

Inside

INFORMATION ABOUT SWEDISH MATCH FOR SHAREHOLDERS AND OTHER STAKEHOLDERS

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Strong operating income despite currency effects

Swedish Match's operations during the first nine months of the year generated a strong operating income despite the continued negative impact of currency effects. The third-quarter results, before items affecting comparability, were among the best in the Group's history. Snus sales continued to show organic growth, as did cigar operations, which produced the best operating income ever for the period.

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Snus trendy in Norway

Norway introduced a ban on smoking in restaurants in July this year. The ban has led to increased interest in snus in restaurants and cafés in Norway. It is becoming increasingly common for restaurants to install coolers for storing cans of snus, and for Norwegians to insert a pinch of snus under their lip.

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Best website in Sweden

Swedish Match was the winner of this year's web ranking. According to analysts and business journalists, Swedish Match has the best IR website in Sweden. "The strength of the Swedish Match website is that we have a wealth of pertinent content that is well structured and presents an informative picture of the company," says Annette Kaunitz at Swedish Match.

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Webranking™ 2004

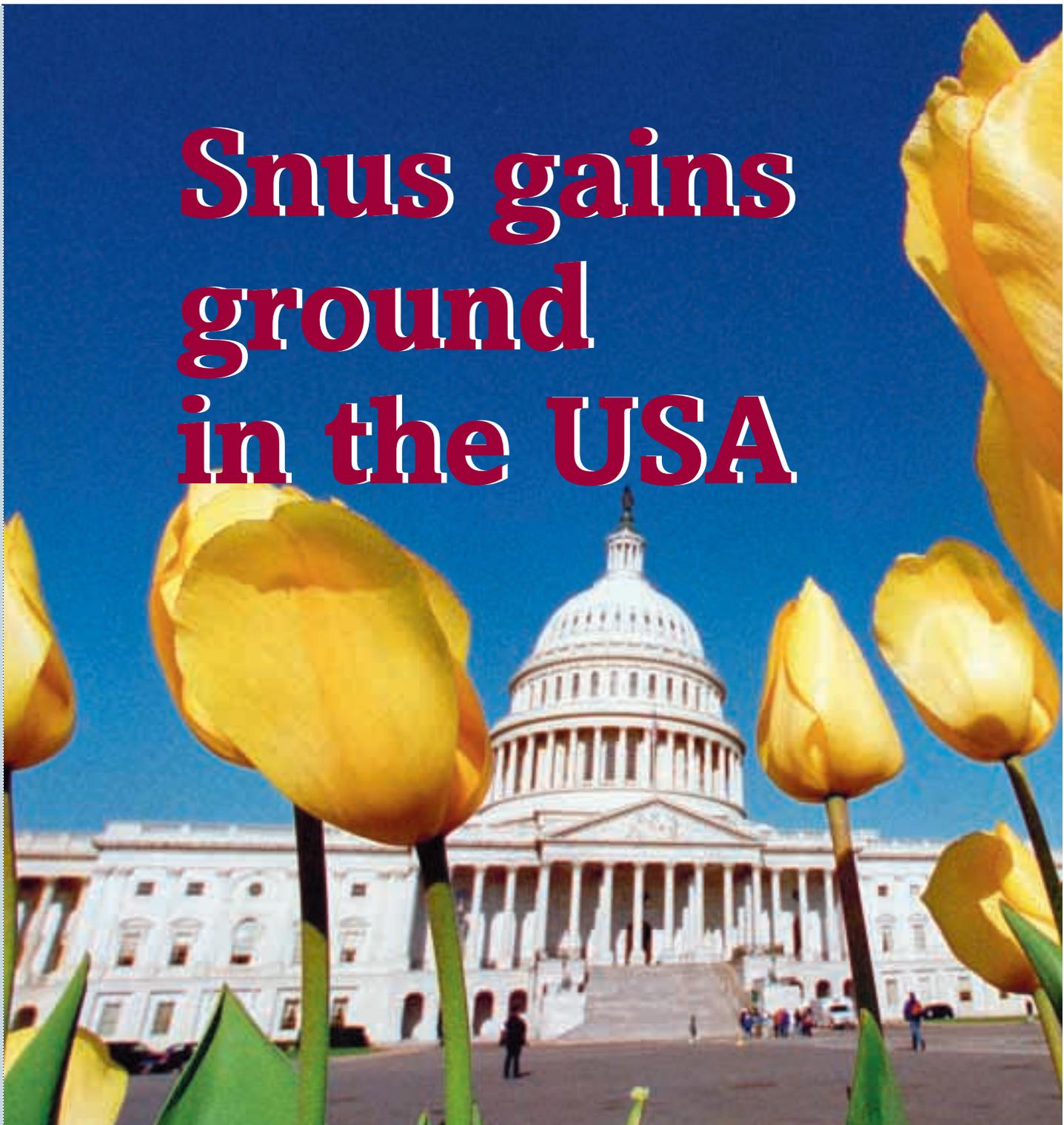
Brand know-how added to Board

Karsten Slotte, Board member at Swedish Match for the past six months and CEO of confectionery company Cloetta Fazer since 2002, has long experience of fast-moving consumer goods. He sees many similarities between Swedish Match and Cloetta Fazer – primarily the fact that both companies have a strong focus on brand-building. However, the two companies are very different in one respect: Swedish Match has a considerably broader ownership structure than Cloetta Fazer, which has implications for Board work.

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Snus gains ground in the USA



For every year that passes, awareness of Swedish snus and its advantages is increasing among senior community health personnel and decision-makers on Capitol Hill in Washington. But among the general public in the US, awareness of the Swedish alternative to smoking is still in its infancy. The major challenge lies in communicating the advantages of snus.

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Snus ban to remain pending revised directive

The opinion submitted to the European Court of Justice by the advocate general in September recommends that the ban on the sale and distribution of Swedish snus within the EU should remain in force for the time being, with Sweden retaining its exemption, pending the issuance of a revised directive.

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JANUARY – SEPTEMBER 2004:

Nine months with stro

Snus has considerable long-term potential

AT THE BEGINNING OF SEPTEMBER, the advocate general at the European Court of Justice delivered his recommendation that the ban on the sale of snus in the EU (with Sweden as the sole country exempted) should remain in force pending revision of the directive covering the issue.

It remains to be seen whether the European Court will follow this recommendation. The Court is expected to reach a judgment at the end of this year or early next year.

Regardless of the final decision, we maintain that Swedish snus has long-term potential in many markets in Europe and other regions. In his motivation, the advocate general concedes that we are right – he admits that the present ban is not based on factual reasons, which is why a revised directive is needed.

In most welfare states the trend is clear: more and more people are quitting cigarette-smoking, or would like to. For many people in this position, our Swedish snus has proved to be the only realistic alternative that can help them quit smoking. Today, Sweden is among the countries that have the lowest incidence of tobacco-related illnesses per capita, despite having a similar level of tobacco consumption to other comparable countries.

Apart from the argument that the snus ban is an unwarranted obstacle to trade, we are convinced that the EU politicians will sooner or later also listen to our health-related arguments. Throughout Europe, it has become a major public-health objective to reduce smoking.

This point was underscored by the fact that, at about the same time as the advocate general delivered his opinion, Norway banned smoking in restaurants. Similar bans are already in place and will be progressively strengthened in many other European countries. And Norway is currently Swedish Match's most expansive market. This strengthens our belief that snus has excellent long-term future prospects.

Sven Hindrikes, President and CEO

Swedish Match's operations during the first nine months of the year generated a strong operating income despite the continued negative impact of currency effects on earnings in SEK. The results before items affecting comparability for the third quarter were among the best in the company's history. Snus sales continue to show organic growth, and the same applies to cigar operations, which posted the best operating income ever for the period. Earnings per share increased to 4.88 SEK.

To sum up, we are very pleased with the results for the first nine months, particularly the strong improvement for cigars and the fact that, despite the weaker dollar and extremely tough competition in the North American market, we managed to increase both sales and earnings for snus. Naturally it is also pleasing to note a further increase in earnings per share," says Lars Dahlgren, the Group's Chief Financial Officer.

"For a long time, snus has been regarded as our only growth area. This year, we have shown that we have two major product areas that are growing, namely cigars as well as snus. We are now also about to embark on a program to reduce the Group's costs by 100 MSEK. The full effect of the program will not be apparent for a year or so, but it is already a favorable sign that we have an enthusiastic organization dedicated to performing even better in the future."

Group sales during the first nine months of the year rose by 1 percent to 9,797 MSEK (9,692). Sales increased by 4 percent in local currency.

OPERATING INCOME before items affecting comparability declined 4 percent to 1,628 MSEK (1,693). The main reason for the decline was restructuring costs amounting to 160 MSEK during the first six months, combined with currency effects. The weaker USD in particular contributed to a reduction of 75 MSEK when the earnings of foreign subsidiaries were translated to SEK.

Items affecting comparability amounted to 1,281 MSEK net. This figure includes revenue of 1,521 MSEK from the settlement with UST and a

provision of 90 MSEK to conform with an injunction served by the Supreme Court in India, whereby Swedish Match is required to acquire 20 of the outstanding 26 percent of the shares in Wimco Ltd. The unsatisfactory level of earnings in match operations also resulted in a write-down of assets in that product area by 150 MSEK. CFO Lars Dahlgren notes that the write-down has no effect whatsoever on cash flow but is merely a bookkeeping adjustment of the asset value in the balance sheet, which became necessary as a result of the tough conditions in a number of match markets.

FOR THE SNUS PRODUCT AREA, organic growth was 6 percent during the first nine months of the year, while sales increased to 2,356 MSEK (2,223). Strong growth continued in Norway. In Sweden, where penetration is considerably higher, volumes increased by slightly more than 1 percent. Sales volumes increased by 5 percent in North America. For the product area as a whole, operating income rose 6 percent to 1,087 MSEK (1,027) as a result of improved productivity and price increases, and despite negative currency effects. The operating margin amounted to 46.1 percent (46.2).

In the US market, Timber Wolf continued to lose ground due to the increased pressure of competition in the segment. However, the falloff was more than offset by the successful launch of the Longhorn brand in the low-price segment, initiated during the third quarter of 2003, which resulted in the 5-percent volume increase.

"Longhorn is now solidly established as a brand and is essentially launched in all states, although the distri-

bution channels are still in the process of being expanded," says Lars Dahlgren. "The most recent available four-weekly measurement of sales volumes indicates a market share of 1.4 percent of the total market for Longhorn, but we have a considerably higher market share in certain states where we have been present for longer."

Vigorous efforts are also under way to reverse the downturn for Timber Wolf.

"A new flavor variant launched during the third quarter has been received even better than expected. We have also noted positive reactions to other marketing strategies."

CIGAR OPERATIONS PRODUCED the best operating income ever for the first nine months. Despite the negative effect of the weak USD when translated to SEK, operating income increased by 29 percent to 383 MSEK (296). Sales increased by 13 percent in local currency and by 7 percent in SEK, to 2,381 MSEK (2,221). The operating margin, which can fluctuate somewhat between quarters, also improved, reaching 17.5 percent during the third quarter – not far short of the target of 18-20 percent on a two-year basis.

The strong improvement is primarily attributable to the North American market. Both the machine-made and premium cigar segments experienced a highly favorable level of organic growth, and the third quarter was particularly strong for the premium category. During the period as a whole, flavored machine-made cigars showed a high growth rate.

"As regards flavored cigars, we must bear in mind that they were launched on a large scale as recently as the third quarter last year. This naturally means that while comparative growth figures are initially high, the growth rate cannot be expected to be sustained. Nevertheless, the trend for cigars gives good reason for continued optimism," says Lars Dahlgren.

During the period, UST's cigar operations were transferred to Swedish Match as part of the settlement reached between the two companies. During the nine-month period, sales of premium cigars increased by more than 10 percent by volume.

In Europe, cigar operations show

Contradictory opinion on snus in EU

It is clear that the EU directive banning the sale of snus is invalid, since the ban lacks any motivation. Nevertheless, it should remain in force until the European Parliament can adopt a new, correctly motivated directive. This is the view expressed by the advocate general of the European Court of Justice in his opinion as to how the Court should rule on the matter:

"Unfortunately, the advocate general has not seen fit to give us a legal examination. Instead, it seems likely that he had made up his mind from the start based on anything but legal grounds and then tried to couch the decision in legalistic terms. This is a political position, not a legal one," comments Bo Aulin, Swedish Match's Chief Legal Counsel.

SWEDISH MATCH HAS ALWAYS maintained that the sales ban is in breach of the

fundamental principles underlying European Community law, particularly the principles that it should be non-discriminatory and proportional. The ban contained in the directive discriminates against snus in relation to other, similar tobacco products, and neither is there any proportionality in permitting sales of cigarettes and every other type of tobacco product, yet prohibiting snus.

"But the advocate general has chosen the political line. It is difficult otherwise

to understand how he can reason as he does in regard to proportionality and discrimination," says Bo Aulin. "What is the logic behind permitting the use of oral tobacco that is chewed, but not snus. Nasal snuff is also permitted, and the main difference between it and our products is that it is drier. So are we supposed to believe it is the amount of water in a product that makes it more dangerous?"

At the same time, notes Bo Aulin, the advocate general's opinion lacks any legal force. So the last word has not yet been said on the subject. It is the Court that makes the final decision, and there is no need whatsoever for it to follow the line taken by the advocate general.

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SWEDISH MATCH

ong earnings

an uneven trend, with growth in some markets and a decline in others. Overall, sales for the period were at the same level as the year-earlier period. A new flavored cigar, Wilde Aroma, was well received in the European market when it was launched in conjunction with the Olympic Games in Athens.

“CHEWING TOBACCO OPERATIONS continue to show strong earnings and a favorable cash flow, and we have retained our market-leading position, with 44 percent of the US market,” says Lars Dahlgren. “Sales declined by 7 percent in terms of SEK, to 821 MSEK (880), but increased by 3 percent in local currency. Operating income declined by 10 percent in SEK, to 237 MSEK (264), as a result of currency effects.”

Sales of pipe tobacco were essentially unchanged compared with the year-earlier period, amounting to 659 MSEK (656). A decline in sales volumes was noted in most major markets, but despite this, operating income increased by 8 percent to 156 MSEK (145). The explanation is improved productivity and higher prices, as well as the fact that the South African rand strengthened during the period.

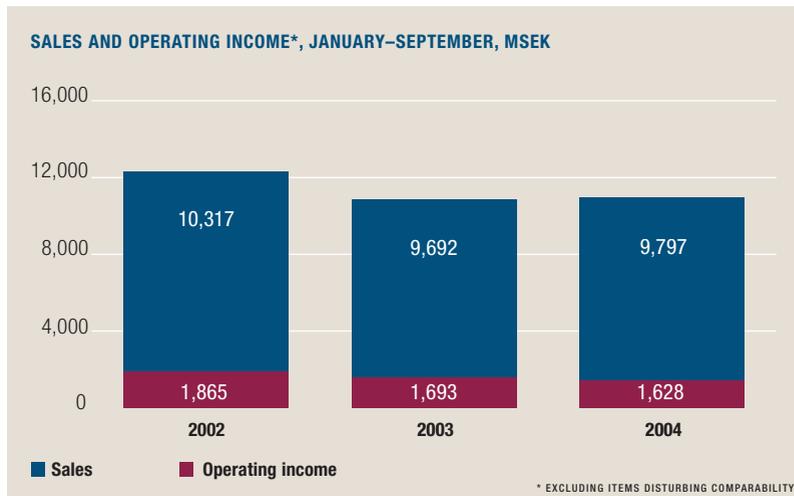
BOTH MATCH AND LIGHTER operations have continued to struggle against difficult market conditions. Matches lost volume in most markets, and sales for the period as a whole declined by 2 percent to 1,012 MSEK (1,031). During the first six months of the year, restructuring costs of 105 MSEK in Europe were charged against operating earnings, which amounted to a loss of 68 MSEK (income: 78) for the period.

“We can now see that the measures taken produced some positive results during the third quarter, with an improvement in both sales and operating income. The decline in volumes also slowed down during the third quarter. But it remains a tough market,” notes Lars Dahlgren.

“The market climate for lighters also remains a challenge. We have succeeded in increasing volumes, but there is still strong pressure on prices, with operations exposed to tough competition from producers in low-cost countries. But we are working continuously to increase efficiency in purchasing and production, and these efforts have led

For this reason, it is also pointless to speculate about the eventual outcome, he says. But Swedish Match has always cautioned that a judgment would probably be characterized by political considerations rather than legal and fact-based arguments.

“OUR VIEW IS THAT THE BAN is doomed in the long term, since it is ridiculous and is actually counter to the public-health interests that it purports to serve. Consumers will seek new alternatives to smoking. Not necessarily snus – it could be other smokeless products also. But this will fuel a demand pressure that will force politicians to act instead of clinging to the totally unrealistic ‘zero vision’ for tobacco use. The focus should be on reducing the health risks,” says Bo Aulin.



	SALES, MSEK			OPERATING INCOME, MSEK		
	Jan–Sep 2004	Jan–Sep 2003	Change %	Jan–Sep 2004	Jan–Sep 2003	Change %
Snuff	2,356	2,223	6	1,087	1,027	6
Chew. tobacco	821	880	-7	237	264	-10
Cigars	2,381	2,221	7	383	296	29
Pipe tobacco/ Accessoires	659	656	0	156	145	8
Matches	1,012	1,031	-2	-68	78	-187
Lighters	440	454	-3	19	15	27
Other	2,128	2,227	-4	-186	-132	-
Total	9,797	9,692	1	1,628	1,693	-4

to a slight improvement in earnings.”

Lighter sales declined by 3 percent overall to 440 MSEK (454), but operating income improved to 19 MSEK (15).

The Group’s net loan debt declined further during the third quarter, compared with the second quarter, and is currently at 1,229 MSEK, which has also resulted in a reduced net interest expense. Cash flow from operations remained strong, amounting to 2,901 MSEK, compared with 2,008 MSEK for the year-earlier period.

Tax expenses during the period were unusually high, with a tax rate of 42 percent, compared with a normal level of 33 percent. The reason is that the revenue from the settlement

with UST was taxed at a rate of 42 percent. Moreover, neither the costs for acquiring shares in Wimco, nor the write-downs of match-related assets, nor certain restructuring costs, were judged to be deductible.

Earnings per share amounted to 4.88 SEK (3.68), of which 1.96 SEK was attributable to items affecting comparability – primarily the revenue from the settlement with UST. On the other hand, there were also positive nonrecurring effects in 2003 from the divestment of interest swaps, while the tax rate last year was also unusually low due to nonrecurring effects. Profit for the year was also reduced by restructuring costs of 160 MSEK.

Swedish Match.

“We will not stand or fall depending on the Court’s decision and have in any case never anticipated a rapid or large-scale European launch. Tobacco consumers are slow to change their consumption habits – besides which, entry into new markets would primarily generate costs in the short term. But we think long-term, and we naturally foresee favorable growth potential in five to ten years’ time. This is because we have a fantastic story to tell and a strong message about harm reduction to promote. It is not we who have credibility problems as far as this issue is concerned.”

The European Court of Justice is expected to reach a judgment on the issue later this year or early in 2005.

He also wonders how it will be possible to motivate the ban and present a tenable decision-making basis in a revised directive. The reason why such a basis is absent from the present directive is that there are no factual reasons for the ban, he maintains.

“But the real impact on public health cannot be concealed indefinitely,” continues Bo Aulin. “Of course, it is human nature to find it difficult to back down after deciding on a certain position. But what right does anyone have to deny Europe’s millions of smokers a valid alternative? Those who espouse the prohibition policy are assuming a huge responsibility.”

HE IS AT PAINS TO POINT OUT, however, that a negative ruling from the Court would now no longer be a serious setback for

Analysts’ questions

Swedish Match’s nine-month report was published on October 26. In a follow-up telephone conference, members of Group management met analysts from investment banks and brokerages. A selection of the questions and answers is presented below.

MICHAEL SMITH, JP MORGAN:

“The US market for snus is growing overall, but your sales are not really keeping pace. What are your expectations for the new Longhorn brand, and will it contribute to an increased share of the market?”

SVEN HINDRIKES, CEO:

“The US market grew by 7 percent in terms of volume during the period, according to the A C Nielsen market research company, while our own growth was 5 percent. It appears that the low-price segment alone is driving growth at an accelerating pace. Longhorn is showing favorable growth – at a faster rate than the segment as a whole – but we started from zero, having launched the product during the third quarter of 2003.”

FREDRIK LILJEWALL, UBS WARBURG:

“You have announced a program to cut costs by 100 MSEK. Will that be an annual effect? How much will the program cost and will any of the costs involved already be booked during the fourth quarter of this year?”

SVEN HINDRIKES:

“We are talking about an annual cost reduction of 100 MSEK, since the project involves improving our business processes and making them more efficient in several divisions, namely Cigars, Snuff and Matches. Some personnel cutbacks are also possible and this will also give rise to costs, a portion of which will be incurred during the fourth quarter.”

GORM THOMASSEN, CAZENOVE:

“How is the launch of Firebreak tobacco chewing gum progressing in Japan, and will it lead to increased costs?”

SVEN HINDRIKES:

“The launch is proceeding according to plan, and we plan to significantly increase the distribution channels during the fourth quarter. Costs will naturally be involved, but this in itself is a positive indication that we consider the investment worthwhile.”

ROLF KARP, ÖHMAN SECURITIES:

“You report items affecting comparability of up to 50 MSEK for the savings program. Will these spill over into 2005? And what do you estimate that the tax rate will be in 2005, given this year’s high figure of 42 percent?”

LARS DAHLGREN, CHIEF FINANCIAL OFFICER:

“The 50 MSEK should not be regarded as an item affecting comparability, but it is true that a portion of the costs may be booked during next year. As far as the tax rate is concerned, the underlying level is 33 percent, and that is the best indicator of results for the fourth quarter. Although the current level of around 33 percent may change next year, we see no indications to this effect at present, apart from the boost we get – as a result of going over to the new accounting principles – from the fact that pretax earnings will no longer include any deductible goodwill amortization as is the case today.”

COMBATING THE DANGERS OF CIGARETTE SMOKING

Snus in focus

The crisis of cancer caused by cigarette smoking is considered having claimed millions of lives. As a means to “snuff out” this trend, Swedish snus has emerged as a model “Harm Reduction” product, because of its documented role in Sweden, helping a considerable number of smokers to quit. This gives Swedish Match an extraordinarily good business proposition in America and in other parts of the world. The challenge is to communicate in a restricted environment”, says Lennart Freeman, president of Swedish Match, North American Division.



Lennart Freeman, President,
Swedish Match North America



Patrik Hildingsson, Vice President,
New Business Development

With a focus on the theme of Harm Reduction, the North American management team of Swedish Match was recently interviewed at their Richmond, Virginia headquarters. The team includes Lennart Freeman, President, Gerard Roerty, Vice President, General Counsel, Patrik Hildingsson, Vice President, New Business Development and Mark Whitfield, Director of New Business Development.

What are the potential benefits of Harm Reduction as it relates to tobacco products?

Freeman: First of all, we strongly believe in tobacco-based Harm Reduction, because our Swedish snus, a modern smokeless tobacco product, has proven itself as a viable and a far more sensible option to cigarette smoking.

Every year, Swedish snus gains greater awareness by public health officials, and people on Capitol Hill in Washington. However, public awareness is in its infancy.

Once there is awareness that all tobacco is not the same, and snus is seen as a safer alternative to cigarette smoking, then we will have a big market opportunity.

Today, many American cigarette smokers think that smokeless products

are as bad as cigarettes. I might add that many smokeless users think that smokeless is very bad, but not as bad. Awareness of the dramatically lower health risk of snus is not widely known.

Because snus cans carry a far-reaching warning, mandated by the U.S. government, it's no wonder that the public doesn't see the potential for snus as a viable alternative to reduce the harmful effects of cigarette smoking.

So where is the business opportunity for Swedish Match as Harm Reduction catches on?

Freeman: We believe we are sitting on an extraordinarily good business proposition. We have an unusual opportunity as producers of an alternative for cigarette smokers, because there are so many cigarette smokers, and we do something that can be good for public health.

The way of consuming tobacco in Sweden demonstrates a very realistic and pragmatic model in the world to lower illnesses and fatalities connected with cigarette smoking. This phenomenon is very often referred to as the Swedish Experience (see sidebar). Smokers access to viable alternatives, like snus, is part of the Swedish Experience. The vast majority of the snus consumed in Sweden comes from Swedish Match. To

that extent Swedish Match is indirectly linked to the Swedish Experience.

As a result of greater awareness in the U.S. of Sweden's decrease in deaths from tobacco smoking, and our own efforts to better understand our products on a scientific and medical level, we are increasingly gaining credibility with public health officials. Because of our openness about our products and manufacturing methods, experts and consumers alike, are starting to believe in snus.

What's the status of snus in America?

Whitfield: Back in 2001 we started to sell snus in the U.S. on a small scale in a few major markets. Our ambition has been to make sure that we have the right offering in terms of brands, flavors, and merchandizing. We see a difference between Swedish tastes and U.S. tastes, so we have brought that into our offering.

We see a slow, but steady growth of our products, and prospects for doing even better—based upon constant interaction with tobacco users, particularly heavy smokers.

What difficulties do you see in promoting the benefits of Swedish snus?

Hildingsson: When Swedish Match speaks about snus and its benefits, we

Tobacco-based Harm Reduction is gaining more and more attention

Harm Reduction is a set of practical strategies that reduce negative consequences. As it relates to tobacco, an increasing number of experts maintain that certain forms of smokeless tobacco are less harmful than cigarette smoking, thus offering a reduced harm alternative for the consumer.

For a number of years an internatio-

nal dialogue has taken place surrounding the issue of tobacco harm reduction and today mainstream discussions surrounding alternatives to cigarette smoking often include an examination of reduced harm products. From public health advocates, scientific researchers, policymakers to other key influencers are joining together to discuss viable,

less harmful tobacco alternatives in an attempt to lessen the health impact of smoking-related illness. Many, but not all, experts agree that certain forms of smokeless tobacco fit this reduced harm concept.

The genesis of tobacco based Harm Reduction can be traced to what researchers call the “Swedish Experience.”

Sweden currently has the lowest level of tobacco-related mortality in the developed world, as well as the lowest percentage of male smokers (19%) of any European nation. Many health officials attribute this to the consumption of Swedish snus, made by Swedish Match.

are frank and forthright, but we must at the same time remember that we are a company built around tobacco products, and as a tobacco company, we have a limited credibility. For this reason we need to be very strict on how we communicate scientific facts and other information relevant to the smokers. Our core message is complex.

Another problem in America is that the FTC (Federal Trade Commission) says they don't have the competence to speak about tobacco, and the FDA says they don't have the jurisdiction, because the FDA does not regulate tobacco products.

Whitfield: Consumer education is important to overcome false perceptions around snus. In-depth sampling and targeted direct mail to adult smokers has been an effective way to educate our consumers in the difference between snus and other types of smokeless tobacco products. We also strive for a sound dialogue with doctors and health officials.

What role can communications play in the success of Swedish Match in America?

Hildingsson: The success of Swedish Match in the coming years is very much a communication issue. We must find a way to amplify a compelling true story, written and lived over the past decades. We must communicate the statistics and facts of Swedish snus and the important role the category plays among Swedish smokers. But there's a lot of "noise" to overcome, and a multitude of messages to compete with.

Nobody disputes that there is a clear correlation between cigarette smoking and a number of serious fatal diseases. In America alone smoking is considered to cause as many as 400,000 deaths per year. The record low prevalence of tobacco related diseases and death in Sweden is due to the fact that Swedish men smoke less. An important reason why the Swedes smoke less is because they have had, throughout the years, access to a viable option to their cigarettes. Snus doesn't save lives, but is being an efficient alternative to cigarette smoking. The result of reduced smoking prevalence in a population is saved lives.

A correlation between smokeless tobacco and oral cancer is also often taken for granted. Despite the fact that Swedish men are the only Europeans that extensively use snus, Swedish men have a record low incidence of oral cancer.

How do you communicate all this in a restricted environment? That's the real challenge we face.

How is smokeless tobacco perceived in America?

Whitfield: Americans hardly know Swedish snus, but they are familiar with moist snuff, which in some ways is similar to snus. There's also a tradition of chewing tobacco, but it's a declining category. Both chewing tobacco and snuff have a social stigma among most Americans.

Since snus usage doesn't produce saliva, you don't have to spit. This is seen as a plus and is one of the educational challenges we face as we build awareness of snus.

Freeman: Moist snuff is picking up in America. It goes hand in hand with the increasing attention on the serious health risks of cigarette smoking and

intensified political interventions, like smoking bans in restaurants.

Especially in the pouch market, the potential is great. In the U.S. the pouch market share is 5%. In Sweden it's 50% of smokeless tobacco products.

As the recognition of the potential role of snus as an alternative to cigarettes grows, does this automatically mean that Swedish Match will prosper?

Freeman: Swedish Match as a tobacco company has the rare potential of growing profits and doing something good for society. We have a great story to tell, and have the ability to contribute very positively to public health.

But, there's a lot of confusion about tobacco products, and we need to help government efforts to do a much better job, allowing the facts to come through.

At the moment, the U.S. government don't recognize the difference between cigarettes and smokeless. We hope to change that by communicating with the Congress and governmental agencies on an ongoing basis.

How close is the Congress to making clear distinctions between the risks of cigarette smoking and snus?

Roerty: We are seeing very different points of view on Capitol Hill in Washington. Some members of Congress see the merits of Harm Reduction, and have encouraged the Surgeon General of the United States to have workshops to get the message out. Others have a hard time overcoming the unfortunate perception of the tobacco industry as not being trustworthy, only interested in profits, not public health.

When you add to this the fact that the Energy & Commerce committee (the House of Representatives committee with jurisdiction over tobacco) are championing this issue one day, and then having to grapple with misguided FDA regulation that is not based upon a Harm Reduction concept the next day, it's hard to move the Harm Reduction issue forward in the Congress.

At this time health warnings are congressionally mandated for smokeless tobacco products, which unfortunately adds to the consumer misconceptions about Swedish snus. The government is cautioning consumers against a product that has the potential to save millions of lives over the next few decades.

What can Americans expect from their government to clear up the confusion between smoking and smokeless?

Roerty: If regulation by the FDA wins out, there will be pressure to protect the consumer from the worst products—which in our case means that we would be lumped in with harmful smokeless products (including products from India, which include many substances other than tobacco, such as areca nut), as well as cigarettes.

Concerning Swedish snus, even critics on Capitol Hill are showing an open mind toward Swedish snus. But, unless the Congress adopts a regulatory scheme, which separates cigarettes from smokeless, we will see continued promotion of misinformation.

What's the desired outcome of Swedish Match from government participation in tobacco regulation or dissemination of information?



Awareness of the health hazards associated with cigarette smoking is increasing in the US. At the same time, political restrictions on smoking, such as the ban on smoking in restaurants, are increasing.

Freeman: We need for the American government, even the FDA, to acknowledge the difference between cigarettes and smokeless tobacco, and then between certain forms of smokeless made in other countries and Swedish snus.

Unless you recognize differences, then all tobacco is seen as being bad.

Is there really a compelling pro snus story from the medical community?

Roerty: Every serious study that has been conducted on Swedish snus demonstrates the life saving potential of snus in favor of cigarette smoking. This is not to say that smokeless tobacco is flawless, or that sustained nicotine consumption is a medical ideal. But, the potential for saving millions of lives over the next several decades, resulting from decreased cigarette consumption, is indisputable.



Gerard Roerty, Vice President, General Counsel

Grape and vanilla new cigar flavors

The trend for flavored cigars continued during the first nine months of the year, both in the US and in the European market. Earlier this year, Swedish Match's North America Division launched its new Grape flavor under the White Owl brand. The same brand family already includes Peach, Wilde Apple, Chocolate and Strawberry flavored cigars.



In line with the trend, the cigarillo Bellman Moments,

with a vanilla flavor, was

launched at mid-year in the Nordic market. The product family already included Bellman Gold and Bellman Silver, the mildest flavor variants.



New head of business development



Johan Wallin has been appointed Head of Group Business Development Smoke-Free Products. In this role, Johan will work in collaboration with the divisions and relevant corporate functions to create and coordinate organic growth strategies and programs from a Group perspective.

Johan joined Swedish Match in 1990 and has held various positions within the Group such as Vice President of Marketing of the now divested Cigarette Division and as Vice President New Business Development, Swedish Match North America.

Best IR website in Sweden



Swedish Match owns the best IR-website in Sweden, according to analysts and business journalists. This is established in the annual Webranking published on October 11, 2004.

Through a thorough survey aimed for analysts and business journalists, 100 criteria are established, according to which 150 listed Swedish companies has been ranked. These criteria are mainly comprised by financial information, layout, frequency in up-dates as well as availability. A number of new criteria are added each year, which makes it more difficult to automatically achieve a good position in the Webranking. Therefore Swedish Match can be very proud over achieving the all-time high score since the Webranking started in 1997.

"Target-oriented and committed work for a number of years lie behind the success", says Annette Kaunitz, responsible for the website. "It is very rewarding to receive this acknowledgment; finally, we have the best IR-website in Sweden".

Today, there are demands on a publicly listed company to have a well-functioning website providing access to the latest financial information. Most analysts and journalists regard the companies' websites as the single most important source of information.

"The strength of the Swedish Match website is that it provides a lot of information to the visitor, and that the content is relevant. The website gives a good company image and the website is well-structured and easy to navigate", says Annette.



Strong sales in Norway

The use of snus is gaining broader acceptance in Norway, where it is regarded as trendy to use snus, and the product is now undergoing the same class migration in Norway as it did earlier in Sweden.

Swedish Match's snus brands continue to experience strong growth in Norway. A contributory factor is the ban on smoking in public places that was introduced on July 1.

THE SMOKING BAN HAS considerably increased the focus on snus in cafés and restaurants. The most ambitious restaurants have installed coolers for cans of snus.

"Hotels and restaurants are an important launch channel for snus, since they provide cigarette smokers with an opportunity to try snus if they are not allowed to smoke," says Sven-Erik Steffenrud, President of Swedish Match Norway. "The ban on smoking is obviously positive for us in this respect, but we are not expecting any massive volume increases as a result of the ban, since

no one is likely to consume an entire can of snus during a restaurant visit in the same way that a smoker may well smoke an entire pack of cigarettes." Thus far, it is also difficult to see any measurable results of the ban on smoking, since it was introduced during the summer, when many restaurants had their outdoor serving areas open. Restaurants have also been able to adapt gradually by "winterizing" their outdoor serving areas with infrared heaters and roofs. On the other hand, it is noticeable that the initial resistance to the ban among the general public has now given way to a greater understanding.

KEEPING PACE WITH THESE developments, the use of snus is steadily gaining broader acceptance in Norway. It is regarded as trendy to use snus, and the product is now undergoing the same class migration in

Norway as it did earlier in Sweden – from having been a classic outdoor product to making its way into the boardrooms. The typical Norwegian user has a higher income and educational qualifications than the average Norwegian and is often described in such terms as "opinion-former" or "winner," in contrast to cigarette-smoking Norwegians.

This trend, which has followed in the wake of a growing health-consciousness, has benefited Swedish Match. But the strong growth is also the result of a favorable trend in regard to snus coolers in stores, wider distribution, a more extensive range and more media exposure.

"At the moment we see nothing to indicate that the rate of growth for snus will diminish in the near future," says Sven-Erik Steffenrud.

Swedish Match is launching a new product in the market-leading General family – General Maxi, a portion-packed snus in larger pouches.

There is increased demand from a large number of snus users for larger portion pouches.

"Our surveys show that many consumers want a larger General pouch," says Jan-Erik Knutsen, head of marketing in Swedish Match's North Europe Division. "The demand comes from people who use loose-packed snus and now want a really large portion pouch, and from snus users who otherwise use two normal-size portion pouches at a time."

The General Maxi pouch weighs 1.7 grams, compared with the ordinary size that weighs 1 gram per pouch.

Earlier this year, Swedish Match also launched the maxi-pouch for its Grovsnus brand. The overall segment for snus in larger portion pouches is growing.

General Original Portion Maxi will initially be launched in Statoil stores and will be widely available throughout Sweden during October.

General Maxi to be launched throughout Sweden



EU statement has weak effect on share price

The Swedish Match share price has remained unchanged during the past quarter. Since the beginning of the year, it has risen by slightly less than 4 percent, while the Stockholm Stock Exchange on average (SAX Index) has risen by approximately 11 percent during the year to date (up to October 15). If this year's dividend is included, shareholders in Swedish Match have had a total return of 6.3 percent.

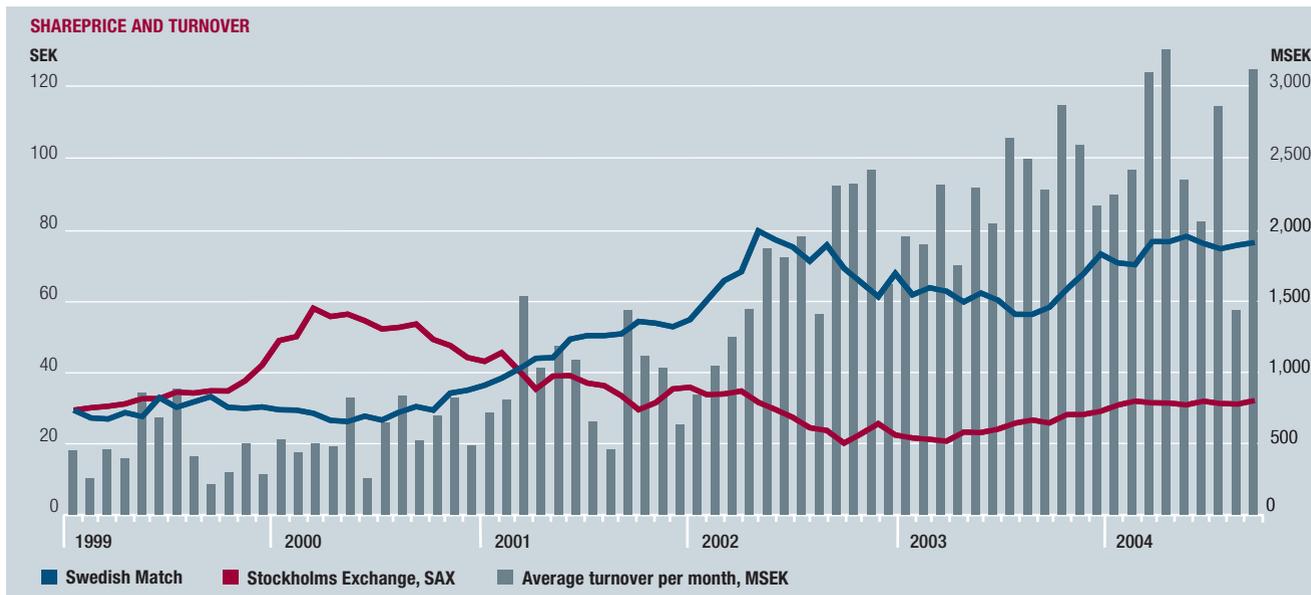
The negative opinion concerning lifting of the ban on sales of snus within the EU that was submitted to the European Court of Justice by the advocate general on September 7 has not had any noticeable effect on the share price, which has remained essentially unchanged since then despite heavy trading when the news was released. This means that the date of a possible

future lifting of the snus ban within the EU has been postponed, which has persuaded some of the analysts who follow the Swedish Match share to slightly reduce the target price for the share.

The Swedish Match share often performs in a countercyclical manner, meaning that it moves in the opposite direction to the stock market as a whole. During the past three months, the Stockholm Stock Exchange has shown a positive trend, with a rise of 4 percent, while the Swedish Match share has remained static during the same period. The Stockholm Stock Exchange is among the world exchanges that have performed best during the year to date. The trend on the influential US stock market has been negative. A number of factors, including the presidential election, the record-high oil price, expectations

of an interest-rate rise and nervousness regarding future corporate profits, have created an uncertain investment climate. In addition, the employment trend in the US is difficult to assess. The world economy as a whole remains buoyant and there are hopes of a better investment climate when the upturn has generated a stronger impact in the different markets.

Swedish Match's ambition is that its share will remain a stable investment, providing shareholders a favorable return in the long term. Over the past 12 months, the Swedish Match share has risen by approximately 30 percent, which is above the average for the Stockholm Stock Exchange. The share has risen by about 50 percent during the past three years, while the exchange as a whole has remained virtually unchanged.



TOTAL RETURN

Total return, %	
2004 (Jan 1 - Oct 15)	6
2003	11
2002	25
2001	56
2000	32
1999	4

KEY FIGURES

Earnings per share, SEK

2003	4.68
2002	4.10

Shareholders' equity per share, SEK

Dec 31, 2003	12.21
Dec 31, 2002	11.72

SHARE PERFORMANCE

Jan 1, 2004–Oct 15, 2004, %

Swedish Match	4
SAX	12

Snuff jargon

IT IS SAID THAT ESKIMOS have 49 different words for snow, to make fine distinctions between falling snow, the condition of snow on the ground or how good it is for skiing.

Many sectors and products have a specialized lingo, often to prevent outsiders to catch on or to promote group sense. Snuff users have their own terminology, often dating way back to the 17th, 18th and 19th centuries. Also, new words come into the vocabulary from time to time.

Nasal snuff was used in courts and finer social circles. It was pulverized tobacco, inhaled through the nose. The word snuff comes from Dutch *Snuffen*, "to sniff, snuff", bringing to mind the sound of drawing air through the nose.

Today, oral snuff is finely ground or shredded tobacco. Generally, American users dip or pinch the snuff and place it between the lower lip and the cheek or gum. Swedish snus is placed under the upper lip.

Snus is the Swedish word for snuff. The origin of the word is from the German *Schnauze*, meaning nose. Snus has become the term for the Swedish style of moist snuff. A Pinch or Dip is the portion of snuff that you place in your mouth, and in most cases in America loose tobacco. Snuff is also available in small Pouches, which is more convenient and less messy.

Snuff is sold in circular Cans of cardboard with plastic or metal lids, or in plastic cans. The nasal snuff was carried in Snuff-boxes, often of silver or other fine metals, and rectangular. A typical consumer of snuff buys a can at a time, or perhaps a roll of cans, containing five or ten cans.

Fine cut and Long cut are different ways that the tobacco in the can is cut, allowing different packing characteristics. Snuff has sometimes negative connotations, like dirty. But there are also positive meanings, for instance in the idiom "Up to snuff" means "alert" or "being of a high or suitable standard".

Swedish Match delisted from NASDAQ

SWEDISH MATCH'S BOARD OF DIRECTORS decided in mid-August to discontinue Swedish Match's program for American Depositary Receipts (ADRs) and delist the ADRs from the NASDAQ exchange in the US.

The background to the decision is that the turnover of Swedish Match shares on NASDAQ has been very low.

"The turnover of Swedish Match shares on NASDAQ has only amounted to 1 percent of the share's total turnover," notes Emmett Harrison, Investor Relations Manager at Swedish Match. "The number of holders of ADRs only amounted to

750, compared with the far greater number of shareholders – 95,000. The delisting from NASDAQ will yield a significant cost saving."

The last day on which Swedish Match ADRs could be traded on NASDAQ was October 15. Delisting took place on October 18. As of that date, the Swedish Match share is only listed on the Stockholm Stock Exchange. The termination of the ADR program and the delisting from NASDAQ do not affect the registration of the company with the US Securities and Exchange Commission (SEC).

Said about snuff

"Three reasons for a woman to use snuff: she'll have opportunities to gain new acquaintances, she'll never be at a loss for a topic of conversation, and she can display her bejeweled hands and snowwhite arms."

UNKNOWN 17th CENTURY AUTHOR

"Snuff perks up and cleans out one's brain, spurs the spirit to noble thoughts and reinforces a man's character."

MOLIÈRE

"Never initiate campaigns or battles without snuff."

NAPOLEON

MEET THE BOARD: KARSTEN SLOTTE

“We have much in common in our focus on brands”

He is CEO of the Nordic region's largest confectionery company and also a new member of Swedish Match's Board of Directors. With his long experience of working with fast-moving consumer goods, Karsten Slotte has much to bring to Swedish Match's Board work. But he personally thinks he also has a lot to learn and that the relationship will be mutually beneficial.

After six months on the Board of Swedish Match, I am surprised how much we have in common", says Karsten Slotte. "While Swedish Match is of course considerably larger than Cloetta Fazer and has a wider geographic spread and a far broader ownership structure, the two companies still have many issues in common in particular, the fact that they both have a strong focus on brand-building."

Since May 2002, Karsten Slotte has been CEO of the Nordic region's largest confectionery company. The company's main markets are Finland and Sweden, but it also has operations and sales in the other Nordic countries, Poland, the Baltic States and Russia, as well as the travel market, including airports and ferries for example.

In 1999, when the two long-established companies – Swedish Cloetta, with roots in Denmark, and Finnish Fazer – were negotiating a merger, Karsten Slotte was a division manager at Fazer Konfektyr. He also became deeply involved in the merger negotiations and the implementation of the merger in 2000.

"These were two very old companies that naturally had deeply ingrained corporate cultures. But the merger was highly successful, which I believe was largely because we managed to avoid the kind of resistance that can result from fear of change. We succeeded in creating an appreciation of the importance of being open and sensitive to what is happening in our markets and a realization that this openness also encoura-

ges personal development.

It's true that in the course of day-to-day work certain differences can be noted between the Finnish and Swedish cultures, but such differences also exist in many other areas, according to Karsten. There are differences between national cultures, different cultures within a company, and at the individual level.

"It was essential for us to define the merged Cloetta Fazer's own culture, and a joint mission and vision. Our core values – to be open, dynamic, competent and Nordic – are very important to us and should permeate everything we do."

At the same time, Karsten Slotte is careful to emphasize another success factor: that the merger was in no way the result of a crisis but was based on equal terms for both companies.

HE FEELS THAT THE Board work at Swedish Match resembles Cloetta Fazer's in many respects, but with one major difference. Swedish Match has a different, more diffuse ownership structure, while Cloetta Fazer's ownership is more concentrated and hence clearer. This means that the Board and management of Swedish Match have an even greater responsibility.

"This is exactly why I find the committee work on the Swedish Match Board so rewarding. I myself am in the audit committee, which is a valuable way to gain a deeper insight into the company. It is also important for us as Board members to visit operational units to see things for ourselves



and meet employees in their workplaces," says Karsten Slotte, who is hoping he will soon have the opportunity to visit the new snus plant in Kungälv.

"It is demanding in every sense to sit on a company's Board of Directors today, and Board members have a heavy responsibility. For this reason, I have only one other Board assignment, since I want to be available and have time for what I have undertaken. At the same time, I gain a lot in return and learn many things from colleagues and from the insight into how another company functions."

WHEN ASKED WHAT HE THINKS he personally contributes to Swedish Match's Board work, Karsten Slotte returns to the central topic of brands.

"I feel secure in my knowledge of brands after working with fast-moving consumer goods for 25 years," he replies. "There are differences of course. All the brands in our sector, confectionery, are traditionally very long-established. Our newest brand is about 40 years old, and introducing new brands is not our primary concern. Instead, we constantly develop the existing brands."

By contrast, Swedish Match's product portfolio includes both traditional brands and new brands that are launched in a constant stream. But regardless of a brand's age, continuous renewal work is essential, as in the case of machine-made cigars in the US.

"The important thing is to observe and

note new consumption patterns, be sensitive to changes in the market and meet such changes in an innovative manner and with perfect timing."

One such pattern that is currently significant for Cloetta Fazer relates to the changes in the population pyramid.

"While it is true that young people make up our largest target group, there are increasing numbers of older people who also want to enjoy the good things in life, but perhaps in the form of different products. Older people prefer chocolate, and specifically favor darker chocolate. This contributes to the growth of a distinct segment that could be called a premium segment. We have also begun to be active in this segment – to date only in Finland, but with great success," says Karsten Slotte, who sees philosophical similarities with Swedish Match's cigar operations in this respect also.

ALTHOUGH KARSTEN SLOTTE STILL SPENDS a lot of time in Finland – at least every second week – his position as CEO made it important to be near to Cloetta Fazer's corporate headquarters in Stockholm. So Stockholm is where he now lives, with his wife and one of his sons.

"But that's fine with us. It is agreeable to live in Stockholm, which is an incredibly beautiful international city, as well as being close to Finland. So there has been no reason to lose contact with our social network."

SWEDISH MATCH IN BRIEF

Swedish Match is a unique company with a full range of market-leading brands within the snuff, cigar and pipe tobacco product areas – niche tobacco products – as well as matches and lighters. The Group's operations span the globe and its products are sold in 140 countries. The average number of employees during 2003 was 15 115. The Swedish Match share is listed on Stockholmsbörsen (the Stockholm Exchange) (SWMA).

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 N. America

Cigars and Pipe Tobacco

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



MARKET POSITION

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

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

Matches and Lighters

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



MARKET POSITION

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

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

KEY FIGURES

MSEK	2003	2002
Net sales	13,036	13,643
Operating income ¹⁾	2,224	2,439
EBITDA ¹⁾	2,889	3,090
Net income	1,558	1,429
Income per share after tax, SEK	4:68	4:10
Dividend per share, SEK	1:70	1:60
Return on shareholder's equity, %	38.9	35.2

¹⁾ Excluding items affecting comparability

☆☆☆
SWEDISH MATCH