

Inside

INFORMATION ABOUT SWEDISH MATCH FOR SHAREHOLDERS AND OTHER STAKEHOLDERS

#2 may 2003

Snuff performs strongly

With continued growth in both Northern Europe and the US, snuff was the main positive factor in Q1 2003. Currency trends represented the negative side, with the dollar's fall in value largely accounting for the decline in sales and operating income. Group sales declined 9 percent to 3,006 MSEK and operating income fell 15 percent to 516 MSEK. **Page 2-3**

Record number of cans sold in 2002

About 1 million Swedes were using snus in 2002. Swedish Match sold 187 million cans, which is a new record and a 7-percent increase on 2001. Half of all Swedish snus users are former smokers. Statistics also show that the typical Swedish snus user has a higher educational and income level than the average Swede. **Page 10**

Government wants EU snuff ban lifted

In a letter to the European Court, the Swedish Government states that the ban conflicts with the principle of the free movement of goods. The Government does not consider it reasonable that special rules should apply to one type of tobacco product when others can be sold freely. **Page 10**

Cardamom snus in India



Cardamom is one of the most popular and widely used spices in Indian cuisine, being used both in traditional dishes and in ice cream, cookies and tobacco products.

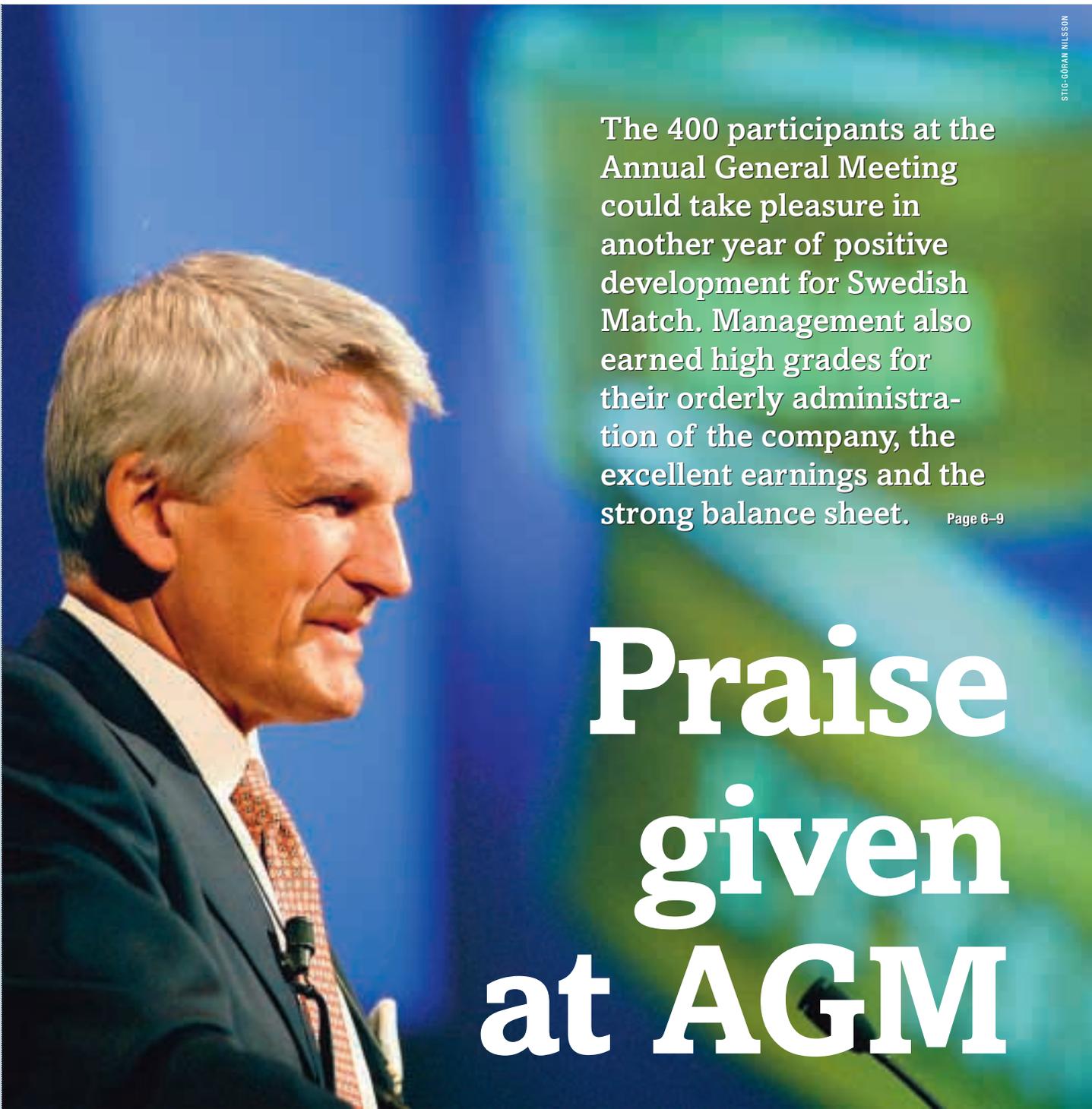
Now Swedish Match has developed a cardamom snus designed to appeal to Indian tastes. **Sid 6**

Quality assurance of financial reports

Swedish Match is one of the first major Swedish companies to establish a Disclosure Committee responsible for examining and quality-assuring all financial reporting from the Group, in keeping with its aim of being at the forefront in terms of corporate governance and disclosure. **Page 11**

World famous for his pipes

In a half-timbered house on the Skåne flatlands, Bo Nordh makes exclusive pipes. He is world-renowned among pipe connoisseurs and there is a long waiting-list to buy one of his pipes. The US is his main market, but his pipes are also sold in Central Europe. **Page 10**



STIG-GÖRAN NILSSON

The 400 participants at the Annual General Meeting could take pleasure in another year of positive development for Swedish Match. Management also earned high grades for their orderly administration of the company, the excellent earnings and the strong balance sheet. **Page 6-9**

Praise given at AGM



Snus heads east

Snuff is heading east as Swedish Match focuses on new markets. Test sales have been under way in Moscow for a year and the pace is now being intensified. Åke Viktorsson, who has operational responsibility for the snus launch in Russia, thinks that the time is right, since the Russians are becoming more health-conscious and restrictions on smoking are increasing. **Page 4-5**



Key to owner control

CORPORATE GOVERNANCE – the system for ensuring that companies are properly managed – has become a focus of discussion in the business community. Imminent changes to legislation, regulations and standards in the US, the EU and in Sweden will progressively change the conditions for corporate governance.

Swedish Match Corporate Governance is continuously developed in pace with external requirements and shareholders' demands. The overall aim is to give shareholders a competitive return on their investment in the Group. We have an extensive and broadly based ownership structure that includes many well-known international investment institutions. In view of their demands and our listing of ADRs on the NASDAQ exchange in the US, our corporate governance must maintain a quality corresponding to the highest standards on the best stock markets in the world.

A key purpose of the more stringent regulations now being introduced is to increase transparency, insight on the part of shareholders and the market, and public disclosure by listed companies. Swedish Match intends to be at the forefront in regard to the financial information it provides to investors. Accordingly, as one of the first Swedish companies to do so, we have established a Disclosure Committee to supervise our financial reporting. This committee will formalize and systematize the procedures we already apply. It should be seen principally as an aid to further improving our quality assurance in this area and as a means for ensuring that our procedures always meet the most stringent conceivable requirements.

Full and accurate information provided at the right time is one of the primary tools for building and upholding the confidence of the stock market. It is in this spirit that we in corporate management wish to continue developing our undertaking on behalf of our shareholders.

Lennart Sundén, CEO

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SWEDISH MATCH

FIRST QUARTER 2003:

Currency effects

Snuff continued to show strength, with good growth in both the US and Sweden, during an otherwise weak first quarter of 2003. Group sales declined by 9 percent to 3,006 MSEK, and operating income was down 15 percent to 516 MSEK. "The main reason for the decline is the weakening of the dollar and other currencies in relation to SEK," says Sven Hindrikes, Executive Vice President and Chief Financial Officer. "But we also had weaker sales in some business areas, including cigars and matches." The Annual General Meeting resolved to raise the dividend from 1.45 to 1.60 SEK per share.



Sven Hindrikes.

Swedish Match started the year with a mixed quarter. Operations reflected a favorable trend for snuff, which continued to grow rapidly both in northern Europe and the US, further strengthening its profit margin. Pipe tobacco also rebounded as a result of the strengthening of the South African rand. Cash flow from operations on an annualized basis remained favorable and in line with the preceding year.

Currency trends were the primary negative element during the period. Year on year (average from first quarter of 2002 to first quarter of 2003), the USD has declined by about 18 percent, which means the value of revenues denominated in USD was also down 18 percent, after translation to SEK.

"This explains a substantial part of the decline in both sales and operating income," says Sven Hindrikes.

GROUP SALES, DENOMINATED in local currencies, were unchanged during the first quarter. Negative currency movements accounted for 64 MSEK of the 89 MSEK decline in operating income, which was down 15 percent to 516 MSEK for the period. Furthermore, the value of the Brazilian currency was down a full 44 percent, causing a relatively sharp decline in the Match product area's sales and earnings when expressed in SEK.

The currency fluctuation problems – and especially the weak USD – are not only affecting Swedish Match; currency fluctuations have become a recurring theme in the Q1 interim reports of Swedish companies with global operations. "It's something we have to learn to live with, but it should be of a transitional nature. Over the long term, currency fluctuations usually even themselves out."

Volume sales of snuff, the Group's flagship product, increased by 3 percent in northern Europe and 6 percent in the US. Sales in SEK rose 3 percent to 689 MSEK, which meant that the market share in the US showed a further slight increase, to 9.3 percent, calculated as the number of snuff cans sold. Operating income increased by 5 percent to 305 MSEK on the strength of higher volumes.

Sven Hindrikes is optimistic about the Group's snuff operations. "We foresee continued strong growth during the year, and we have announced a price increase in Sweden beginning in April."

CIGARS HAVE FACED MORE difficult market conditions in Europe, with reductions in retailer inventories in many countries. As a result, delivery volumes declined during the first quarter. "We expect somewhat better volumes

Swedish Government wants EU snuff ban lifted

"The ban is not compatible with the principle of the free movement of goods, since it is discriminatory and is not proportional to the level of public health that it is sought to attain. The same degree of health protection can be achieved through less interventionist measures."

This was the wording of an opinion submitted by the Swedish Government to the European Court of Justice in Luxembourg in March. The background is that a German administrative court in North Rhine-Westphalia asked the European Court to rule as to whether the ban on the sale of snuff that is currently in force in the EU, with the exception of Sweden, is or is not lawful.

The European Court has now begun the legal process by requesting opinions from the parties in the case and from those governments of member countries that wish to express an opinion on the matter.

Swedish Match has always maintained that the ban contravenes fundamental principles of European law,

including the requirements for non-discrimination and proportionality, since sales of other tobacco products, such as cigarettes, that have well-documented harmful effects on health are freely permitted. Moreover, when the sales ban on snuff for oral use was introduced, it was based on the assertion that snuff causes cancer in the oral cavity. However, no such connection has been established in the case of Swedish-produced snus.

THE SWEDISH GOVERNMENT pursues the same line of argument in its opinion statement.

While government officials acknowledge that health risks are associated with the use of tobacco products, they point out that neither the EU nor any

cut earnings

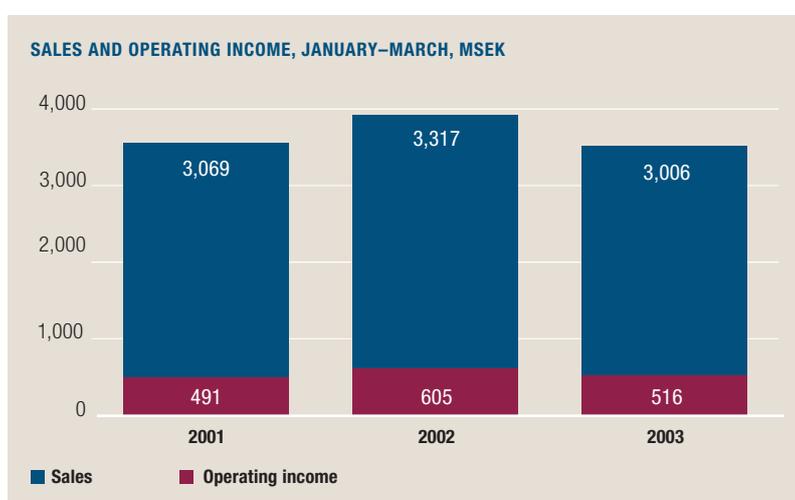
throughout the remainder of the year,” says Sven Hindrikes. Sales of premium cigars in the US were stable, while sales of machine-made cigars reflected a slight decline, in terms of local currencies, compared with the corresponding quarter a year earlier. Compared with the fourth quarter of 2002, however, sales increased marginally. A number of new products were introduced on the market within this segment. First-quarter sales in SEK declined by 17 percent to 644 MSEK, and operating income was down 34 percent to 80 MSEK.

The two smaller tobacco-related product areas, Chewing Tobacco and Pipe Tobacco, performed satisfactorily, as reflected in their margins of 28.5 and 21.1 percent, respectively. Sales of chewing tobacco increased by 4 percent in local currencies, while sales and operating income denominated in SEK were largely in line with the negative trend for the USD. Pipe tobacco showed higher sales and operating income, supported by a 13-percent increase in the value of the South African rand during the quarter.

MATCHES WERE STRONGLY affected by declining currency values, with particular emphasis on the Brazilian real, and a slight volume decline in some markets. Of the decline in sales from 460 MSEK to 348 MSEK, 88 MSEK was currency-related.

Lighters have encountered increasingly tough competition from low-price countries for the past several quarters, and the pressure continued during Q1 2003. Sales declined 19 percent to 151 MSEK and operating income was down 55 percent to 9 MSEK.

The Group continues to show a



	SALES, MSEK			OPERATING INCOME, MSEK		
	Jan-Mar 2003	Jan-Mar 2002	Change %	Jan-Mar 2003	Jan-Mar 2002	Change %
Snuff	689	672	3	305	290	5
Chew. tobacco	295	344	-14	84	106	-21
Cigars	644	778	-17	80	122	-34
Pipe tobacco/ Accessories	214	190	13	46	42	10
Matches	348	460	-24	38	65	-42
Lighters	151	186	-19	9	20	-55
Other	665	687	-3	-46	-40	
Total	3 006	3 317	-9	516	605	-15

strongly positive cash flow, totaling 402 MSEK during the period, compared with 413 MSEK in the year-earlier period.

Sven Hindrikes is more optimistic about the outlook for the rest of 2003.

“Snuff has the potential for continued profitable growth, and our earnings per share, compared with the first quarter, can be expected to show a favorable recovery as early as the second quarter of the year.” □

member country has gone so far as to forbid the use of tobacco. The principal rule is that tobacco products are permitted, provided certain conditions are met with regard to the content, labeling and sale of such products. It is therefore unreasonable for special rules to apply to a single type of tobacco product, namely snus, according to the opinion statement.

The Swedish Parliament has also given its unanimous support to the demand that the ban on sales of snus be lifted.

“THE SWEDISH GOVERNMENT should argue vigorously against the ban on snus sales and also take other measures to bring about the rapid repeal of the EU’s ill-founded ban. The committee hopes that the European Court’s decision will take a favorable view of the Swedish position,” wrote the Parliamentary Standing Committee on Economic Affairs in a recent statement. □

Growth year for snus

Snus consumption continued to rise in Sweden during 2002. Swedish Match sold more than 187 million cans, which is 7 percent more than in the preceding year and a new record.

The number of snus users in Sweden amounted to approximately 1 million persons in 2002, which corresponds to about 16 percent of the adult (age 16–75) population. Of these snus users, 190,000 are women. This means that one in five women is a snus user, which represents a doubling during the past five years. During the same period, portion-packed snus has gained a larger share of the snus market. Calculated as tons of snus, this share amounted to 49 percent in 2002.

Snus users have higher educational

and income levels than the average Swede. The average income among snus users is 14 percent higher than for the average Swede. The proportion of snus users employed in the private sector is also higher than for average Swedes.

THE AVERAGE AGE of snus users in Sweden is 39. Over the past 15 years, the number of snus users among younger persons (age 15–29) has declined, while it has increased among older Swedes (age 30–75).

A full 50 percent of snus users are former smokers, many of whom have given up cigarettes for health reasons. Another factor is that smoking in, for example, restaurants and workplaces is becoming less and less acceptable. □

CORRECTION: The preceding issue of Inside unfortunately contained inaccurate information, to the effect that one snus user in seven is a woman. This is incorrect. As this article shows, as many as one fifth of snus users are women. We apologize for this error.

Analysts' questions

In conjunction with the release of the first-quarter report for 2003, a telephone conference was held between management representatives of Swedish Match and analysts from banks and brokerage companies. The following is a selection of the analysts' questions:

JONATHAN FELL, MORGAN STANLEY:

“I’m curious about the decline in cigar sales. Can you specify in more detail what caused the decline and describe the current conditions in different European markets?”

LENNART SUNDÉN, CEO:

“The pattern varies somewhat in different European markets, but sales are down about 10 percent in most regions. Some of the decline is certainly due to the general economic uncertainty that continues to prevail. We have also received information indicating that distributors and retailers have made rather substantial reductions in their inventories. It’s difficult to say whether the current pattern will persist in the long term.”

GERRY GALLAGHER, DEUTSCHE BANK:

“I have two questions. Snus sales in northern Europe increased by three percent. Does that mean we should expect lower growth in the future? Concerning the share buyback program, is it correct to assume that you will be most active in this regard during the first and fourth quarters?”

LENNART SUNDÉN:

“The increase in snus sales should be seen in the light of the comparison with a very strong corresponding quarter in 2002. So the long-term trend of sales growth of around five percent should be sustained. As for the buyback program, we cannot announce in advance the volume of shares we intend to acquire at different times of the year. This is an ongoing, long-term program. During the past quarter, we made substantial repurchases, and we will now ask the Annual General Meeting for a mandate to continue throughout the remainder of the year.”

CAROLINE KÄRSTEN, HANDELSBANKEN:

“I wonder what effect restructuring and currency exchange rate movements had on earnings for cigars. What trends do you anticipate for the future?”

LENNART SUNDÉN:

“As for currency effects, the interim report shows they were substantial. For example, currency effects accounted for 12 percentage points of the 17-percent decline in sales. A significant portion of the decline is related to the USD, and it’s extremely difficult to forecast trends throughout the remainder of the year. Structural changes gave rise to substantial costs, but these were lower during Q1 2003 than during Q4 2002, and should decline to zero during the second half of the year. We are convinced that the measures taken will lead to improved margins in the medium term.”

JOHAN GRABE, ENSKILDA SECURITIES:

“I understand that you have incurred costs for personnel retirements that affected the margin for chewing tobacco. What would a normal operating margin have been?”

SVEN HINDRIKES, CFO:

“It is correct that we made some cutbacks within administration. If we look back, the operating margin was about 30 percent and, since the business is stable, we hope to restore the margin to that level.”

As Swedish Match directs its attention to new markets for snus, the focus is on Russia. The test sales activities of the past year have now been intensified.



NEW MARKETS

EAST is next



Russia

Form of government: Republic.
Capital city: Moscow (approximately 9 million inhabitants).
Population: Nearly 146 million.
Language: Russian, plus numerous minority languages.
GDP per inhabitant: USD 1,304 (1999).
Valuta: Ruble.

The Russian Federation is by far the world's largest country in terms of surface area. For several centuries, the country has been a major power in both Europe and Asia. The Russian Revolution of 1917 ended the rule of the czars, and in 1920 the communist Soviet Union was formed, with the dictator Joseph Stalin as the leader.

Despite attempts at economic and political reforms during the 1980s, the Soviet Union collapsed in 1991, and the Russian Federation declared its independence on August 24 of that year.

Sources: Swedish Institute of International Affairs, Wikipedia



Acquisition in Slovenia

In March 2003, Swedish Match signed an agreement to acquire Slovenian tobacco distributor CYAN d.o.o., which has annual sales of EUR 2.8 M. However, CYAN was by no means a new acquaintance – the two companies have enjoyed successful cooperation for a number of years, with CYAN distributing Swedish Match's products, primarily cigars, in the Slovenian market.

CYAN was formed in 1990 by two entrepreneurs, making it approximately the same age as the state of Slovenia. Both of the founders remain as senior executives in the company.

Slovenia

Form of government: Republic.

Capital city: Ljubljana.

Population: Nearly 2 million.

Language: Slovenian. (In certain areas, Italian and Hungarian are also official languages. Croatian and Serbian are also spoken.)

GDP per inhabitant: USD 9,949 (1999).

Currency: Tolar.

Slovenia borders Croatia, Hungary, Austria and Italy, and also possesses a short stretch of coast on the Bay of Venice. For several centuries the country belonged to the Austro-Hungarian Empire. When this disintegrated, Slovenia became part of the Kingdom of the Serbs, Croats and Slovenes, which was reconstituted as the Republic of Yugoslavia at the end of World War II. The Slovenia of today was established on June 25, 1991, when the country broke free from the Yugoslavian Federation. The Slovenes recently voted by a large majority in favor of EU membership, which means that the country will become an EU member state during the first half of 2004.

“People are becoming more health-conscious and restrictions on smoking are increasing, so the timing is ideal for smokeless tobacco products.”

ÅKE VIKTORSSON, AREA MANAGER FOR EASTERN EUROPE AND THE BALKANS



snus launch in Russia. “In particular, repeat sales have already attained a very satisfactory level. This pattern established itself more rapidly than expected, despite the fact that we still have only a limited number of sales outlets.”

THE INITIAL LAUNCH PHASE, which is under way at present, will continue to be restricted in scope, with about 100 sales outlets. This reflects the insistence that sales should be conducted in the traditional Swedish Match manner, with the company's own coolers installed in the stores. It is also essential to be able to follow up handling meticulously.

Initially, the product is being sold via tobacco retailers, supermarkets and BP service stations in Moscow and the surrounding area. The snus was also recently introduced in a limited number of stores in Saint Petersburg. The brands spearheading the launch are three flavor variants of Click, which is also sold in India, as well as General and Ettan.

The target group is the same as in other markets – smokers who want to quit. In Russia, smokers make up 33 percent of a population of 150 million people.

“Since Russia has no prior snus tradition, it is a matter of marketing an entire new behavior pattern and teaching consumers,” explains Åke Viktorsson. “At the same time, development in Moscow, as in other major cities, is proceeding extremely rapidly. People are becoming more health-conscious and restrictions on smoking are increasing,

which suggests to us that the timing is ideal for smokeless tobacco products.”

Although snus is a new product in the Russian market, Swedish Match is no stranger to Russia.

“In fact, we will be celebrating our tenth anniversary in June this year,” says Åke Viktorsson. “Lighters paved the way, and without Cricket's good name and reputation we would not have achieved success so rapidly with snus.”

The background is Swedish Match many years of cooperation with the distribution company Neska, through which it has built a network of around 150 wholesalers and thousands of retail outlets that sell the Group's products, particularly lighters.

“This has been enormously valuable, now that we want to actually move refrigerators into their stores. They already know us and what we stand for.”

NOW THE COOPERATION with Neska is continuing with the snus launch, and an employee is now working full-time to assist with the launch and follow-up.

Åke Viktorsson believes strongly in the future of the Russian market.

“The Russians are interested in and receptive to new products. There is also a strong anti-smoking trend, which works in our favor. People generally are also well educated – the level of education is in fact higher than in many other markets in Europe. This also works to our advantage, since it makes it easier for us to publicize our arguments for snus.” □

“Russia has no prior snuff tradition, so it is a matter of marketing an entire new behavior pattern and teaching consumers.”

ÅKE VIKTORSSON



CLICK CARDAMOM

Launch in India

Swedish Match has developed a cardamom-flavored snus designed to suit the taste preferences of Indians. Cardamom has a long tradition in India and is one of the most commonly used and popular spices in Indian cuisine. As well as being used in traditional food dishes, cardamom is used in such products as ice cream, cakes and tobacco products.

Cardamom snus will be launched in some 40 Indian cities during May. In common with Swedish Match's existing snus varieties in India, the cardamom snus is sold in small cans containing 10 portion-size pouches and also in “sachets” – smaller packages containing only two pouches.

TOBACCO IS GROWN in India, and the Indian Tobacco Company (ITC) is the largest Indian cigarette manufacturer. As in the Western world, cigarette smoking is a practice that has existed during the past 100 years or so. On the other hand, smokeless tobacco, particularly chewing tobacco, is part of a tradition that stretches back 500 years in India. There are a number of local companies that sell everything from raw tobacco to blends with various flavors. (“Paan” and “Guthka” are two types of chewing tobacco that consist, among other ingredients, of betel nuts, tobacco, lime and other flavorings. These products are forbidden in certain parts of India.)

Swedish Match's snus is aimed mainly at smokers, but also at a mix of consumers, including both cigarette smokers and those who chew tobacco. In India, as elsewhere, smoking is increasingly subject to restrictions, which suggests that there is a future there for snus. Swedish Match has test-launched other types of snus in India, beginning some two years ago, and Click Eucalyptus, Click Licorice and Click Original (with the same flavor as the company's General brand in Sweden) are already on the market in India.



Bernd Svensson.

Best sales of snus were initiated in the Russian capital, Moscow, slightly more than one year ago. The favorable results of the trial prompted a decision in autumn 2002 to continue with the test launch, but on a somewhat larger scale.

“Although the project is still in its infancy, we have already noted highly promising results,” says Åke Viktorsson, area manager for Eastern Europe and the Balkan region and the person with operational responsibility for the

Trends aid busi

“We will stick to our strategies and work intensively to make use of the business opportunities that social trends present to us.” These were the words of President and CEO Lennart Sundén in his address to the Annual General Meeting, published here in full. In his address, Lennart Sundén highlights future priorities: “We will continue our efforts to become the world’s leading company in niche tobacco products, focusing on smokeless tobacco alternatives but remaining open to other potential products.”

We are now into the third year of the weakening trend in the world economy and declining share prices on the stock markets. These have been exceptionally difficult times for most shareholders. Many commentators have compared the situation with the stock market crash in the early 1930s. And as spring advances, we can still see no clear sign of an upturn.

The trend for Swedish Match during this challenging period has been favorable for you as shareholders. The Group has been one of the most successful creators of value on Stockholmsbörsen (the Stockholm stock exchange). For the past four years, we have delivered rising profits and increased dividends, and the market has shown its appreciation in the form of a favorable share price trend. Through our redemption and buy-

“The Group has been one of the most successful creators of value on Stockholmsbörsen.”

back programs, approximately 66 percent of net profit has been returned to shareholders during the past four years. Those who have held their shares since the company returned to the stock market in 1996, when the share price was less than 20 SEK, have received an excellent return on their capital since then in the form of dividends and share redemption and buyback programs.

The background to these developments is a combination of industry-specific factors, the strategic initiatives we have taken in response to industry trends, and our shareholder-focused policies.

SWEDISH MATCH HAS AN extremely strong platform in the tobacco industry – an industry whose development and future are often viewed in a negative light. We can confirm, however, that many tobacco companies with healthy market positions generally have strong fundamentals in the form of stable sales volumes, favorable earnings and a good cash flow.

The fact is that the tobacco companies have shown an unusually stable capacity over time to generate positive earnings from operations – a capacity that few other industries have been able to match over a long period of time.

For Swedish Match, the essence of this value creation is its ability, in the face of tough competition, to develop, produce and sell products that attract discriminating customers throughout the world. It is a question of building value into our brands to create long-term profitability. We must also be prepared to participate in the consolidation that is under way in the industry and is set to continue, mainly among cigarette producers, but also in our own product areas. Our experiences in the area of acquisitions over the past four years have been positive, and acquisitions have certainly contributed to Swedish Match’s shareholder value.

However, these positive features cannot disguise the fact that the industry has structural problems. As a result of the growing concern and awareness regarding the health



ness

risks associated with smoking, the tobacco industry's dominant product by far – cigarettes – is faced with declining demand.

But it is precisely these changes in the conditions within the industry that Swedish Match has transformed into its main business opportunity. When we changed the emphasis of our strategy four years ago, we did so after carefully analyzing long-term patterns of consumption, particularly concerning the future of cigarette smoking.

The answers we obtained gave rise to our basic strategy of focusing on alternatives to cigarette smoking, of creating balanced and long-term growth in the tobacco area – of growing with social trends, not against them.

THIS BRINGS ME TO the internal factors behind our results to date:

Following the divestment of our cigarette operations, our strategic agenda was based on the objective of rapidly building up a position as a leading global player in the area of niche tobacco products. Our aim was to become the leading global player in the Other-Tobacco-Products – or OTP – segment. We acquired a number of cigar companies in the US, with the result that we are today the world's second largest cigar producer. Cigars are a form of indulgence that is socially acceptable on special occasions.

With the same focus on profitable niches with substantial cash flows, we continued to target other niche tobacco products. We are number one in the US in chewing tobacco, and one of the world's largest producers of pipe tobacco. Through product and brand development, as well as acquisitions, we have continued to strengthen our leading positions.

We have also devoted considerable resources to our non-tobacco products – matches and lighters – in which we are number one and number three respectively worldwide. These are high-volume products in the retail sector in countries outside Europe and North America where we have to accept a somewhat higher level of risk due to more unstable currency conditions. But on the whole they can show healthy margins over time if we manage them correctly. They also contribute to the potential of the entire Group by providing an effective base for market expansion in areas that normally have a higher growth rate than the mature markets in the West. We have now structured



AGM Chairman Ingemar Mundebo and Bo Aulin.

and streamlined production and developed our products and marketing in such a manner that these two business areas have shown good profitability during the past year. As I indicated, they make a meaningful contribution to a logical whole for the company, particularly in the distribution and sales channels. We hold leading positions in matches and lighters and these products can support our global sales of tobacco products.

HOWEVER, THE FOCAL POINT of our strategies is naturally snuff, the product which – more than any other – offers a realistic alternative for anyone who wants to quit smoking. Swedish Match has a century of experience in this area and has built on and deepened this know-how during the past 30 years through highly proficient research and product development. The result is our Swedish snus, which is protected by the GothiaTek quality designation.

“Snus integrates our commercial interests with key social trends. We can offer an effective alternative to cigarette smoking.”

Snus is our spearhead product for the future – a product that provides healthy margins and a strong cash flow, as well as showing considerable growth. Snus integrates our commercial interests with key social trends. We can offer an effective alternative to cigarette smoking.

We have made substantial investments in product development, production and marketing, aimed at further clarifying the

role of snuff in this regard. We are working purposefully and systematically to gradually build up a global position. Our portion-packed snus has revolutionized snus consumption. A series of new products have been launched. Our snuff is sold in an increasing number of markets, and our market success has continued in the US, the world's largest market for snuff. The first trial cans have now been produced at our new plant in Kungälv in Sweden, an investment that represents a further step in our development of production technologies in line with the highest food standards.

These investments have helped to bring us an increasing degree of international recognition for the potential of snuff as an alternative to smoking. In relative terms, Sweden has a lower incidence of tobacco-related illnesses than comparable countries, and the number of smokers has declined more rapidly. Sweden is now the only western country to have achieved the World Health Organization's target of fewer than 20 percent smokers among a country's adult population. Around half of the approximately one million snus users in Sweden are former smokers, and a considerable number are women. In the international debate on tobacco, all of this data is summarized in the concept of “The Swedish Experience,” which, as a result of research findings and opinion articles, has attracted attention both within and outside the industry, and in scientific magazines.

In addition to these operational strategies, we have also established financial strategies designed to ensure that Swedish Match does not work with more capital than is needed for the healthy development of operations and stable financial development. We have an explicit policy that “surplus funds” are to be returned to shareholders. In addition to relatively high dividends, shareholders have received cash through a redemption program and the increase in the value of their shares as a result of the buyback program.

OUR STRATEGIES AND OUR development of operations once again gave us a favorable earnings outcome for 2002, about which you can read in more detail in the Annual Report. But permit me to comment on a few key points:

- Sales of SEK 13.6 billion were essentially unchanged in SEK but increased by 4 percentage points in local currencies, which

“Our strategies and our development of operations once again gave us a favorable earnings outcome for 2002.”

means that we had a negative exchange-rate effect amounting to 4 percentage points during last year.

- On the other hand, operating income, excluding items affecting comparability, rose 12 percent to SEK 2.4 billion, and all product areas except pipe tobacco and lighters showed improved margins.
- Earnings per share increased by 21 percent to SEK 4.10 as a result of improved earnings and the share buyback program.
- Return on shareholders' equity amounted to 35 percent, compared with 28 percent in the preceding year.

NOW I WOULD LIKE TO comment on individual products and markets:

- Snus continued to show favorable growth. Volume growth in terms of numbers of cans sold was 6 percent in the Nordic region and 10 percent in the US. Our market share in the US improved by 9 percent. Operating income and the operating margin improved considerably.
- The trend in our other major area, cigars, was more subdued, with sales unchanged in local currencies. Operating income increased slightly, as did margins. Our restructuring program in the Continental Europe Division continued according to plan, and one of the two plants in Belgium was closed in December.
- Among the other business areas, we can note a weaker trend in pipe tobacco, where we were affected by the substantial weakening of the South African rand (ZAR) and a weak year for the South African economy in general. The slight weakening of earnings for lighters was due to increased competition from low-cost countries. Matches, on the other hand, showed a favorable earnings trend and strong margins, despite virtually unchanged sales figures. →

Praise and criticism at AGM

Shareholders at this year's Annual General Meeting at Stockholm International Fairs in Älvsjö were, as usual, highly involved and inquisitive.

Options, currency risks and the EU's ban on snus sales were some of the many issues of particular interest to shareholders in attendance.

The shareholders in Swedish Match were gratified to note another year of favorable development for the Swedish Match share, in parallel with a continued decline for Stockholm's stock market as a whole. It was not surprising, therefore, that the Meeting, which, in accordance with tradition, was chaired by former Finance Minister, Director General and Provincial Governor Ingemar Mundebo, was characterized almost exclusively by positive comments. Nearly 400 participants were in attendance, representing nearly 20 percent of total voting rights in the company.

“Swedish Match conduct its operations in an orderly manner,” said auditor Åke

Danielsson, who also said the auditors directed special attention to three areas during the year: benefits offered to senior executives, protection against computer hackers, and corporate management, which he characterized as exemplary.

Tore Lidholm, a representative of private share investors, thanked the company for its clear and informative annual report, with “good earnings figures and a strong balance sheet.”

Björn Franzon of the Fourth AP Fund, and a member of the nomination committee, also praised Swedish Match for its nomination procedures. →



AGM participants showed keen interest in the new disposable grill and grill bag.



“Last year we also reached an important milestone in our efforts to eliminate the unjust ban on sales of snus in the EU.”

- A prioritized initiative during the year was to reduce the Group's operating capital to improve cash flow from operations. We achieved good results with our various programs. Cash flow from operations strengthened by nearly SEK 1 billion to SEK 2.6 billion, with a considerable contribution from the reduction in working capital. We plan to continue with this type of capital rationalization, with the aim of increasing shareholder value.

AND NOW SOME BRIEF COMMENTS on the first quarter of 2003:

Snuff continues to perform well. Volume growth was 6 percent in the US and 3 percent in the Nordic region, which meant that sales increased by 3 percent to 689 MSEK and operating income by 5 percent to 305 MSEK. Margins remain high at 44.3 percent.

Our stable chewing tobacco operations continue to follow the same pattern: a slight increase in sales in local currencies, but a 14-percent decrease in SEK. Operating income was 84 MSEK and the operating margin was 28.5 percent.

Pipe tobacco, which was affected last year by the fall of the ZAR in South Africa, has recovered, thanks to a slightly stronger ZAR and improved volumes. Sales increased by 12 percent in SEK, and operating income was 46 MSEK. In this product area also, we have favorable margins of more than 21 percent.

Cigar sales declined during the first

quarter, influenced to some extent by the global mood of uncertainty during the past few months. Sales in the US declined by approximately 3 percent in USD but substantially more in SEK, due to the weaker dollar. Sales declined by more than 10 percent in Europe, where a relatively comprehensive restructuring program is under way that is also having an impact on figures, due to the costs for moving and for bringing operations onstream. We noted a certain hesitancy to place orders on the part of the retail sector in Europe. The product area reported sales of 644 MSEK,

“We will continue our efforts to become the world's leading company in niche tobacco products.”

which was a decline of 17 percent in SEK. Operating income was 80 MSEK.

SALES WITHIN MATCH OPERATIONS were affected by the sharp decline – by a full 44 percent – in the value of the Brazilian real (BRC). The country is a large market for our matches and changes affecting the currency have a heavy impact on the business area's earnings in SEK. The product area's margin was 11 percent, which is good for this type of operation. Lighters continued

to encounter tough competition from low-cost countries. Both sales and operating income declined somewhat, to 151 MSEK and 9 MSEK respectively.

All of this together amounts to a 9-percent decline in Group sales in SEK – to 3,006 MSEK. In terms of local currencies, sales were unchanged. Operating income declined 15 percent to 516 MSEK. Exchange rates had an adverse impact amounting to 64 MSEK, compared with the corresponding quarter in 2002.

Earnings per share declined by 3 percent during the period, to SEK 0.99.

Swedish Match is in every respect a global company. We have production facilities in many parts of the world that supply the near-by regional and local markets with our products. We have substantial production in Sweden, the US, Continental Europe and major growth countries, such as India, Brazil and South Africa. This means that overall we have a relatively good risk spread. Our operating

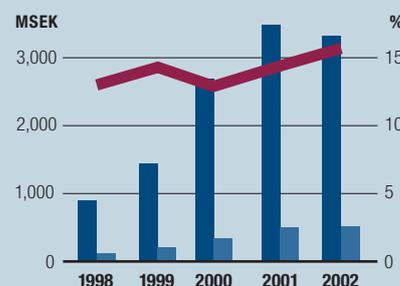
costs and revenues are largely concentrated in the currency areas that are most significant for us. We have relatively few revenue and cost flows passing between currency areas in the form of exports and imports.

Exchange-rate fluctuations appear in our figures without delay as translation gains or losses, when we are reporting on operations in SEK. When, for example, the US dollar, the South African rand and the Brazilian real decline in value against the SEK, we report less value in SEK in our consolidated financial statements. This is important to note when assessing the Group's long-term development. Exchange-rate changes benefited us considerably from 1999 until the beginning of 2001, since when we have been battling against an increasingly strong current in terms of exchange rates.

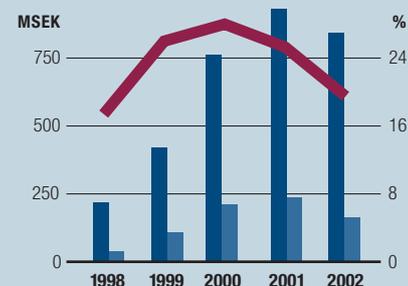
Against this background, developments over the past few years have given us a highly effective platform for continued profitable long-term growth. The health risks

Swedish Match in brief 2002

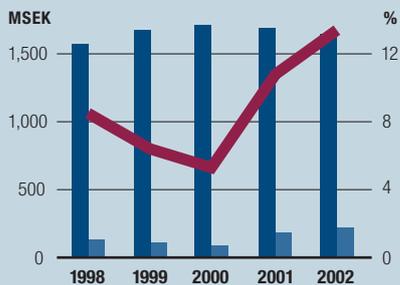
CIGARS



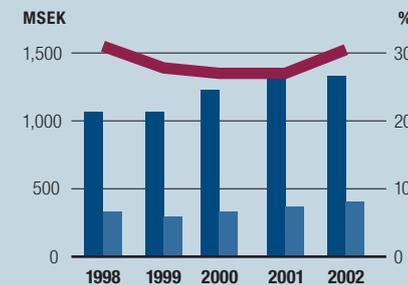
PIPE TOBACCO



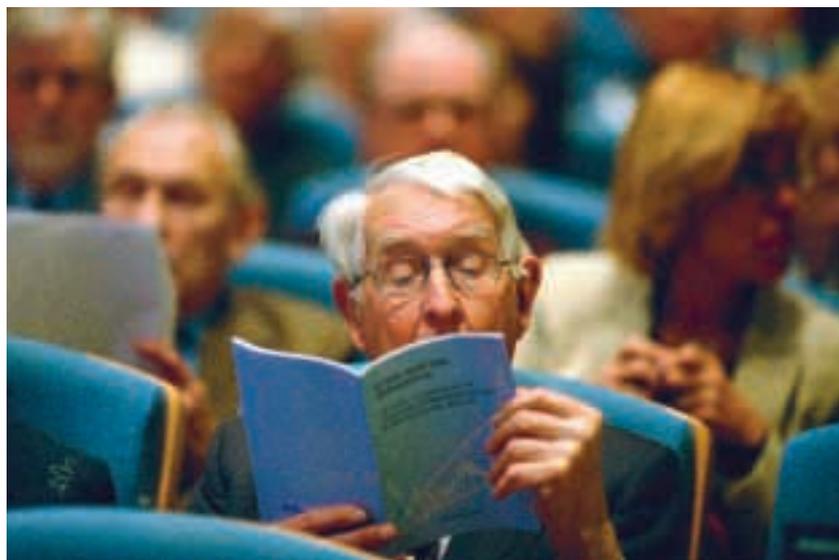
MATCHES



CHEWING TOBACCO



■ Sales, MSEK ■ Operating income, MSEK ■ Operating margin, %



- “Swedish Match has shown the lead in introducing a systematic evaluation of the work contributions made by Board members. It has created pressure on other companies to follow suit,” he said.

The options program took a large amount of the time allocated for discussion. Too much time, said one shareholder, who eventually registered a criticism of the agen-

da item addressing the options program.

Chairman Bernt Magnusson said it was the first time he had ever been criticized for providing too much information.

“This has become a really prominent issue for many companies. Normally, the Annual General Meeting wants to know all the details of the program. We have been extremely thorough in our presentation for

this very reason. We want to be sure the matter is presented clearly, in terms of the principles underlying the program's structure and its results,” he said.

Share investor representative Tore Lidholm also wondered if there is a risk that the share buyback and options programs could become too positive:

“We have seen many examples in other companies showing that share repurchase and options programs are not exclusively beneficial.”

Board Chairman Bernt Magnusson said the incentive programs should be viewed from the perspective of Swedish Match as an organization.

“We have employees throughout the world, and half of corporate management is based outside Sweden. It is common knowledge that salary structures in many parts of the world are completely different from salaries here in Sweden. We simply cannot centrally manage an organization as geographically widespread as ours – we have to create incentives that function in

reality. The primary means of control is to ensure that earnings per share continue to increase,” he explained.

At the same time, he added, the principles for when these benefits are paid are crystal-clear.

“We have a restriction that is lacking in other companies. It is only when the Group performs strongly that bonuses are paid.”

Swedish Match's sensitivity to currency movements was also mentioned in several questions by shareholders – for example, whether subsidiaries hedge their equity.

“Normally, they don't,” explained Sven Hindrikes, Chief Financial Officer. “All of our equity in North America is hedged today. In other parts of the world, however, such as South Africa, it would be too expensive. And it's simply impossible in a country like Brazil.”

One participant wanted to know how the introduction of the euro would impact Swedish Match, in view of the referendum on the issue to be held in Sweden in September.

Lennart Sundén, President, replied that about 20 percent of Swedish Match's

“Market expansion is a high priority, but will occur only after careful analysis. The same applies to acquisitions.”

associated with smoking continue to be a focus of scientific research and public debate. We are seeing increased involvement on the part of officialdom in terms of physical restrictions on smoking, tougher taxation, more trenchant warning texts, information programs and campaigns. This is particularly apparent in the US, but is also increasing in Europe. We expect a similar trend to occur, after a certain delay, in other parts of the world. The outlook for snuff is virtually the opposite – warning texts are being toned down and we are encountering increased understanding for the proposition that snus is a realistic alternative for those

who do not wish to continue smoking. **LAST YEAR WE ALSO REACHED** an important milestone in our efforts to eliminate the unjust ban on sales of snus in the EU – a ban from which Sweden was granted a permanent exemption when it became an EU member state. A German court decided to refer the issue of the legality of snus to the European Court of Justice. Subsequently, the High Court in the UK also decided to refer the matter to the European Court.

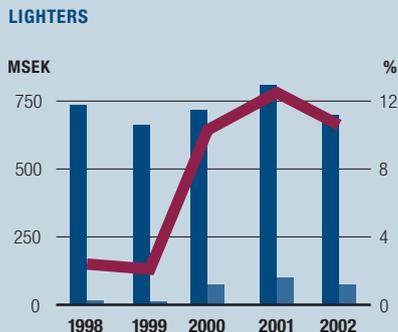
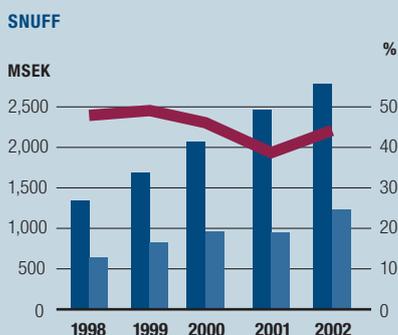
The ban is unreasonable in many respects – particularly from the viewpoint of the many smokers who are seeking an effective alternative to help them quit smoking. The legal process in the European Court is expected to take about two years, and we are convinced that, one way or another, the ban will be lifted.

Accordingly, we will stick to our strategies and work intensively to make use of the business opportunities that social trends present to us. We will continue our efforts to become the world's leading company in niche tobacco products, focusing on smokeless tobacco alternatives but remaining open to other potential products. We will continue to develop our expertise and our products, with the emphasis on smokeless products. Rational production and effective capital management will constantly be on the agenda. Market expansion is a high priority, but will occur only after careful analysis. The same applies to acquisitions. We view the entire world as our field of operations.

As an example, I can cite the fact that our test sales of Swedish snus continued in India last year. Sales developed positively and were expanded to several other states in India.

Changes in traditional consumption patterns are a process that will take varying lengths of time in our different markets. Most countries in the world lack a snus culture of the Swedish type. In Sweden, the consumption peak for cigarette smoking was reached during the years around 1980. It took 20 years for cigarette smoking to halve and snus consumption to double.

But in a world that contains approximately one billion smokers, Swedish Match's smokeless products have a vital and constructive role to play in international, national and individual initiatives to reduce the harm caused by smoking. The aim of our strategies in the smokeless-products area is to realize as much as possible of this potential. And this is Swedish Match's fundamental strength – our commercial interests go hand in hand with trends in society. □



operations are already conducted in EUR.

“So we are already working with the euro as one of the company's currencies. Of course, if Sweden converts to the euro, it would further simplify our administrative routines. Without necessarily taking a stand on the issue, I would say that a conversion to euro would be a positive development for the company. It would reduce exchange-rate fluctuations, and we wouldn't have to spend as much time discussing and managing currency exchange rates,” he said.

The situation regarding the EU's ban on sales of snus also generated a great deal of interest. The current status regarding this issue is addressed in greater detail elsewhere in this magazine, however. With regard to the other major ongoing legal process, the lawsuit against US Tobacco in the US, Chief Legal Counsel Bo Aulin noted that a trial date has now been scheduled for September 2004, but the company does not expect a rapid resolution of the case.

“It took five years to process a similar legal action against UST by another Ameri-

can competitor.”

Formal decisions by the Annual General Meeting granted the Board of Directors a continued mandate to repurchase shares at a rate that would ensure that the company's holding of its own shares at any given time does not exceed 10 percent of all the shares in the company. The buyback program is intended to adjust the company's capital structure and cover allocations of options in the rolling options program. Repurchased shares could also be used as partial payment for future acquisitions. The number and value of option allocations for the year was also established, and a decision was made to withdraw 10 million of the repurchased shares in the company.

All members of the Board of Directors were re-elected, and a proposal to increase fees paid to the Board members was approved. Bernt Magnusson and Björn Franzon were re-elected as members of the Nomination Committee, and Marianne Nilsson and Staffan Grefbäck were elected as new members. □

AUDIT COMMITTEE TO CHECK CONTROLS, VALUATION AND REPORTING

Security for investors

Swedish Match's Board of Directors is establishing an Audit Committee with the task of preparing for the Board of Directors' examination of financial controls and reporting, and the selection of auditors. “We have established the Audit Committee, partly in response to the tightening of US regulations, in order to create additional security for investors,” says Bo Aulin, Senior Vice President Corporate Affairs.

US LEGISLATION GOVERNING stock markets and corporate governance has become considerably more stringent during the past year as a result of the high-profile corporate scandals during 2002 and the implosion of the stock market bubble, which together revealed poor controls and even criminal conduct within several large companies.

The legislation, named the Sarbanes-Oxley Act after the two American politicians who drafted the bill, is the most comprehensive since the 1930s in the areas it covers. It focuses on board work, the independence of board members, financial controls, valuation of assets, commitments and risks, and disclosure to the stock market.

“It is clear that the new US legislation focuses on problems in the US,” says Bo Aulin. “We have not experienced the same scandals here in Sweden, and a number of the US measures are already standard practice in Swedish corporate governance. Nevertheless, we need to have a clear understanding of the events in the US and the measures that are now being enacted in a steady stream. As European companies with listings and shareholders in the US, we must all take seriously the concern felt by US investors. Accordingly, we have decided to institute an Audit Committee within the Group to help further strengthen confidence in Swedish Match.”

The Audit Committee is to consist of at least three independent members of the Board of Directors. In this case, “independent” means that they must not be employees of the company. At least one committee member must possess a level of competence equivalent to that of a Chief Financial Officer in a publicly traded company.

“For this reason, we are pleased that Jan Blomberg has agreed to chair the committee. As former CFO at Procordia, among other positions, he meets the requirements by a clear margin,” says Bo Aulin.

The other committee members are Meg Tivéus, President of Svenska Spel and a board member of Billerud, the Royal Opera in Stockholm and Danderyd Hospital, and Arne Jurbrandt, board member of EAN Sweden and IFL/MTC.

The purpose of the Audit Committee can be explained as follows:

Its main task is to discuss and evaluate the basic principles for financial control and management of the company and for its risk-assessment systems, and in a similar manner supervise the company's financial control systems and uphold the quality of financial reporting. Another

important function is to evaluate authorized public accountants with a view to selecting auditors.

In this regard, Swedish Match, like other Swedish companies, has an interesting problem: the US legislation does not coincide with the Swedish.

“According to the US regulations, it is the Audit Committee's job to select auditors, while in Sweden this is the Board of Directors' task. To resolve this conflict, we have decided on a compromise whereby the Audit Committee makes a preparatory assessment and submits proposals to be voted on at the Annual General Meeting,” explains Bo Aulin.

Since this type of conflict situation is not uncommon in the new US legislation, the US authorities grant certain exemptions to non-American companies. One result of this is that the AGM nominating committee will no longer be charged with submitting proposals for auditors and deputy auditors and the fees to be paid to them. On April 25, the AGM voted on this change in the instructions given to the nominating committee.

The Audit Committee will work on a number of reports – from the president, the CFO, the controller and the auditors, for example – reviewing the points considered and choices made in the course of financial-control work and the preparation of financial reports.

The issue of Audit Committees has prompted considerable discussion in the business community, focusing on whether there might be a risk of such committees taking over responsibilities which, in all legal respects, should be borne by the Board of Directors as a whole.

“Well, yes and no,” answers Bo Aulin. “There can never be any question that the Board of Directors and its members bear total overall responsibility. Perhaps there is a risk that someone might think that the Audit Committee is taking over responsibilities, but in this case it is up to the board chairman to correct this misconception. The board can delegate authority, but not its accountability. What the committee can do by virtue of the authority delegated to it is to create an even better basis for the board to make judgments for which it alone is accountable.”

Swedish Match's Audit Committee will meet prior to each quarterly report and will also hold two or three theme-centered meetings per year to provide a forum for closer examination of a particular issue, such as the system of controls or risk assessment.

NAMES & NEWS

More flavored cigars in the US market

IN THE US MARKET for flavored cigars, Swedish Match North America is launching four new machine-made cigars. Beginning in March, a limited supply of the flavors vanilla, strawberry and chocolate will be available in the market. The launch of blackberry-flavored cigars will follow during April. The four new flavors will all be marketed under the White Owl brand.

World speedway champion sponsored

SWEDISH MATCH IS to sponsor five-time world speedway champion Tony Rickardsson, one of the most popular sports personalities in Sweden and the country's most successful speedway rider.

Tony Rickardsson won the individual world championship in 1994, 1998, 1999, 2001 and 2002, and has also been a member of the winning team in the world team championship on three occasions. In addition, Rickardsson has many other awards to his credit, including Swedish Sporting Achievement of the Year in 1999 and the Czech Golden Helmet award in 1992, 1994 and 1995.

Rickardsson competes for the Masarna team in Sweden, Poole Pirates in the UK and Torun Apator in Poland.

**Good grades for the General**

VÄRNPLIKTSNYTT (National Service News), a magazine produced by and for Sweden's total defense forces, arranged a blind test in which three draftees sampled ten different types of snuff and graded them on a scale from 1 to 5, in which 5 is best. The scores they assigned were then averaged.

The snuff varieties tested were Catch Licorice Portion, Ettan, General, General Portion, Gold River (imported from the US), Grovsnus Portion, Göteborgs Prima Fint, Göteborgs Rapé Portion, Röda Lacket and Tre Ankare. The highest scores were awarded to General Portion (4.66) and General (4.0).

Cancer warning removed from snuff in Norway

A NUMBER OF SCIENTIFIC STUDIES conducted in Sweden have shown that snus use does not increase the risk of cancer. Accordingly, the EU decided in June 2001 that the warning text, "Causes cancer," on snus should be removed, and this was put into effect in Sweden in February 2002. Now Norway is also removing the cancer warning, following decisions in the Norwegian parliament (the Storting) and the EES Committee. The change is being introduced in stages, beginning in April 2003. The cancer warning has been replaced by a more generally phrased warning text stating: "This tobacco product may be damaging to health and is habit-forming."

According to a survey commissioned by Swedish Match AB and conducted by Norwegian market and opinion research company MMI during 2001–2002, more than 200,000 Norwegians use snus on a daily or occasional basis.

Master pipemaker of the Skåne flatlands

He made his first professional pipe in 1971. At that time, he was in fact a precision engineer, but also a pipe smoker who, for his own enjoyment, had begun carving his own pipes as a hobby. Today, Bo Nordh is world-renowned among pipe connoisseurs. His exclusive pipes, of his own design, sell as fast as he can produce them, and there is a long waiting list.

There are no external signs to betray the fact that the half-timbered house in Billeberga, in the heart of the Skåne flatlands, is home to one of the world's most exclusive pipes. Bo Nordh's workshop is cluttered with wood and pipes in various stages of the production process. Outside the window, the fields stretch into the distance and sparrows twitter on the bird table.

It all actually began with wood. As a hobby, Bo Nordh had begun making his own pipes, and he bought his wood from the Pip-Larsson pipe store in Malmö. As a result of this contact, Pip-Larsson wanted to buy pipes from Bo. They sold like hot cakes. The hobby craftsman's designs also struck a chord with discriminating pipe collectors.

"I think it was a question of having an innate skill. After all, I've never had any training, but simply created forms that I personally thought were attractive," explains Bo.

IT WAS AROUND this time that Bo also came into contact with a well-known pipemaker in Copenhagen named Sixten Ivarsson, who in turn referred a Japanese wholesaler to Bo. It transpired that the wholesaler wanted to purchase all the stock Bo had on hand.

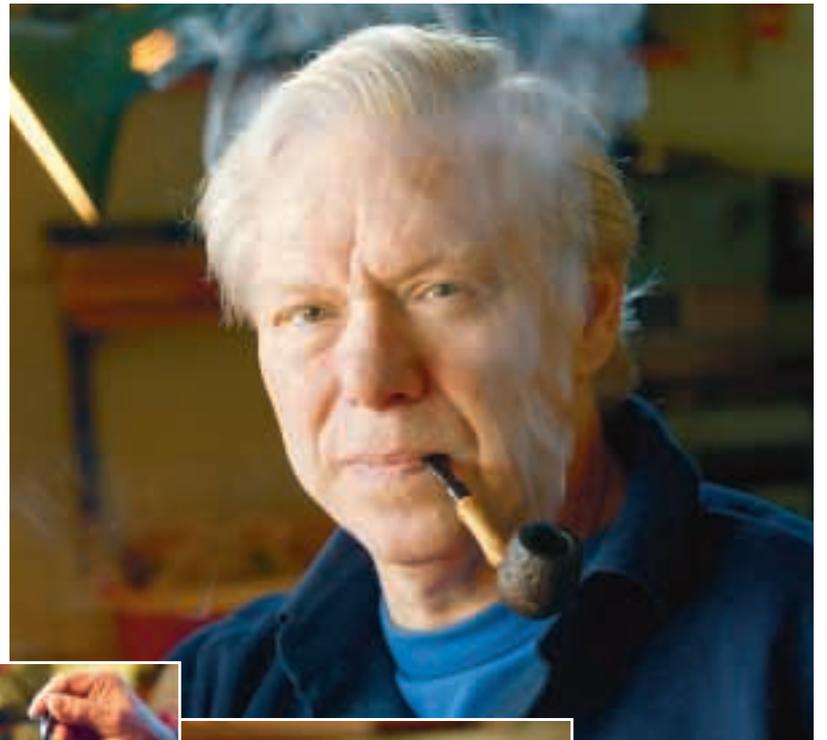
After a few weeks, a telegram arrived with an order for additional pipes.

"This was the world market knocking on the door," recalls Bo. He thinks that the strong interest from Japan was due to the fact that in the 1970s there was a huge fascination with all things western in the Japanese market. The country was also experiencing an economic boom, so that even Bo's exclusive pipes were affordable.

"They sold like hot cakes – in Denmark too."

Eventually the Japanese economy ran out of steam, and this also had tangible consequences for Bo's business. Today his largest market is the US, although there is also a strong demand in Central Europe.

THE WOOD THAT IS generally used for pipes is a type of tuberous root that comes from a member of the heather family named Erica arborea, or brier. It grows only in the Mediterranean region, mainly in Corsica. It is a hard and durable type of wood, but since it is part of the root, it has also been exposed to much wear and tear during its life – from insect attacks and forest fires, for example. Due to the high standard of quality in every pipe, Bo's production process involves considerable wastage.



Bo Nordh carves exclusive pipes. Simply deciding which model to make takes some time, since the characteristics of the wood determine the pipe's design and must be carefully studied. Wastage is considerable – one small blemish in the wood means that the piece must be scrapped.

In each case, it is the wood that determines what model of pipe he will make. Merely reaching this decision is an intricate process.

"It is a question of visualizing the interior of the wood and trying to see what is inside," says Bo. "What can I make from this piece? What would be the most beautiful? That is in fact where the real work lies – in choosing the right pipe model, based on the characteristics of the wood."

Since the wood determines what form Bo will set out to create, the outside of the pipe is formed first, after which the tube and the bowl are bored out. It often happens during the actual shaping process that faults are discovered in the wood, such as insect damage and cracks and irregularities, and then the whole thing has to be scrapped.

THE FINISHED PIPE is stained black with a base coat that penetrates into the soft parts of the wood and imparts a certain pattern. The pipe is then sanded down so that the veining stands out. It is then stained once more, this time with a lighter color. The affect is a bit like wetting stones – intricate patterns suddenly appear and the wood takes on a new luster.

Nowadays Bo produces a dozen of

his own pipe models "and a few classic models when I am in the mood."

He mostly sells directly to pipe stores, but thanks to the Internet the market has grown enormously and Bo can no longer come close to meeting the demand.

"So those wanting to buy a pipe must just join the queue," he says imperturbably.

PREVIOUSLY, HE MADE more pipes and did less design work, but now he prefers to work on more difficult and demanding models. While it's true that this limits the number he can produce, this is offset by the higher price the pipes command.

"I only want to work on the top-of-the-line models now," he says.

It's impossible to say how long it takes to produce a pipe, says Bo. He has never measured the time, and has never needed to do so. But his customer base consists largely of collectors, who want beautiful craftsmanship and are willing to pay for it. And in Bo's tranquil workshop, filled with the aroma of pipe smoke, such concepts as payment by the hour or maximizing production would certainly have a devastating effect on the intricate craftsmanship that is his hallmark. □

Weak start to 2003 for stock markets

The beginning of 2003 has been a weak period on the stock markets. Share prices have failed to fulfill hopes of a clear upturn after the past three years of falling prices. Prices on Stockholmsbörsen have declined by an average of 3 percent during the period up to April 11, while prices on the New York Stock exchange have remained essentially unchanged and NASDAQ has shown a slightly rising price trend.

Among the factors explaining the weak trend is a sharp downward reassessment of international economic prospects. The slowdown is particularly apparent in the US, but the European economies, notably

those of Germany and France, have also weakened markedly. Sweden has also been affected by a declining growth rate.

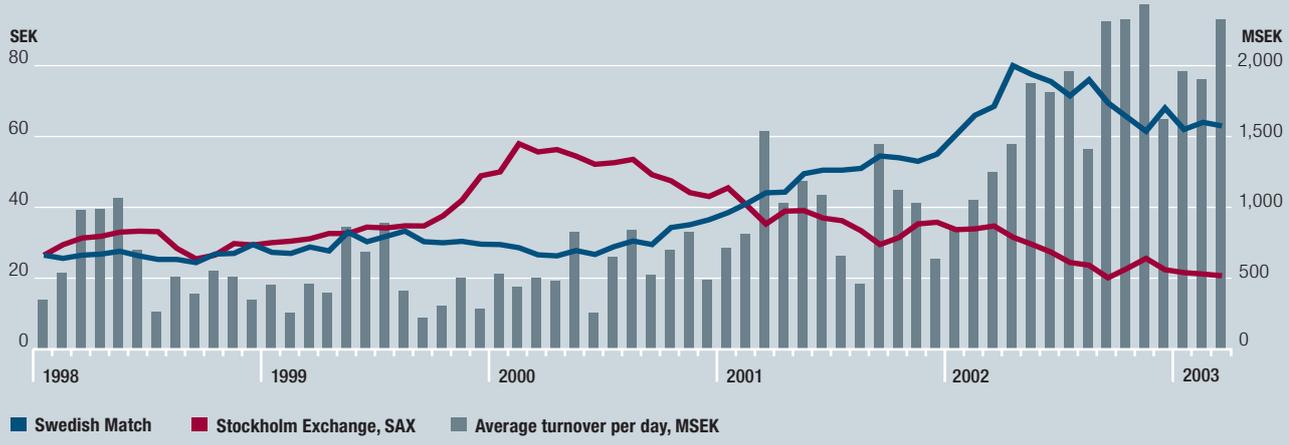
The war in Iraq has also been an inhibiting factor, although there are expectations that the uncertainties in the world economy will lessen now that the war is essentially over. The low interest rates are seen as a boost to private consumption by households.

At the same time, the lackluster year-end reports from many of the bellwether Swedish and international publicly traded companies have dampened optimism. Many companies have been forced into new share issues and increased borrowing as a

result of sharply deteriorating finances. At present, few share investors would venture to take success for granted until they have seen clear signs of increased economic activity and increasing profits in the quarterly reports of exchange-listed companies.

The Swedish Match share has essentially followed the trend of Stockholmsbörsen, falling in value by 5 percent since the start of the year (up to April 11). The decline follows an extremely strong upward trend during three consecutive years of rising share prices, which has distinguished the Swedish Match share as one of Stockholmsbörsen's winners over the past few years. □

SHARE PRICE AND TURNOVER DURING PAST FIVE YEARS



TOTAL RETURN

Total return, %	
Jan 1–Apr 11, 2003	-5
2002	25
2001	56
2000	32
1999	4
1998	19

KEY FIGURES

Earnings per share, SEK

2002	4.10
2001	3.40

Shareholders' equity per share, SEK

Dec 31, 2002	11.72
Dec 31, 2001	11.73

SHARE PERFORMANCE

Jan 1–Apr 11, 2003, %	
Swedish Match	-5
SAX	-3

Financial reporting formalized

Swedish Match is one of the first Swedish companies to establish a Disclosure Committee at central staff level to provide quality assurance of all financial reporting from the Group. The committee formalizes and systematizes procedures that we already apply," says Bo Aulin, Senior Vice President Corporate Affairs.

Among the reasons for forming the committee are the more stringent regulations currently being introduced in the US in the form of new financial legislation, generally known as the Sarbanes-Oxley Act, after the two American politicians who have played a leading role in implementing the changes. The legislation imposes stricter regulations on companies, particularly in the areas of financial reporting and transparency – disclosure and openness to scrutiny.

Since Swedish Match has many large international and US-based investors and a listing in the US in the form of American Depositary Receipts (ADRs), the establishment of US norms for corporate governance (the system for managing and supervising companies) is of major significance for the Group.

"Our aim in terms of corporate governance and disclosure is to be at the forefront internationally. We intend to meet the most rigorous requirements of the major stock markets," says Bo Aulin. "This is the background to our introduction of a Disclosure Committee to formalize processes and procedures that we are already applying to a very high standard."

The members of the committee, in addition to Bo Aulin, are Lena Olofsson, head of Corporate Communications in Group Corporate Affairs, Emmett Harri-

son, head of Investor Relations, and Bertil Raihle, head of Corporate Control.

"With a committee composed of these members, we are assured of a comprehensive and competent analysis of our financial information that balances the legal, financial and communications aspects, as well as our experience-based knowledge of market needs," adds Bo Aulin.

The examination process covers all

financial reporting and other finance-related information that is pertinent to market assessments of Swedish Match's valuation. The process and procedures involved in the production of a financial report or a press release with financial content are essentially the same as before, except that the controls are more formalized and characterized by a certain degree of supervisory bureaucracy.

"The new system gives us a formal ver-

ification chain, combined with a more rigorous quality-assurance system covering all levels from the smallest subsidiary unit, through all the intermediate steps, up to the Chief Financial Officer and the President. Introduction of the system will begin with the publication in June of the Group's Form 20F report – the annual reporting document in the US that must be submitted to the SEC," concludes Bo Aulin. □

Mandate to continue buybacks

During the past few years, Swedish Match has implemented substantial buybacks of its own shares. The repurchase of shares can be viewed as the reverse of a new share issue, in the sense that the company returns to its shareholders funds not needed for operations. For a number of years, Swedish Match's strong cash flow has given the company surplus liquidity, which it decided should be used to benefit shareholders.

Most of the repurchased shares have been canceled, which has brought about a continuous reduction in the number of shares in Swedish Match. Three years ago, Swedish Match had more than 400 million shares, but by gradually buying back and canceling shares, this number had been reduced to 361 million by the beginning of this year. Of this total, the company held 27 million shares, which means that the net

total of shares outstanding was 334 million. The share buybacks result in an improvement in the company's key financial ratios, such as earnings per share, since its total earnings are spread over fewer shares. The repurchase of shares also improves the company's capital structure by creating a favorable balance between shareholders' equity and borrowings. By maintaining a certain degree of debt, the company achieves a higher return than would be the case if it operated exclusively with shareholders' equity.

The buyback program is now into its third year. The Annual General Meeting held on April 25, 2003, voted to authorize the Board of Directors to continue the buybacks, up to a level at which the repurchased shares at any given time amount to a maximum of 10 percent of all the shares in the company. The Annual General Meeting also voted to reduce the company's share capital

by 24 MSEK by withdrawing 10 million of the previously repurchased shares.

Swedish Match could also, in accordance with the Annual General Meeting's mandate, use repurchased shares as payment for future company acquisitions. □

NUMBER OF SHARES OUTSTANDING

	2000	2001	2002
Number of shares outstanding, net, after buybacks, millions	375	350	342
Earnings per share, SEK	2,76	3,40	4,10

Source: Swedish Match

With its new products in the Solstickan family, the grill bag and the disposable grill, Swedish Match will be making barbecues simpler and more convenient this summer. The lightable grill bag is a totally new concept. No soot from the bag to blacken everything, and no need to use barbecue lighter fluid. In addition, SEK 0.20 goes to the Solstickan Fund for every bag or grill sold.



New products ready for barbecue season

Swedish Match is developing its product range in the Match business area by launching new products bearing the Solstickan brand name. Initially, the business area only sold matches. Then a couple of years ago, fire-lighters were added, followed just over a year ago by firelogs. Now it is the turn of the grill bag and disposable grill. They were launched under well-known brand names in each country where

they will be sold – Solstickan in Sweden, Nitedals in Norway, Tordenskjold in Denmark and Sampo in Finland.

“Sixty percent of Sweden’s population are aware of the Solstickan Fund. Awareness is greater among older people than in the younger age group. By launching the new Solstickan products, we are hoping to make the Solstickan Fund better known,” says Rolf Byberg, head of match sales in Swedish Match’s North Europe Division.

The grill bag was successfully test-sold in Sweden and Denmark during summer 2002 and is now being launched in these markets. By using the grill bag, which is laid directly on the grill, the problem of getting soot on your hands and clothes is avoided, and there is no need to use barbecue lighter fluid, since the briquettes in the bag are impregnated with environmentally friendly odorless paraffin.

“All you have to do is place the bag on the grill and light it. This clean and practical concept is new in the Nordic region, so it has no direct competitors,” says Rolf Byberg.

THE DISPOSABLE GRILL will be test-sold in the Swedish and Danish markets during the coming summer, and hopefully launched during 2004. It is sold in a dust-free and odorless packaging that is simple to store in the boat, car or house trailer. What distinguished Swedish Match’s disposable grill



from other disposable grills is that the coals are already impregnated and that the grill has stable supports and a sturdy grill.

Since about a year ago, the Solstickan family also includes the Braskubben firelog.

Firelogs are an ideal substitute for ordinary wood in open fireplaces, wood-burning stoves and tiled stoves. The firelog produces no radiant heat and no dirty ash – only a soothing, quietly flickering flame. Unlike the barbecue products, the Braskubben firelog has its high season in the winter. What the new products have in common is that they are slightly more expensive, but significantly simpler to use, than their competitors. And of course, the fact that each product sold generates income of SEK 0.20 for the Solstickan Fund.

The new Solstickan products will be sold in larger supermarkets and at service stations. □

Solstickan helps children and elderly

For every product sold under the Solstickan brand name, a portion of the sales price goes to the Solstickan Foundation. When the Foundation was established in 1936, its main purpose was to fund summer vacation camps where children from poor city homes could enjoy sunshine, swimming and fresh air. Today, the Foundation focuses primarily on helping handicapped and chronically sick children and adults. Over the years, the Foundation has distributed nearly 90 MSEK.

When Swedish artist Einar Nerman was commissioned to create the cover for the Solstickan matchbox, he created the Solsticke boy. Today, the Solsticke boy is one of Sweden’s most familiar symbols.

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 13,635 MSEK in 140 countries in 2001. The Group has 14,795 employees. Swedish Match’s shares are listed on the Stockholm Exchange (SWMA) and NASDAQ (SWMAY).

KEY FIGURES

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

¹⁾ Excluding items affecting comparability
²⁾ Excluding financial items

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.

☆☆☆
SWEDISH MATCH