signed a marketing agreement with UST in which it was stipulated that competing products were to be placed on the lowest

shelves, out of sight of customers.

- UST's salespersons were awarded bonuses if they succeeded in eliminating competing products from stores. Sales shelves were destroyed and advertising signs were painted over or torn down.

- In some cases, snuff cans were stolen and discarded and UST salespersons placed their own company's products on shelves reserved for competing products. UST also manipulated sales statistics so that retail chains underestimated the popularity of competing products and reduced their orders accordingly.

»WE HAVE YET TO determine what sum we will be demanding in damages«, says Bo Aulin. »UST's actions have been directed against all of its competitors and the company has continued to act in this way, despite the verdict in favor of Conwood.« □

You can now subscribe to and order electronic services via Swedish Match's website:
www.swedishmatch.com.

CALENDAR REMINDER

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

SHARE PRICE SERVICE

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

PRESS RELEASE SERVICE

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

Analysts' questions

Swedish Match's interim report was released on October 24. Members of the Group Management then held a telephone conference with financial analysts from banks and brokerage firms.

MARTIN STEINIK, J P MORGAN:

»What does the trend of your market for snuff in the US look like, considering that you have new competition? Has anything special happened that is driving growth?«

EMMETT HARRISON, INVESTOR RELATIONS:

»The latest figures, in October, show total growth of 14.9 percent in sales at the retail level. We had expected an increase of between 12 and 13 percent. Sales of Timber Wolf increased by 11.8 percent during the period from January to October. No special external factors are driving growth; it is, instead, largely stable at this level. Timber Wolf is holding its own very well in this context and the reasons are that it is a good product, with a good taste and a good price.«

JONAS PÅLSSON, ABG SECURITIES:

»Snuff shows an operating margin of more than 45 percent for the third quarter. In connection with the six-month report you indicated a probable level of 42 to 44 percent for the full year. Have you now revised the level upward? I also wonder what kind of gains you expect from the restructuring now under way in Continental Europe.«

SVEN HINDRIKES, CFO:

»We expect that the forecast of an operating margin between 42 and 44 percent for snuff will hold up. When it comes to restructuring, which includes closing a plant, this will result in reducing our personnel requirements by around 150 persons. In addition, we have identified a further savings potential involving 140 positions in the administration and sales organizations. The total cost of the cutbacks amounts to 68 MSEK. In return, we expect to reduce annual costs by 30 MSEK beginning in the second half of 2003. The greater part of the reduction will be in the cigar operations.«

PIETER VORSTER, CREDIT SUISSE FIRST BOSTON:

»Are mass-market sales of cigars in the US disappointing for you?«

LENNART SUNDÉN, CEO:

»Yes, we have seen a decline in the volume of our sales in the North American market. This means that we have really not taken advantage of the general trend of the market, which is basically very strong. We are going to tackle this problem in the future, in part through a number of introductions of new products that are planned in the early part of next year.«

VIRGINIA HÉERIBOUT, CDS IXIS SECURITIES:

»The effects of foreign exchange movements have certainly reduced your revenue during the year. What do you expect for the fourth quarter this year and the first quarter of next year? And won't you be compensated, since raw material prices are also declining to the same degree?«

SVEN HINDRIKES, CFO:

»It is true that the effects of foreign exchange movements have reduced sales by three percentage points during the first nine months of the year. The effect has been caused primarily by the weakening of the US dollar, but the weakness of the South African rand and the Brazilian real has also affected us. It is naturally impossible to predict what will happen in the future but we see no special signs that any strong fluctuations are to be expected. Where prices of raw materials are concerned, there is certainly an effect in that area – but we will not notice it until further along in the future as our inventories are renewed.«

»When I read the Auditors' Report at Swedish Match's Annual General Meeting, I feel very clearly that I am fulfilling a commission of trust for the Group's nearly 100,000 shareholders. There is always a certain tension and formality in the air – it's something of a moment of truth,« relates Åke Danielsson, Swedish Match's regular auditor together with Göran Tidström and deputy auditor Claes Dahlén, all from the Öhrlings PricewaterhouseCoopers auditing firm. The 40-line Auditors' Report, never more, never less, is the culmination of an estimated 20,000 hours of auditing annually. This is on top of the process that involves almost everyone in the Group, from the Board to the smallest stockrooms around the world. The ultimate purpose is to ensure that the most reliable picture of »shareholders' Swedish Match« is obtained.

Each word is significant

The Auditors' Report may not look much, with its brief, standard formulations, but each precise word weighs extremely heavily,« says Bernt Magnusson, Chairman of the Board. »It is backed by an enormous investment in man hours, corresponding to 16 MSEK each year, and by many years of experience and expertise both on our part and that of the auditors. Auditors put their honor and their firm's entire credibility capital at stake in affirming its correctness. There is no greater pledge. For auditors, credibility is everything. The result is security for shareholders.«

The annual audit is the process

reviewing Senior Management's performance in the task of managing shareholders' assets. It is also the shareholders who, via the Annual General Meeting, assign the auditors their task. Is it therefore not a problem that the President and the Board foot the bill and, in practice, formulate the assignment and act as the customer?

»No,« replies Åke Danielsson. »There is no conflict between what Senior Management wants us to do and what we are obliged to do. We provide support for management while also acting as independent review body, with the duty of ensuring that Group companies follow management's orders.«

»For the auditors, credibility is everything. The result is security for the shareholders.«

BERNT MAGNUSSON

20,000 hours of meticulous



Year-round audit process

The audit process at Swedish Match involves some 100 auditors during its most hectic phase between September and February. More or less continual review of calculations, control and reporting systems is conducted by 24 audit teams in 15 countries.

Bertil Raihle from Swedish Match and Claes Janzon from ÖhrlingsPricewaterhouseCoopers are key figures in the process – Bertil Raihle because he works with the Group's financial reporting as Group Controller at the Head Office, and Claes Janzon because he is responsible for coordinating all 24 audit teams. Both then report to their superiors – Sven Hindrikes, the Group's CFO, and the two regular auditors, Åke Danielsson and Göran Tidström.

They barely have time to catch their breath after the Annual General Meeting before work begins again in May with planning meetings. »At that time, we discuss whether we are going to focus the review on any particular areas, perhaps in light of any major structural changes in the Group, changes in legislation or regulations or if the previous year's audit highlighted the need for any special efforts,« says Bertil Raihle.

Such »themes« in the audit may

involve reviews of IT systems' suitability and security, a special review of stock values or the invoicing system's quality. »In a large Group like Swedish Match, the work largely involves system reviews, rather than detailed inspection of orders and invoices,« explains Claes Janzon, who also has specialist expertise in US accountancy practices, which is of special use to Swedish Match.

ACTIONS OF THIS KIND are also taken, although more in the form of random checks. Auditors may, for example, visit warehouses to check flows and the valuation of goods. However, system quality is emphasized – who is authorized to enter data into the system, how is accuracy checked, how are warehouse flows linked to order data, accounts receivable and the sales ledger, and how are quality and the value of the stock checked? Also important are the review of financial transactions and the evaluation of the risk these involve, as well as the standard of the accountancy principles employed and the degree to which they are followed.

»As auditors, we are to ensure that

»In a large company like Swedish Match, work largely involves system reviews, rather than detailed inspection of orders and invoices.«

BERNT MAGNUSSON AND the Group's auditors are agreed that bookkeeping is not an exact science. »And therefore, a precise and objective view of a company's condition does not exist. The important thing is to try to achieve as much openness and transparency as possible. Shareholders and others must be able to see what conclusions we have reached and, preferably, why. Then one must accept that other conclusions are also possible.«

According to Bernt Magnusson, this manifesto underlies the conservative »audit culture« at Swedish Match. »Long-term credibility is as important to us as it is to the auditors.«

ONCE EVERY FOUR YEARS, the Board conducts a procurement process for auditor services by setting a list of requirements and requesting bids. What are the criteria for the auditing assignment at Swedish Match?

»With our broad, international operations, only the major, international auditing firms are



Bernt Magnusson.

suitable. Other requirements include independence, a strong combination of general expertise and specialist know-how, particularly at the auditing firm's headquarters in Stockholm. And, again, an untarnished reputation and credibility.« says Bernt Magnusson.

Auditors have been highly criticized during the past six months in the wake of the US corporate scandals at Enron and WorldCom. Could events like these hit Swedish Match?

ÅKE DANIELSSON ANSWERS, »Society often has unreasonable expectations. Our role is clearly defined in the Companies Act. We are to take those measures that may reasonably be demanded and which indicate any problems. However, the primary emphasis of the audit is not on uncovering fraud, and we have

no way of exerting power. The power within the company lies with the Annual General Meeting, the Board and the President.«

»There is no conflict between what Senior Management wants us to do and what we are obliged to do.«

ÅKE DANIELSSON

between a large number of individuals. Protecting oneself against crooks and dishonest individuals would be difficult without a degree of control that would turn us all into policemen, thus creating an untenable working environment.«

Swedish Match's Board has decided to establish an Audit Committee, consisting of three members, whose specific tasks, responsibilities and authorization will be determined during the next few months. □

»Top recommendation«

»WHEN TRUST AND FAITH DISAPPEAR SO DOES VALUE«, says Göran Tidström using a quote made by Chairman of the US Federal Reserve, Alan Greenspan. As the Swedish Match auditor since 1987, Göran Tidström has made a major contribution to the company's own trust capital over the years. Acknowledged as a Swedish »super auditor«, with top international assignments, he gladly emphasizes the company's long-standing reputation for »good« accounting.

»During Sven Andrén's time as CEO, an auditing council with high academic competence was active, headed by Professor Sven-Erik Johansson.

Although Professor Johansson was not an Authorized Public Accountant, he possessed very great knowledge. The council identified and presented tricky discussion points, ensured that management worked with them and assumed responsibility for providing advanced solutions to problems and checking the information released by the company to the capital market.«

»This culture is still very much alive in terms of the way in which the Board perceives the work of the auditors. Today, we work in a more advanced manner with and within management's own reporting structure, which contributes greater added value to the audit. As a result, the efficiency and value of the auditing process has been continuously raised, which benefits both the company and its stakeholders.« he says.

Following the corporate scandals in the United States earlier this year, capital market expectations in regard to auditing work are very high. »The establishment of Auditing Committees is expected to boost the quality of the examination chain. I don't have any views about whether or not Swedish Match establishes such a Committee. I can only state that to date the Board has devoted such an interest to accounting/auditing matters that in many respects it already does what the Auditing Committees are being set up to do,« says Göran Tidström.

That is a top recommendation!



Göran Tidström.

effort each year

the company maintain control and works ambitiously to limit risks in their operations,« Claes Janzon continues.

AFTER THE VACATION PERIOD, work gets underway as the 24 audit teams receive their instructions, five in Sweden, two in the US, and the remainder concentrated to Swedish Match countries such as the Netherlands and India. In London, a special team conducts a review based on the US rules. That review results in a »20F« document, an Annual Report, which must be submitted to the US Securities and Exchange Commission. In total, some 100 auditors are involved with the review of all of Swedish Match's companies around the world.

In November, the various audit teams submit their reports. A total of 400-500 pages, following a strict template, pour into the Stockholm office by e-mail. Claes Janzon then compiles reports for Bertil Raihle and Sven Hindrikes. Meetings are held to discuss unresolved issues and instructions for additional work are then sent to auditors in the field.

The review of the annual financial statements begins early in January. All audit teams work intensively and within a few weeks reports on the review are submitted from all local companies. A Group-wide accountancy team works in parallel to compile the financial statements for the entire Group. On about February 5, a report meeting is held to finalize the financial statements for the full year. »We hold a number of

meetings in January and early February. Many late nights are spent resolving questions and fine-tuning the figures in preparation for the Board's meeting to discuss the financial statements on about February 10, in which the auditors participate.

At that point, the review of the Annual Report has already begun. That process progresses during January and February. In addition, as a company listed in the US, Swedish Match is required to compile a thorough 20F document, in accordance with US GAAP accountancy standards within six months of the close of the financial year. In this context, the special team in London plays the primary auditing role.

Bertil Raihle grabs the Swedish Financial Accounting Standards Council's 350-page recommendations from the shelf and indicates a row of files, »We have to follow this too, about 4,000 pages of US standards! It is extremely thoroughly thought out and detailed. It forces a demanding intellectual processing of the Report.«

OCCASIONALLY, THE US RULES conflict with the Swedish ones. In Sweden, the principle of caution is worshipped while the basic US stance involves market evaluation. Swedish Match must therefore report in accordance with both systems and explain any divergences. These are reported in a special note in the Annual Report.

Obviously the auditing organization obtains a very broad and deep knowl-

edge of the Group and its operations. »It is therefore natural that we use them for a number of consultancy type assignments. We need their assistance on such matters as accountancy details in connection with acquisitions, advice on tax issues, and the management of complicated bookkeeping transactions in international business. In addition, the auditors have extensive knowledge of the reporting and control systems, which we are able to use in the ongoing development of our own administrative systems,« concludes Bertil Raihle. □

»As auditors, we are to ensure that the company maintains control and works ambitiously to limit risks in their operations.«



Bertil Raihle.



The audit is under way year-round and the auditors feel at home in the Swedish Match corridors. Shown are (from left) Claes Dahlén, deputy auditor, who works specifically with matters related to Lights and Matches and Swedish Match foreign subsidiaries, Susanne Sundvall, who is a finance expert and also serves as auditor for the pension funds, Åke Danielsson and Claes Janzon.

Ambitious program to sharpen efficiency of cigar production

Following several years of acquisition-based expansion, Swedish Match's cigar operations are now turning its sights towards production. A comprehensive efficiency-enhancing program tops the agenda.

The path to streamlined and more efficient machine-manufactured cigar production was staked out two years ago. This is generating major changes in an industry that is still characterized by considerable craftsmanship, a myriad of different blends, products and packaging types, demands for rapid delivery and stringent quality requirements. It is also a sector that has undergone comprehensive restructuring and consolidation in recent years. After being one of the most active companies in this process, Swedish Match is now ranked among the world's largest producers of cigars and cigarillos.

»We have completed many acquisitions, including a number of large ones, in the past ten years. Integrating all of the acquired units has required a great deal of energy. Now it's time to initiate the second round of investments – in more effective production. We are entering a period that will be hallmarked by proactivity,« says Peter Nilsson, head of the Continental Europe Division.

THIS DIVISION CONTAINS four production plants – Houthalen and Overpelt in Belgium, Pandaan in Indonesia and Valkenswaard in the Netherlands. It also includes joint ownership of the production conducted in Germany by Arnold André. Now all of these operations are being restructured, a process that was initiated in 1999 but which is now gaining renewed momentum following the transfer of all production in Belgium to Houthalen, and the relocation of certain other manufacturing activities to Indonesia. These transfers include brands sold in



Noël Janssens.

volumes that are insufficient to warrant machine production. The finish the products receive in the form of, for example, labeling, is currently carried out in Valkenswaard in the Netherlands but will now also be taken over by Houthalen.

Although the restructuring process will result in the workforce in Belgium being reduced by 160 employees through the end of 2003, the main reason for concentrating all production under one roof is to achieve other benefits.

»Based on well-defined goals, all parts of the production chain are now working to accelerate productivity and product flows, while cutting the lead-time from the supplier to customers. This will also enable us to reduce tied-up capital and will provide scope for continued investments,« says Noël Janssens, manager of the Houthalen plant.

The investments referred to by Noël Janssens are the widespread measures to upgrade the machine park that are being implemented in parallel with the merger of the production units. At present, EUR 5 million has been allocated for investments in new equipment, such as a completely new production line and fine tuning and improvements of production machinery. In turn, this process requires a mobilization of the entire workforce in an effort to achieve continuous improvements, since the machinery and other equipment will be upgraded on site.

THE PRIMARY TOOL used for this work will be the EFQM (European Foundation for

is equal to tobacco paper that is made from cigar tobacco byproducts. Additionally, US tradition is that most cigars have closed heads. With premium cigars a cigar cutter is normally used to cut the end, however for machine made cigars the closed head is normally pierced. This differs from Europe where most large cigars are pre-cut during manufacturing.

The more labor-intensive production with wrappers made of natural leaf is located in Santiago and this has been the case since all North American manufacturing of natural leaf cigars was transferred from Dothan to Santiago three years ago. While efforts in Santiago primarily involve increasing production efficiency by means of a comprehensive program of improvements, at Dothan, investments are also being made in greater automation to increase productivity.

The Dothan automation project

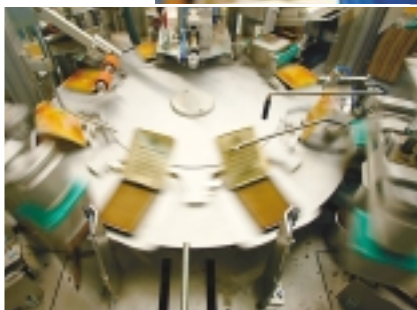
Rationalization efforts are currently under way at the production facilities in Dothan, in the US, and at Santiago, in the Dominican Republic.

LIKE HOUTHALLEN, IN BELGIUM, both plants manufacture machine-rolled cigars.

Machine rolled cigars manufactured in North America differ somewhat from the cigars manufactured in Europe. The cigars from Santiago differ in that they are wrapped in single, complete tobacco leaves, versus the patched leaves like in Houthalen. In Dothan the wrapper is made of homogenized tobacco leaf (HTL), which



Linda Reekman works at the cigar production plant in Houthalen. The machinery for cigar production is being substantially modernized, including enhancing the efficiency of the production machinery as well as installation of a completely new packaging line.



Quality Management) model introduced within cigar-production operations in 1999. EFQM is an instrument used by companies to assess their current position in efforts to become world class.

A walk around the Houthalen plant provides a clear impression of the distinctive nature and complexity of the production conducted there. Products include brands comprising 100-percent tobacco – such as La Paz, Willem II and Justus van Maurik – and cigars whose wrapper consists of HTL (Homogenized Tobacco Leaf). Wings and Bellman are well-known HTL brands.

As a result, the plant requires a large amount of storage capacity. Inventories of wrapper/ binder and filler tobacco correspond to seven to eight months of production, a level that is essential since Houthalen uses 18 different fillers and many different wrapper and binder tobacco, since all of them are in demand. Each blended-filling batch weighs 2,500 to 3,000 kg. The plant also has a large refrig-

erated building for the wrapper and binder material delivered from Indonesia. The various blends require considerable handling and flow capacity.

In total, 162 different types of cigars are produced, which are supplied in 470 different forms of packaging, such as wooden boxes, tins and tubes. The products also have to be affixed with various types of labels, bands, EAN codes, health warning stickers, cellophane and so forth, which means that more than 3,000 different items are delivered to customers as finished products.

THE AIM IS THAT the packaging/finishing machine will handle all of the aspects of the finishing process, thus replacing the four different machines currently used. In parallel, work is under way to improve the cigar machines, also with the aim of enhancing productivity and performance.

»We now know exactly what we want to achieve, as does the entire organization,« says Wim Thijssens, head of the Continental Europe Cigar Operations. □



Wim Thijssens.

SWEDISH MATCH'S CIGAR OPERATIONS

	Plants	Brands
Swedish Match Continental Europe	Valkenswaard, NL Houthalen and Overpelt, Belgium, Pandaan, Indonesia	La Paz, Willem II, Wings, Hofnar, Justus van Maurik, Bellman, etc
Arnold André (40%)	Bünde and Königslutter in Germany	Clubmaster, Handelsgold, Vasco da Gama, Independence, etc
Swedish Match North America	Dothan in the USA, Santiago in the Dominican Republic	White Owl, García Y Vega, etc
General Cigars (64%)	Santiago in the Dominican Republic, Honduras	Macanudo, Excalibur, Don Sebastian, etc

»In 2001, we invested the equivalent of 35 MSEK in automation, mainly in a new packing machine for large cigars, corresponding to 75 percent of production volume.« Explains Johnny Ghosal, Vice President Operations and Supply for Swedish Match's plants in Dothan, Santiago and Owensboro.

THIS NEW EQUIPMENT is unique to the industry. Traditionally, after a cigar is made, it undergoes seven additional stages before it is ready to be sent to the customer. This consists of piercing a hole in the end of the cigar, placing the band on the cigar, wrapping in cellophane, orient each cigar and placing the cigars in packs of five or in

a 50-cigar box, over-wrap the packs and then placing the cartons in cases. The new equipment automates all of these processing steps, to one continuous process, including various labeling.

Currently, the packing machine handles more than 50 different products, although this number will increase as new products are introduced.

»Thanks to the new equipment, we have progressed a step further than our competitors with regard to packing automation,« says Johnny Ghosal. »The intention is to continue during 2003, and then it will be the smaller cigars' turn.«

Swedish Match share holding strong

The stock market remained weak during the third quarter. Stockholmsbörsen (Stockholm Exchange) declined somewhat during the period. The deep slump, continuing from the first half of the year was broken toward the close of the quarter and a certain degree of recovery could be sensed, particularly in the industries that had previously suffered heavy losses, such as telecom.

At the end of October, Swedish

Match's share price stood at a level marginally above that for the end of July. This slight increase in share price contrasts with Stockholmsbörsen, which fell an average 5 percent during the quarter.

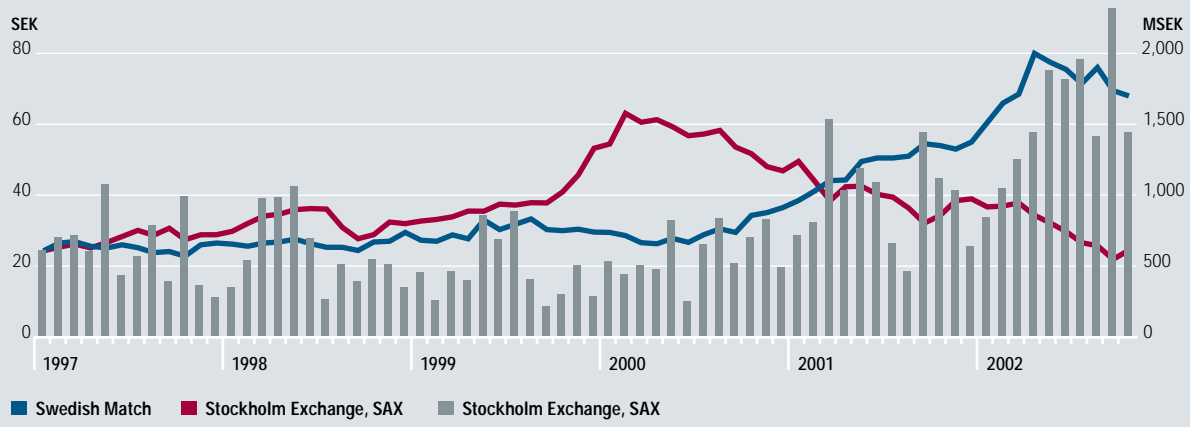
On October 25, the day following the publication of the interim report, the bid price was SEK 69.50. The highest price noted during the most recent quarter was SEK 79, recorded in August. The highest price during the year was recorded in April, when the

share hit a peak of SEK 86.

From the start of the year, the Swedish Match share price has risen 26 percent, which is the best development among the most actively traded shares on Stockholmsbörsen.

On the US NASDAQ exchange, where Swedish Match's depository receipts are listed, developments have been similar. To date, the NASDAQ index has dropped by 35 percent during 2002. □

SHARE PRICE AND TURNOVER DURING FIVE-YEAR PERIOD



TOTAL RETURN

Total return, %

Jan–October 25, 2002	27.4
2001	56
2000	32
1999	4
1998	19
1997	15
May 15–Dec 31, 1996	9

(24% annual return)

KEY FIGURES

Earnings per share, SEK

2001	3.54
2000	2.76

Shareholders' equity per share

Dec 31, 2001	11.73
Dec 31, 2000	12.22

SHARE PERFORMANCE, %

Jan 25–Oct 25, 2002

Swedish Match	26
SAX	-39

Share tips on the Net

The Internet offers a quick source of information about shares, including an abundance of facts about companies and details of share prices.

Swedish Match's own website is an excellent source of news about the company, not to mention its competitors and the sector as a whole. Here you can find, for example, press releases, financial reports and the publication dates of future reports.

Other useful sources are the business media and share databases. One limitation regarding the media websites is that they use the local language and their content may also have a local bias. An increasing number of media websites now charge a fee for the information they provide.

Information about a given company is also often provided on the websites of the exchanges on which the company is listed, although there may be a delay of 15–20 minutes on share-price information. Swedish Match is listed in Stockholm (www.stockholmsborsen.se), Germany (www.xetra.de) and New York (www.nasdaq.com). If you wish, you can follow share price movements in New York on your home computer after the European exchanges have closed. Remember the ticker code: SWMA or SWMAY.

THE SECURITIES AND Exchange Commission (SEC), lists all registrations of company information in its database EDGAR (www.sec.gov/edgar). Unfortunately, the documents contain a lot of very formal legal language. The company databases provide information about institutional shareholders, ana-

lysts' assessments, and so forth. Among the better databases are www.my.zacks.com and www.biz.yahoo.com, which offer basic information in the form of analyses and general company information, in addition to share prices and key ratios. Shareholder information is also available on www.reuters.com and www.multinvestor.com. On both these sites, users can set up their own share-watch profiles.

www.corporateinformation.com and www.hoovers.com are American databases that provide written analyses and comparisons with other companies.

MSCI (www.msci.com) is a database for indexes. Swedish Match is included in the tobacco index but can also be compared analytically with a broader spectrum of consumer-products companies. □

NAMES AND NEWS

New appointments

AFTER THE FOCUS IN RECENT YEARS on smokeless products, Swedish Match has secured a position as the global leader in niche tobacco products. This position provides a platform for the future, in which expertise and products parallel social trends. Considering these possibilities for continued growth and profitability, Peter Nilsson has been appointed Senior Vice President Business Development, effective January 1, 2003. Currently serving as head of the Continental Europe Division, based in Valkenswaard, the Netherlands, Peter Nilsson will serve in his new position as a member of Group Management and will report to CEO Lennart Sundén.



René den Admirant has been employed as head of the Continental Europe Division as of January 1, 2003. He has years of experience in executive positions in the tobacco industry. Most recently, he was responsible for Japan Tobacco International's operations in Europe. René den Admirant will also be a member of Group Management and report to CEO Lennart Sundén.



swedishmatch.se voted second-best Nordic site

SWEDISH MATCH HAS WON the silver medal in Webranking™ 2002, Europe's leading survey and ranking of listed company websites. »We devote a great deal of time and energy to our website, so this is a very satisfying achievement.« says Annette Kaunitz, responsible for the Swedish Match site.

Swedish Match is now being rewarded for the effort that has been invested in its site. The Group has the second-best site in the Nordic region. Through the high priority assigned to the project by corporate management, a competent web council and professional guidance, Swedish Match has successfully created a website that more than meets the high demands placed on it by today's capital market and other stakeholders.

Webranking™ sets high demands for corporate websites. From year to year, the survey takes into account new trends and new demands from the capital market. Accordingly, a website may never be considered as fully developed. Instead, it must be continually updated to maintain its topicality and credibility. Swedish Match's web council works constantly to meet the expectations of priority target groups (analysts, shareholders and financial journalists), mainly by satisfying their demands for a certain type of information and by making this information easily available and understood. As a result, Swedish Match's focus on the website has been combined with the goal of maximizing user benefits for visitors to the site.

There is also an international version of the survey, in which demands are based on an international perspective. The protocol also distinguishes itself slightly from the Nordic. On November 6, 2002, the results were published in the Financial Times and once again Swedish Match was among the medal winners, with a third place spot for the whole of Europe!

The Swedish experience arouses interest in research circles

In a health context, the role of snuff (snus) as a significantly better alternative to cigarette smoking has created attention at a number of major international conferences during the past half year. The experiences cited have mainly derived from Sweden.

In the search for methods to reduce the harmful impact of tobacco, Sweden and the recent changes in Sweden's tobacco habits, have recently been the focus of attention among researchers and promoters of good health. During the past summer and early autumn, no less than five large conferences have been held around Europe, which in one way or another have addressed the harmful effects of smoking, nicotine dependence and alternative smokeless nicotine products.

THE FACTOR that has created most interest is the »full-scale experiment in health-impact reduction« that is in progress in Sweden, which is how Professor Michael

Kunze from the University of Vienna described the situation to participants at the Eighth Central European Lung Cancer Conference in Vienna at the beginning of September. Professor Kunze presented the results of a study showing that the mortality rate among patients suffering from lung cancer and other smoking-related cancer

diseases is lower among Swedish males than among Austrians. As a result, Sweden is the first industrialized country to report any significant reduction in the mortality rate among people suffering from tobacco-related diseases. Professor Kunze and his colleagues say that the explanation can be sought in the major shift that has occurred in Sweden away from cigarettes to smokeless nicotine products. At the end of 2000, this latter category accounted for about half of all nicotine consumption in Sweden.

»Several of the studies indicate that there is no excessive risk of cardiac infarct among snus users, as distinct from cigarette smokers. At the same time, it is generally known that snus is a major help to many smokers who want to quit.«

»THE SWEDISH Experience,« as this phenomenon has become known internationally, is based on the high consumption of snus

in relation to cigarettes. This in turn has led to several large epidemiological studies being made. None of them have shown any links between Swedish snus and cancer. Several of the studies indicate that there is no excessive risk of cardiac infarct among snus users, as distinct from cigarette smokers. At the same time, it is generally known



that snus is a major help to many smokers who want to quit.

Against the background of these studies, the debate has increasingly focused on snus as an alternative to smoking for people who are nicotine-dependent. Until we have a completely nicotine-free society, which is not likely for some time, many public health representatives claim that it is better to take snus than to smoke. Many argue that this will continue to apply in a reality where a large group will never get over their addiction as long as nicotine exists. And, as noted, the advocates of a harm-reduction approach are growing in number.

THE MOST RECENT EXAMPLE of this change in attitude was confirmed at the scientific conference on nicotine dependence in Santander, Spain, at the beginning of October. One of the agenda items was devoted to Swedish »snus.« In an address, Clive Bates, from Action on Smoking and Health and one of Europe's foremost opinion lobbyists, proposed that the EU's ban on snus be lifted and that legislation be passed to instead regulate the limits for undesirable substances in snus. □

SWEDISH MATCH IN BRIEF

Swedish Match is a unique company with a complete range of market leading snuff and chewing tobacco, cigars and pipe tobacco – tobacco's niche products – as well as matches and lighters. The Group's global operations generated sales of SEK 13,635 M in 140 countries in 2001. The Group has 14,343 employees. Swedish Match shares are listed on the Stockholm Exchange (SWMA) and NASDAQ (SWMAY).

Smokeless Tobacco



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

MARKET POSITION

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

Chewing Tobacco: Market leader in North America

Cigars and Pipe Tobacco



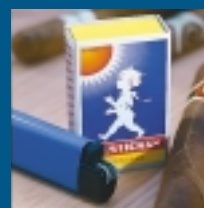
Along with smokeless tobacco, cigars and pipe tobacco have been identified as a growth sector for Swedish Match. The products are sold in large parts of the world, with particular emphasis on North America, Europe and South Africa.

MARKET POSITION

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

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

Matches and Lighters



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

MARKET POSITION

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

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

KEY FIGURES

MSEK	2001	2000
Net sales	13,635	11,533
Operating income	2,193	1,886
Operating income before depreciation	2,863	2,429
Net income	1,228	1,144
Income per share after tax, SEK	3:54	2:76
Dividend per share, SEK	1:45	1:35
Return on shareholder's equity, %	28.3	21.8

☆☆☆
SWEDISH MATCH