

Inside

INFORMATION ABOUT SWEDISH MATCH FOR SHAREHOLDERS AND OTHER STAKEHOLDERS

#3 July 2003

Snus earnings hold strong

The second quarter brought a strengthening of earnings before tax, compared with the preceding quarter, partly due to financial transactions of a nonrecurring nature. Snus continued to score successes, with a 5-percent increase in sales during the past six months. The combination of a weak USD and strong SEK continues to exert a negative effect on sales and operating income. Group sales for the first six months of the year declined 8 percent and operating income was down 14 percent to 1,069 MSEK.

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Organic growth given high priority



"We must constantly be ready to make decisions and have new, commercializable projects in the pipeline," says Peter Nilsson, head of Group Business Development at Swedish Match. His focus

is on organic growth, where the key is to collect creative ideas and see what can be translated into practical actions."

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Cooperation enhances purchasing efficiency

The aim of the World Class Purchasing project is to enhance the efficiency of Group purchasing through increased cooperation, thereby reducing costs. By coordinating the divisions' purchasing, volumes can be increased and pressure exerted on prices. This applies to consumable items and machinery, as well as raw materials and packaging for the products produced by the company.

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New snuff in US

A new quality snuff, Longhorn, is being launched in the US to meet the demands of a larger customer base and strengthen the Group's position in the North American market.

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Meg Tivéus enjoys her job

Meg Tivéus is a member of Swedish Match's Board of Directors and heads one of Sweden's most profitable companies, Svenska Spel. A company with a high profile that, as well as being part of the entertainment industry, is also at the cutting edge in terms of technology. There are several similarities to Swedish Match, such as fast-moving products with international brand names.



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Company's face to the outside world

In an industry in which companies are not allowed to use traditional advertising channels for marketing, Swedish Match's sales force serves as the company's voice and face to the outside world. One of those working in the front line is Gunilla Tysse, who visits an average of eight stores per day. Meet her and three more of the company's dedicated salespersons.

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Golden week on west coast

During the weeklong sailing regatta in Marstrand, fisherman Bosse Jansson supplies crabs, prawns and lobsters that are boiled right on the dock, to the delight of visitors. The sailing week is also of vital importance for the local bakery, tobacconist's and other small businesses.

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Customer satisfaction top priority

At Swedish Match, customer satisfaction is our primary goal. This is expressed through the values conveyed by our various brands.

Like other corporations, we are required to deal with a number of contradictory elements within our marketing and sales efforts. We have both a global and a local presence; at the same time as being a custodian of long-held traditions, we need to develop new technologies and new products; and our brands target both exclusive niches and mass markets on five continents.

In order to deal with these contradictions, we apply carefully elaborated brand strategies which create a whole that is greater than the sum of its parts.

Our brands represent a global network of resources and expertise and, above all, trust on the part of our customers and consumers – which is a prerequisite for the continued development of the entire Group.

In this issue of Inside, we highlight one of the most important links in our brand-building efforts – our frontline salespeople. Through their thousands of customer interactions every week, year in and year out, all around the globe, the Group focuses its efforts on creating competitive customer satisfaction and enduring shareholder value.

Have an enjoyable and interesting read!

Lennart Sundén, CEO

JANUARY–JUNE, 2003:

Snus continues its

The weak USD and the strong SEK continue to have a negative impact on Swedish Match's sales and operating income. Currency effects reduced operating income by a total of 130 MSEK, or 10 percent. However, the second quarter was characterized by a strengthening of earnings, compared with the preceding quarter, and the company's net income exceeded analysts' forecasts. Snus continues to perform impressively, with a 5-percent increase in sales during the past six months. Cigar sales showed an upturn during the second quarter in both the US and Europe.



Sven Hindrikes.

During the second quarter of 2003, Swedish Match's sales and operating income continued to suffer an adverse impact from currency effects, primarily attributable to a weak USD and a strong EUR. While total sales increased somewhat compared with the first quarter, sales for the first six months of the year declined by 8 percent. The same pattern applies to operating income, which improved during the second quarter, compared with Q1, while operating income for the first two quarters combined declined by 14 percent compared with the corresponding period in 2002.

Three factors in particular were responsible for the improved results during the second quarter, according to Group CFO Sven Hindrikes.

"We can take pleasure in the continued increase in sales of snus, as well as a further improvement in the already favorable margin, compared with the first quarter", notes Hindrikes.

Two other factors – of a nonrecurring nature – also had a positive impact on second-quarter earnings.

"During the period, we liquidated two interest swaps that largely derived from a bond loan we assumed in 1999," explains Sven Hindrikes. "Due to the fact that the market value of the swaps had increased, in pace with declining long-term interest rates, we were able to realize a gain of 120 MSEK, as well as benefiting from a positive effect on net interest."

THE SECOND POSITIVE EFFECT was the result of nonrecurring items on the Group's tax expense.

These factors combined contributed to a 21-percent increase in earnings per share for the first six months of the year. To a certain extent, this increase was also affected by continued buybacks of the company's own shares, but the main point is that the major increase is of a nonrecurring nature, and for the full year Sven Hindrikes anticipates at least a 10-percent

increase in earnings per share.

The Snuff and Pipe Tobacco product areas continued to exhibit a positive trend during the second quarter. In the case of Snuff, the largest product area, sales for the first six months of the year rose 5 percent, to 1,447 MSEK. In local currencies the increase was 11 percent. Operating income for the business area as a whole increased by 9 percent to 655 MSEK, despite the fact that adverse currency effects also had an impact in this area.

Sales of pipe tobacco rose 7 percent to 428 MSEK, while earnings improved to 91 MSEK, partly due to the strengthening of the South African rand (ZAR).

Swedish Match's second largest business area, Cigars, shows a slightly more mixed picture. Total sales declined to 1,395 MSEK for the first six months, representing a 15-percent decline, of which currency effects accounted for 13 percentage points. Operating income deteriorated by 38 percent, to 167 MSEK.

PETER NILSSON, GROUP BUSINESS DEVELOPMENT

We must never rest on our laurels

Organic growth is assigned a high priority as a strategic objective within Swedish Match, which means that there must always be new, commercializable projects in the pipeline. As from the beginning of this year, Peter Nilsson has had the task of implementing this process Group-wide.



Peter Nilsson.

Peter Nilsson assumed his new position on January 1, 2003 as the member of Group management with responsibility for Group Business Development. He is a seasoned veteran within Swedish Match, with experience of most product areas. During the past six years, he has served as a division president – first of the Lighter Division and most recently of

the Continental Europe Division. He believes the international perspective that this has given him is important, since his job involves proactively going head-to-head with the competition.

Group Business Development is actually concerned with both acquisitions and developing organic growth.

"But I will not be devoting so much time specifically to acquisition mat-

ters," says Peter Nilsson. "Instead, I propose to focus on organic growth, given that many of our product categories are sold in stable – or even shrinking – markets in the West. This

Swedish Match Inside is a magazine for Swedish Match's shareholders. The print run is 70,000 copies of the Swedish version and 6,000 copies of the English version.

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☆☆☆
SWEDISH MATCH

triumphal progress

IN NORTH AMERICA, sales of both machine-made and premium cigars were somewhat lower in local currency compared with the first six months of 2002. Legal costs for an ongoing brand-related lawsuit in the US were also charged against earnings.

However, cigar sales in both segments in the US increased compared with the first quarter.

“During the period, we also launched a number of flavored cigar variants, which were well received. Sales looked highly promising toward the end of the second quarter,” says Hindrikes.

Also in Europe cigar sales decreased, expressed in local currencies. The restraining effect previously this year exerted on sales by distributors’ stock reductions now appears to have receded. Earnings are also considered satisfactory, according to Sven Hindrikes. In addition, the comprehensive rationalization program is continuing in Europe. One of the measures taken in this area was the closure, now finalized, of a plant in Belgium.

In match operations, reduced sales volumes in Europe affected profit margins adversely. Sales for the first six months declined by 22 percent to 691 MSEK, while operating income fell 44 percent to 69 MSEK. Outside Europe, however, matches continued to show favorable profitability.

EXCHANGE RATES ALSO affected lighters adversely; in this area, the strength of the EUR brought pressure to bear on margins for exports from the euro countries, particularly to Russia.

The Group’s cash flow continued to develop positively during the second quarter, and working capital was also reduced somewhat.

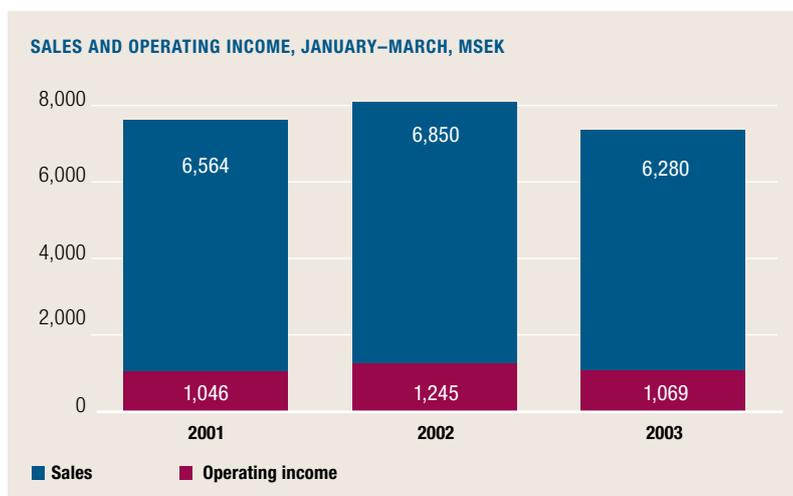
makes organic growth an even more important factor. It is also expressly stated in our strategic guidelines that we plan to invest in both organic growth and growth through acquisitions.”

Peter Nilsson describes the work method used within Group Business Development as “virtual.”

“We have not created a dedicated organization but network throughout the Group, since it is important to gather ideas from all our operational sectors. This is a creative organization with a rich flow of ideas, and our role is to collect as much as possible of this flow and see what can be translated into practical actions.”

To increase organic growth, Swedish Match is focusing on three levels: improved customer relations locally in the sales companies, specific projects within each product category, and prioritized projects at Group level. Development work will be implemented in project form – from desktop to market.

Development work as a whole will be coordinated by a group known as Group



	SALES, MSEK			OPERATING INCOME, MSEK		
	Jan–June 2003	Jan–June 2002	Change %	Jan–June 2003	Jan–June 2002	Change %
Snuff	1,447	1,383	5	655	603	9
Chew. tobacco	589	711	-17	170	211	-19
Cigars	1,395	1,649	-15	167	271	-38
Pipe tobacco/ Accessories	428	401	7	91	78	17
Matches	691	881	-22	69	124	-44
Lighters	305	370	-18	9	43	-79
Other	1,425	1,455	-2	-92	-85	
Total	6,280	6,850	-8	1,069	1,245	-14

“This allowed us to continue with our buyback program, which had a positive effect on earnings per share, and this in turn benefits our long-term shareholders,” notes Sven Hindrikes.

During the first six months of the

year, slightly more than 12.4 million shares were repurchased, corresponding to 3.4 percent of the total number of shares in the company. This reduced the number of shares outstanding at the close of the period to 331.2 million. □

Growth Steering Committee, consisting of the heads of the geographic divisions and a number of other key personnel. Peter Nilsson is chairman of the group, which meets every second month.

WORK WITHIN THE GROUP follows a model incorporating a number of control stations. A launch phase is then initiated and, assuming this turns out well, the final step is to bring the product to market on a broad front.

He is convinced that that there will still be scope for organic growth in the future.

“Our focus on smokeless products brings us into close harmony with social trends. Two factors in particular are in our favor: the relatively low health risks associated with Swedish snus and the ethical issues whereby consumers must be given the opportunity to make an informed choice based on official information that is factual and accurate.”

In the latter regard, the primary focus at present is on gaining acceptance on the part of legislators and consumers within the EU for the proposition that

sales of Swedish snus should be permitted throughout the entire EU market, and not just in Sweden. But moves toward a total overhaul of tobacco-related legislation are also discernible in many areas, including the US.

In Peter Nilsson’s view, Swedish Match has taken a lead in this process. The Group’s GothiaTek standard provides the scientific basis for a new approach to the health effects of Swedish snus.

“But our lead over our competitors is not so great that we can afford to rest on our laurels,” cautions Nilsson. “We must constantly be ready to make decisions and have new, commercializable projects in the pipeline, so that we can make decisions without delay. This requires input from visionaries, researchers and technicians. We have the advantage over other companies that we began the process many years ago and have amassed an impressive body of know-how based specifically on this combination of resources.” □

Analysts’ questions

Swedish Match’s interim report for the first six months of 2003 was published on July 23. In a subsequent telephone conference, representatives of Group management answered questions from analysts at banks and brokerage firms. Here is a selection of the questions and answers:

MICHAEL SMITH, JP MORGAN:

“I hear that sales of the quality snuff brand Sequoia in the US have been somewhat disappointing. Does this mean you will shift your focus in the US market? I also wonder what plans you have for lighter operations and whether we should expect drastic measures in the future.”

LENNART SUNDÉN, CEO:

“Yes, it’s true that we have increasingly redirected our focus toward the value segment, and that competition in this segment has intensified. This is why we will shortly be launching a totally new brand, Longhorn, with a suggested retail price close to those of our competitors.

“In regard to lighters, we are experiencing intensifying competition in the low-price segment, as well as facing a difficult situation in terms of currency effects. This naturally means that we are reviewing all our activities. However, this cannot be achieved with a few straightforward measures but demands that we perform an in-depth analysis of all aspects of our operations in this area.”

VIRGINIA HÉÉRIBOUT, CDS IXIS SECURITIES:

“What is the subject of the legal dispute within the cigar operations – does it relate to Cohiba? When do you expect the dispute to be resolved, and how much has it cost to date? I also wonder how the situation has been within the different cigar segments during the second quarter and whether we should anticipate continued restructuring costs.”

BO AULIN, CHIEF LEGAL COUNSEL:

“Yes, the dispute relates to the rights to the Cohiba brand, which are currently the focus of a lawsuit in New York. We are expecting a ruling in the case within a few months, possibly in September. Whether the process continues after that depends on the outcome. The legal costs for the cigars product area have amounted to 30 MSEK during the past six months.”

SVEN HINDRIKES, CFO:

“Cigar sales in Europe showed a positive upturn during the second quarter, even improving slightly on the corresponding period in 2002. There was also an improvement in the US during the second quarter, for both machine-made and premium cigars, but US sales are still falling short of sales for the corresponding period of last year. No exceptional restructuring costs are expected for the remainder of the year. Most of the costs for the plant closure in Belgium were expensed last year. Now we are continuing with our action program aimed at improving operating margins, but no major new costs are anticipated.”

ROBERTO CONDULMARI, KAIROS INVESTMENT MANAGEMENT:

“Given that the new snus plant in Gothenburg will soon be ready for startup, I wonder what level of investment we can expect for next year.”

LENNART SUNDÉN:

“I would like to postpone giving a precise answer to that question, since we have not yet finalized our budget. But investment will probably decline compared with the past few years, to somewhere around 400–500 MSEK.”

They give the company a face and a voice. They keep track of how products are received and promoted in stores and other sales venues. They are positioned on the frontline and their territory covers virtually every store in every corner of Sweden. The success of Swedish Match has, in large part, been the result of a dedicated and efficient sales force.



SWEDISH MATCH'S SALESPEOPLE

An award-winning effort

Swedish Match's sales force in Sweden is divided among four regions and is comprised of field representatives and key account managers, as well as internal salespeople who use the telephone as their primary tool. Lending support from within the organization is the trade marketing and sales support staff. It provides salespeople in the field with campaign and sales materials as well as other support.

"It is a fairly traditionally organized sales

force. That, in turn, is due to the fact that here in Sweden we have our own distribution organization that accounts for approximately 80 percent of deliveries to Swedish businesses. We're not allowed to market ourselves using advertising and are therefore only seen in stores. Within those stores, everyone is striving to get the best placement. That's why our sales force is so incredibly important," explains Bengt Jönsson, vice president of sales for Northern Europe.

"We spend a great deal of time working

on our visual materials since it is essential to make our products visible. Various locations and stores also require different solutions depending on what sort of demands a particular area has," says Bengt.

LAST YEAR, SWEDISH MATCH'S salespeople were presented with the newly created award "Best Service Industry Supplier 2002."

"The motivation behind the award was our efforts to assist stores in achieving higher profitability by working actively

with them on selection and product launches. The service industry is very important for us and accounts for 60 percent of our sales. Consequently, we felt very proud to have won in competition against the likes of Coca-Cola and ice-cream company GB Glass. That gave us a real boost," says Bengt.

Swedish Match's sales organization looks somewhat different depending which part of the world one is in. In the North Europe division, for example, individual

GUNILLA TYSSE, SALES REPRESENTATIVE TO RETAILERS

Always on the go in her mobile office

Gunilla Tysse is one of Swedish Match's 35 field representatives in Sweden. She virtually "lives" out of her car and visits an average of eight stores a day.

Gunilla Tysse has worked as a salesperson at Swedish Match since 1991, except during a three-year hiatus for maternity leave. This past autumn she returned to a district of her own that includes a portion of inner city Stockholm as well as parts of greater Stockholm. Her client base consists of grocery stores, tobacconists, wholesale merchants and gas stations.

That means that during the day she lives largely out of her car, which is also where she keeps all of the sales materials destined for her customers – signs, advertising materials and sometimes also product samples.

"I try to convince stores to maintain as broad an assortment of our products as possible and to ensure that the different varieties are maintained in the snus coolers, for example. And, of course, I also have the job of trying to sell our new products," says Gunilla.

The latter is extremely important. Since advertising of tobacco products is not allowed, retailers are of critical importance in helping new products reach consumers.

At the moment, the newest products being marketed are Grovsnus White and General White.

"And they look very promising," she says. "Our goal is for 95 percent of our customers to add them



to their product lines, and I have already reached 94 percent."

Sometimes it feels a bit lonely not to have daily contact with any co-workers. But one builds up relationships with customers instead, she says. Colleagues do sometimes call each other up if there is something they want to discuss. Moreover, everyone sees each other at regional meetings and occasionally at training sessions..

For Gunilla, the computer remains her most important tool for contact back to the home front.

"I always carry a laptop sales computer. I use it to enter reports, orders and other items, documenting everything I do during the day. In the evening, when I come home, I hook up to the central computer and input all of my information, which enables the home office to conduct follow-up on an ongoing basis."

Why did she choose to go into sales?

"It was a feeling I had when I applied for the job, that it would be something I would enjoy. In any event, I view myself as open and outgoing and I enjoy interacting with people," says Gunilla.

The job proved to live up to her expectations. Consequently, she plans to continue working as a salesperson for a considerable time to come. However, sometime in the future, she thinks that perhaps she would like to try something else, perhaps working in marketing.

"I believe that working as a salesperson provides a good background, since it provides you with knowledge about conditions in the field."

DANIEL OLOFSSON, HEAD OF INTERNAL SALES STAFF

Business developer for small retailers



Swedish Match's five internal sales staff primarily oversee the smaller stores. Part of their job is to serve as a resource for individual retailers.

Daniel Olofsson arrived at Swedish Match two and a half years ago. Today, he oversees the five internal sales staff who work at the main office in Stockholm, and who maintain contact with client stores via telephone.

While salespeople out in the field are in contact with the larger stores, the internal sales staff look after the smaller customers.

"Field representatives use their eyes and we use our ears. We

STEFAN ROSÉN, KEY ACCOUNT MANAGER

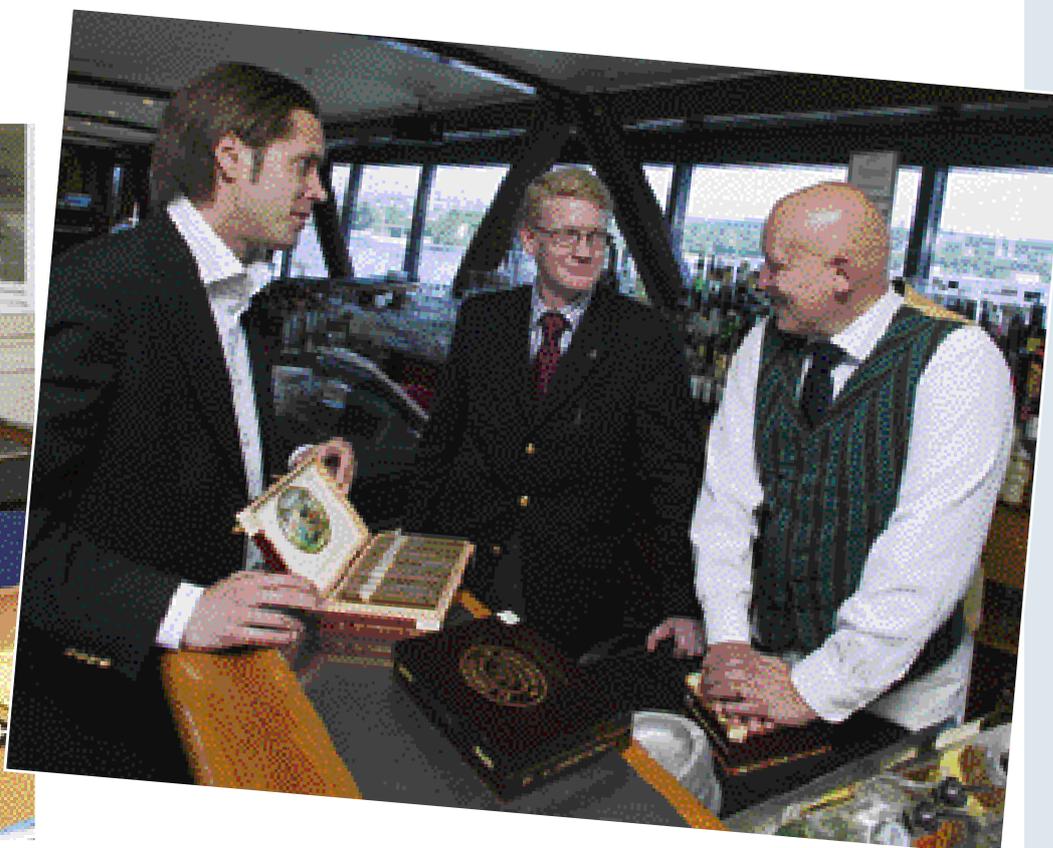
Ambassador of profitable sales



Stefan Rosén is one of four key account managers for the Swedish market. His customers are the head quarters of the major convenience store and gas station chains.

Stefan joined Swedish Match about two years ago and had previous experience in purchasing and marketing in the convenience goods trade.

"I believe that my time as a buyer was a beneficial experience now that I have switched over and find myself on the other side of the table," he says.



**CONNY ANDERSSON,
CIGAR SALESMAN**

Living his great passion

Conny Andersson spends his workdays, which are often actually evenings, selling premium cigars and snus to Sweden's restaurants.



Conny Andersson has a background in the restaurant industry, with an early beginning in his father's hotel and restaurant operations in Spain. He came to Swedish Match almost two years ago.

"I contacted Swedish Match myself when it acquired General Cigar, since premium cigars are my great passion in life," he says. That resulted in an entirely new sales position and, according to Conny, "the world's most fun job."

Now Conny is working with 15 selected restaurants in Sweden to generate both a greater interest in and knowledge of cigars. Many of his activities involve training. He is responsible for all of the training programs the company organizes in Sweden.

Being knowledgeable is just as important when it comes to cigars as it is when dealing with wines, he says.

"That's why it is so important to provide restaurant employees with enough basic knowledge so that they can talk about cigars in the same way they talk about wine; in other words providing them with a 'cigar language.' After all, most restaurant personnel view cigars as a complement to the rest of their service, the crowning touch to a good dinner."

For the most part, Conny holds his training meetings in restaurant environments. There, participants learn all about the history of cigars, about manufacturing from seed to end product and about the anatomy of a cigar.

"In order to understand cigars, it is important to understand how they are made and why," explains Conny.

Of course, how they are handled is also important: how to store, cut and light a cigar. Participants are also able to try smoking the cigars, learn about various tobacco blends and about which cigars go with what. In the case of the latter, it is usually a question of matching up the correct brand of cigar with the appropriate cognac. Sometimes there are even cigar and chocolate tastings. For example, a full-bodied Robust paired with a piece of dark, bitter chocolate is well worth trying, according to Conny.

Currently, Conny is focusing his sales activities on the 15 selected restaurants. While it would be nice to

establish a larger circle of customers, a market must first be built from the ground up.

For Conny Andersson, "the best thing in the world is to talk about cigars."

Also stimulating, however, are his occasional trips, particularly to the Dominican Republic, which help him keep his skills sharp.

"There is something special about being on site, learning new things from people who have worked with cigars their entire lives," he says.

on the front line

salespeople in Sweden and key account managers in Norway are responsible for field efforts. In other locations, sales are conducted through outside distributors who have their own sales forces. These activities are in turn monitored by Swedish Match's area managers, who are in close contact with distributors.



Bengt Jönsson.

"If one compares Northern and Continental Europe with North America, the conditions are fairly similar. But if you go to India you enter, at least on the surface, a completely different world, where you will find our salespeople getting around on bicycles," says Bengt.

DEEP DOWN, HOWEVER, the differences are not that great, according to Bengt Jönsson.

"Salesmanship is the same the world over. A good salesperson is usually competitive and goal-oriented, enjoys establishing personal goals and strives to fulfill them. He or she must also enjoy interacting with people. The relationship between the customer and the supplier is, in most instances, the decisive factor for the outcome of the deal. In that respect, I don't believe that it makes that much difference where you are. People everywhere are probably similar in this regard." □

assist customers with needs analyses over the phone," says Daniel.

"However, we also collaborate quite a bit with those in the field. We provide customer service to our retailers, serve as a kind of hub for the sales force and provide tips to salespeople if we see potential somewhere."

Daniel believes this sort of collaboration will increase once a new sales system is in place that will enable everyone to see and share each other's experiences.

"We want to develop stores together with retailers so that they are able to increase their sales and earn more. The measures required are often specific to the individual retailer and may depend on what sort of competition they have, geographic location, lease rates and local prices. We serve as a resource that retailers can rely on," says Daniel.

He adds, "When we talk about profitability with customers, it is not

just margins that are involved. Other issues we try to discuss include: Is the retailer charging the appropriate price? Is he or she aware of their options? Do they have the right exposure? How do ordering routines work? Can a retailer come up with his or her own sales activities? Ultimately, it's cash that provides their living, not margins."

At the same time, emphasizes Daniel, it is not the job of the supplier to dictate what prices retailers should charge. Pricing is voluntary and, in the end, the pricing philosophy of the individual retailer is the determining factor.

In order to be comfortable in a sales profession, one must enjoy contact with people and be able to take charge of situations in order to solve problems, according to Daniel.

"You also need to have a certain degree of competitive instinct and you have to enjoy working towards specific goals, otherwise the job could become a bit too stressful. This is the kind of profession where everything can be measured."

Stefan chose a career in sales because it is an outgoing profession.

"I enjoy interacting with people and building long-term relationships with customers in order to improve their profitability. Retailing is also a very interesting industry. It never stands still – things are changing all the time."

"Our customers are the major chains, such as ICA and Statoil, and usually there is a centrally situated person who is our contact. It is to those people that we turn to when we want to present a new product or campaign activities. In that way, we are paving the way for salespeople out in the field. By establishing a central listing of our products, it becomes easier for them to sell new items to the stores."

This also means that key account managers stay about six months ahead of the sales cycles out in the field. Key account managers roll out the campaigns, as Stefan likes to put it.

Some of the work also involves helping retailers increase the profitability of their sales.

"That's why we also implement category projects. These are projects that we initiate in cooperation with the customers. They might involve testing various models for sales out in stores – perhaps moving products around to different locations and studying whether this might positively affect a particular category's sales."

Profitability, in general, is a key aspect of his relationship with customers. While that is true for all product categories, it is especially so for the company's top-selling product, snus, since merchants can influence snus prices themselves and sales of snus continue to expand.

Another task for key account managers is to monitor events in the field. "We receive follow-up information from regions regarding how things are working."

"In sales, the top priority is to make your products accessible. That is why we need to follow up and make sure that the right product is available to customers, as well as to ensure that our products are available in the places and retail locations frequented by consumers."

Full sails for busy seaside retailers

Each morning, pots of prawns and crab are boiled, pastries are baked and served around the clock and the tobacco shop sells out of snus and newspapers. During the week-long Swedish Match Cup, the island community of Marstrand transforms into a buzzing metropolis of international businesspeople, summer visitors and, of course, sailors and sailing enthusiasts.

It is still early morning but Mikael Stensjö has been baking pastries and bread since 1:30 a.m. The baking plates follow each other in rapid succession into and out of the oven, amid hordes of hungry breakfast patrons who like to start their day with a “Berliner” pastry or delight in delicious strawberry pastries, both specialties of Bergh’s Bakery.

“This week is incredibly important for us,” says Mikael, as he deftly decorates a sheet of blueberry pastries while his wife Maria rushes by with newly baked cinnamon buns.

“During the summer, when we are at our busiest, we have ten employees.”

The couple took over the bakery in 1993 from Mikael’s parents. They and their three children live year-round on the island.

“We’re extremely dependent on the weather, so I hope the weather will improve for the last few days.”

AS EVERYONE KNOWS, however, sailors don’t pray for fair weather but for favorable winds. During the week of sailing at the beginning of July, the weather was rainy and overcast. But the sun shone during the final weekend, fulfilling Mikael’s hopes.

Fisherman Bosse Jansson heads out to sea every morning, all year long, primarily



Fisherman Bosse Jansson indicates the size of the crabs he has caught. Whether he is believed by fishmongers Lena Arvidsson and Hanne Ed, who have just opened a café on the island, is another matter.



Like seabirds, the public prefer to sit on the rocks during the sailboat races.

Pierre Tinnerholm, President of the Swedish Match Tour, has worked on the Swedish Match Cup in Marstrand since its inception in 1999. Some 250 guests overnighted on the island and another 50–100 guests came over for the day. “Everything has gone very well,” he concludes.

The tobacco shop on Marstrand has been situated in the same building since 1906. These days, Sigvard Sakelariu and his brother own the grand turn-of-the-last-century building. In addition to working as tobacconists, the brothers also run a flower and vegetable stand, a clothing store and a tourist information service. Sigvard is a lifelong resident of Marstrand.

to fish for eels, which he sells in continental Europe. During this week, however, shellfish are the most important catch. On this particular day he has brought in a large catch of fine crabs and a few lobsters, which fishmonger Lars Arvidsson takes. Soon they are boiling in a pot together with heads of dill.

“We store the dill in our cooler – you must have dill in the brine to achieve the best flavor,” explains Lars who, as a fourth-generation fishmonger on Marstrand, should know.

“My great-grandfather started by selling fish from a stall down on the dock, my grandfather had a pickled-herring factory and we continue to sell fish here in the shop next to the ferry terminal,” says Lars.

He and his family only sell fish during the four busy summer months. During the rest of the year, Lars works as a carpenter and his brother is a disc jockey. Both say they will never leave Marstrand.

The most popular items among the Swedish Match Cup’s international guests are shrimp, prawns, seafood and egg salad in flatbread, and mackerel.

THESE DAYS, FISH SALES are complemented

by the sale of other products, including sausage, hamburgers, ice cream and tobacco. Tobacconist Sigvard Sakelariu, who operates a store just across the promenade doesn’t mind, however.

“This week is gold for all of us,” he says as he gives a quick tour of his domain. In addition to their tobacco shop, Sigvard and his brother also operate a children’s clothing store next door and a market stand selling vegetables and flowers outside their entrance.

Sigvard was born and raised on Marstrand.

“I’m a living example of the EU. My father is from Greece and my mother from Hungary and I live here in Marstrand with my family.”

SO WHEN DOES ONE BECOME a true islander? Despite having lived on the island for 25



“You couldn’t find a better place to live,” says Britta Kollberg, a native of Gothenburg who became a Marstrand resident in middle age some 25 years ago.



Mikael Stensjö driver Berghs konditori tillsammans med sin fru Maria.

years, Britta Kollberg is not sure that she qualifies yet.

“It’s wonderful here! You couldn’t find a better place to live,” she says, firmly gripping her walker, which is fitted with extra-wide wheels to handle the cobblestones. “Although it’s almost even better in the spring and autumn, with all of the colors and the peace and quiet.”

It was her daughter Annika who attracted her and her husband here. Now Annika operates a design shop and her son a café on the island.

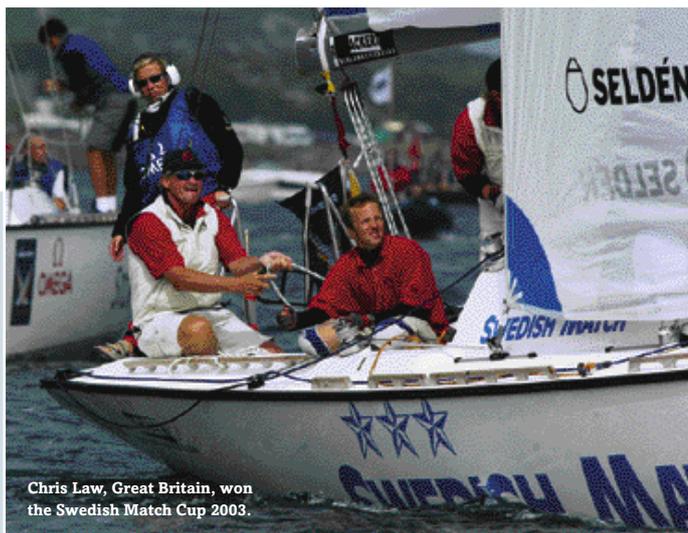
Pierre Tinnerholm, President of the Swedish Match Tour and responsible for global sponsorship, is satisfied with Swedish Match Cup 2003.

“Our clients and associates appreciate being able to meet in this manner. Many meetings take place over the course of the week that will have a big impact on the future.”

The next project is to create a uniform sailing fleet. A single model will replace the seven different boat types. Swedish Match has developed two prototypes in collaboration with companies within the sailing industry.

“The new boat, the Swedish Match 40, will be a more spectator-, media- and sponsor-friendly boat,” explains Pierre Tinnerholm.

Perhaps we’ll be able to see these new sailboats compete for the title at next summer’s Swedish Match Cup. □



Chris Law, Great Britain, won the Swedish Match Cup 2003.

Swedish Match Cup 2003

Swedish Match Cup was the final competition in Swedish Match Tour 2002/2003. Swedish Match Tour 2003/2004 will start with Danish Open 2003 on August 12–16.

Swedish Match Cup 2003 – winners:

- 1 Chris Law, Great Britain/“The Outlaws”
- 2 Karol Jablonski, POL/Jablonski Sailing Team
- 3 Peter Holmberg, USVI/Team Pelle Pettersson Yachting

Stock market decline reversed

Following a weak start to the year, stock markets have shown a positive trend during the spring and summer months. During the second quarter, the Stockholmsbörsen rose sharply. Since the beginning of the year, Stockholmsbörsen, based on the SAX index (through July 14) has risen by 12 percent. During the corresponding period, the New York Stock Exchange has risen by 10 percent and the NASDAQ exchange, on which Swedish Match's American depository receipts are listed, has risen by 30 percent.

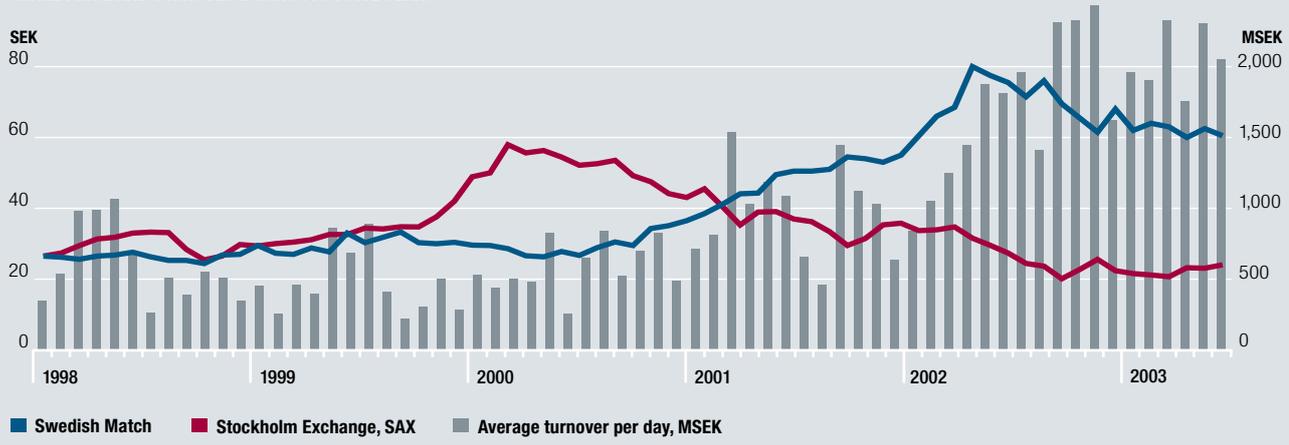
Factors behind the stock market turnaround include continued interest rate reductions by the world's central banks as

well as the hope of an upturn in the global economy later in the year. To date, quarterly reports issued by influential exchange-listed companies worldwide have been better than many had anticipated. Companies have generally pared down their debts and implemented significant cost reductions, which paves the way for improved profit figures in the future. The past three years, marked by significant stock market declines, have also returned company valuations to more reasonable levels. A key factor behind Stockholmsbörsen's positive trend is the fact that previous dramatic declines of shares in the IT and telecom sectors have now been halted and a small recovery has occurred.

Swedish Match shares have fallen by 12 percent since the start of the year. In recent years, the share has shown a counter-cyclical pattern, whereby it has risen in price during periods of general stock market decline, and vice versa. Viewed over a longer period of time, the Swedish Match share has exhibited a more favorable trend than the stock market as a whole, as the adjacent diagram shows.

Since being exchange-listed in 1996, the Swedish Match share price has risen by more than 150 percent, in other words tripling in value, while Stockholmsbörsen (SAX index) has averaged slightly more than a 50-percent increase during the same period. □

SHARE PRICE AND TURNOVER DURING PAST FIVE YEARS



TOTAL RETURN

Total return, %	
Jan 1–July 14, 2003	-9
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–July 14, 2003, %	
Swedish Match	-12
SAX	12

Swedish Match to improve purchasing

The World Class Purchasing is designed to create efficiency in the Group's purchasing activities through increased cooperation, thereby reducing overall costs.

Photocopiers and computers, office materials, packaging materials, snuff cans, electrical power, software licenses – the list of all the goods and services purchased annually by a group of Swedish Match's size can be endless. This applies to consumer goods and machinery, raw materials and packaging material, as well as the products the company manufactures.

The geographical divisions and corporate headquarters have extensive freedom to handle their individual procurement and purchasing, but there is much to be gained by coordinating purchasing for the entire group to a greater extent.

These efforts have now received a real boost, with the appointment of a project group that consists of representatives of the geographic divisions.

"The various divisions have had varying purchasing policies. Gradual coordination is now under way and we are also trying to achieve more stringent coordination across the division boundaries," René Manders of Continental Europe says.

It is also important for the Group to disseminate know-how regarding procurement among the organizations.

A method being tested is that a division

takes the lead in a specified category that could apply to the entire Group. An example of this is the ongoing purchasing of computers and printers, which the individual divisions can join if they wish. Orders can be placed via a web shop on the intranet.

"In this way, we can increase the volumes and we have proved that we can press the prices further," says René Manders.

Since this work is being conducted in project form, new ideas and approaches are also emerging along the way.

"We will conduct an evaluation in about a year, but we are already able to see that savings are being made on purchases. Generally, I think savings are about 10-15 percent, sometimes more. And that isn't bad. Moreover, it's always fun to do good business," says René Manders. □

Main sponsor of Swedish Open

Swedish Match is one of the main sponsors of the Synsam Swedish Open tennis tournament, which has developed into one of the largest clay court tournaments in Europe. Some 40,000 tennis fans attended the tournament this year. Moreover, the Swedish Open is televised in more than 18 countries and reaches an audience of over 58 million households.

"The event just exploded this year. Now we're aiming at becoming the fifth largest clay court tournament in the world," said tournament director Thomas Wallén at the closing press conference.

The tournament was played under sunny skies during the second week of July. Three former number-one tennis players – Björn Borg, Mats Wilander and Stefan Edberg – helped get the week off to a fantastic start by inaugurating the event.

A pair of Latin Americans battled it out for the singles title, while a Swede was one of the winning doubles partnership. Argentinean Mariano Zabaleta won the singles final against Ecuadorian Nicolas Lapentti. It was a memorable awards ceremony with the Argentinean, who had not won a title in five years, spraying around a bottle of champagne. Swede Simon Aspelin won the doubles final together with Italian Massimo Bertolini over Arnold and Hood from Argentina. □

Longhorn – new snuff in the US

Swedish Match is launching a new quality snuff – Longhorn in the value priced market in the US. Longhorn was developed in order to fulfill the demands of a larger customer base and to strengthen Swedish Match position in the North American premium market. Longhorn will be launched on August 4 of this year in two flavors – Long Cut Wintergreen and Fine Cut Natural. Initially, consumers in certain parts of the US will

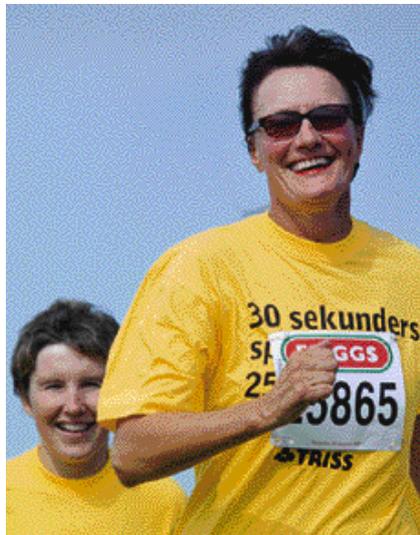
be offered an introductory price one dollar less than the regular price.

The North American snuff market is the world's largest, approximately four times larger than the Nordic market in terms of the number of cans sold. The market has grown steadily during the past few years at a rate of 2-3 percent annually. In 2002, overall consumption totaled 835 million cans. □



She heads one of Sweden's most profitable companies

This issue of Swedish Match Inside marks the start of a series of brief portraits of Swedish Match board members. First up is Meg Tivéus, CEO of Svenska Spel.



Meg Tivéus.

Meg Tivéus has sat on the board of directors of Swedish Match since 1999. She herself oversees a company, Svenska Spel, which continues to set new sales records every year and which is one of Sweden's most profitable companies.

Without a doubt one can conclude that Svenska Spel is a company on the move, and perhaps that is why Meg Tivéus always looks as if she is having fun when she makes appearances in various contexts.

"Yes, it is a very enjoyable job. While we are part of the entertainment industry, we are also at the vanguard of the latest developments in technology and have a very IT-based operation. We are constantly creating new games and new gaming channels on the Internet, and for mobile phones and digital TV," she explains.

AT THE SAME TIME, she does not hide the fact that her company's high degree of profitability has partly to do with the fact that Svenska Spel operates in a regulated market. If there were free competition, the pic-

ture would probably look somewhat different, she acknowledges. At the same time, it is wrong to refer, as many do, to Svenska Spel as a monopoly. In actuality, Svenska Spel accounts for "only" around 53 percent of the Swedish gaming market.

"We have a monopoly on a couple of games and on the international casinos, but otherwise we operate in a regulated market that is controlled by the Lotteries Act and regulated by the National Gaming Board. Competition is fierce when it comes to lotteries, but the prerequisites are the same for everyone. You need to have permission to conduct lottery activities and profits must be directed to charitable causes," says Meg Tivéus.

She believes, however, that continued market regulation is unavoidable. The downside with such activities is that there

is always a small group of individuals who lose control over their gaming and become addicted. This is why it is also important that a major player like Svenska Spel has taken upon itself the responsibility of contributing towards greater understanding of the mechanisms behind gaming addictions and towards preventing addiction from occurring.

IN THE CASE OF SVENSKA SPEL, approximately SEK 10 billion is returned to players. Almost all of the remaining profits are deposited in the public treasury. This is true for all activities except for profits from the Jack Vegas and Miss Vegas slot machines. The Swedish Parliament has decided that the surplus from this source should be earmarked for youth sports and distributed by the Swedish Sports Confederation and the youth board. Last year, the surplus totaled 900 MSEK.

The company is also one of Sweden's biggest sponsors of both sporting and cultural events.

Meg Tivéus believes that there are quite a few similarities between Swedish Match and Svenska Spel.

"In particular, their retail structures are similar. To a large extent, it is the same stores that are selling our respective products. Both companies also have rapidly changing products, including many with international brand names, in our case Lotto and Keno for example."

Both companies have also followed similar paths, moving from state monopolies towards increasingly intense competition.

"Both industries involve large sums of money so that is to be expected. For my part, I am equally engaged in these issues when they involve board work for Swedish

Match as when it involves Svenska Spel. That is one of the reasons why Swedish Match is such an enjoyable board to work on," she says. To that end, Meg Tivéus also believes that her many years of previous experience in retailing is beneficial for both the Swedish Match board and for Svenska Spel.

IN ADDITION TO HER BUSY career, Meg Tivéus is also passionate about sports. She seems to favor long-distance events, having competed in a host of major Swedish races – cycling, running, swimming, skiing – including the famed Vasaloppet cross-country ski race.

She is currently active in efforts to promote a yes vote for adopting the euro in a Swedish referendum to be held on September 14.

"Above all, I think it is foolish that we are not fully involved in EU collaboration," she says.

"Furthermore, I can see that the currency means a great deal to the major companies on whose boards I sit, but that it is not the deciding factor. On the other hand, it is a critical factor for the smaller companies and I think the real advantage will be for small companies, if and when we decide to join." □

Svenska Spel

The Svenska Spel Group had sales of almost SEK 18 billion in 2002 and reported its best earnings ever, SEK 4.2 billion.

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).

Smokeless Tobacco



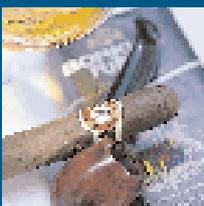
Swedish Match has a broad presence in the global market for smokeless tobacco (snuff and chewing tobacco), with prominent market positions in the Nordic countries, North America and South Africa.

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	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