

ANNUAL REPORT 2003



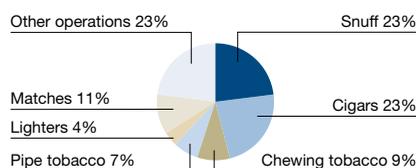
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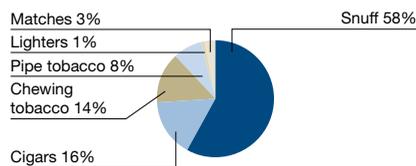
Swedish Match in brief

Swedish Match is a unique company with a complete range of market-leading brands in its product areas: snuff and chewing tobacco, cigars and pipe tobacco – niche tobacco products – as well as matches and lighters. The Group's global operations generated sales of 13,036 MSEK in more than 140 countries in 2003. Production facilities are located in 16 countries. The Group had 15,115 employees during 2003. Swedish Match shares are listed on Stockholmsbörsen (SWMA) and Nasdaq in the US (SWMAY).

Net sales by product area, %



Operating income by product area*, %



* Excluding Other operations.



SNUFF



CIGARS



CHEWING TOBACCO

Swedish Match 2003

Sales fell 4 percent to 13,036 MSEK (13,643)

Sales and operating income in local currencies rose 3 percent

Net income for the year in SEK rose 9 percent to 1,558 MSEK (1,429)

Earnings per share rose 14 percent to 4.68 SEK (4.10)

Cash flow remained strong

The Board of Directors proposes an increased dividend of 1.70 SEK (1.60)

Key figures, MSEK	2003	2002	2001
Sales	13,036	13,643	13,635
Operating income	2,224	2,371	2,113
Operating income before depreciation	2,889	3,090	2,863
Net income for the year	1,558	1,429	1,228
Earnings per share, SEK	4.68	4.10	3.40
Dividend per share, SEK	1.70*	1.60	1.45
Return on shareholders' equity, %	38.9	35.2	28.3

* Board proposal



PIPE TOBACCO



LIGHTERS



MATCHES

This is Swedish Match



SNUFF



CIGARS



CHEWING TOBACCO

Product areas

Swedish Match is the only company with significant international snuff operations. The company holds a leading position in the Nordic snuff market and in South Africa. In the US, the Group has made steady and significant gains in market shares. Of the Group's product areas, snuff is the product that generates the greatest organic growth.

Swedish Match is one of the world's largest producers and distributors of cigars and cigarillos, which are marketed in more than 90 countries. The largest markets are North America and Western Europe. The product group is a key growth area for Swedish Match.

Swedish Match is the largest player in the market for American chewing tobacco.

Main brands

Ettan · General · Catch · Grovsnus · Göteborgs Rapé · Timber Wolf · Longhorn · Renegades · Taxi

Macanudo · La Paz · Clubmaster · Willem II · Wings · de Heeren van Ruysdael · Justus van Maurik · Bellman · Garcia y Vega · White Owl

Red Man · Southern Pride · Granger Select · JD's Blend

Production

Production units:
Sweden
US
South Africa

Production units:
Belgium
Dominican Republic
Indonesia
Honduras
US
Germany (jointly owned)

Production units:
US

Share of Group results

Sales,
23%



Operating income,
58%



Sales,
23%



Operating income,
16%

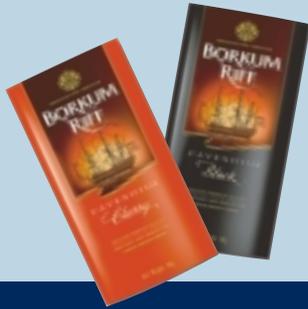


Sales,
9%



Operating income,
14%





PIPE TOBACCO

Swedish Match is one of the world's largest producers of pipe tobacco. The largest markets for pipe tobacco are North America and Europe. The Group also has a significant presence in South Africa.



LIGHTERS

Swedish Match is one of the largest players in the international market for lighters. The lighters are sold on a global scale, with Europe – especially Russia – and Asia as the largest markets.



MATCHES

Swedish Match ranks as a world leader in the market for matches. The Group's main markets are Western Europe, Brazil, Indonesia and India. The brands are mainly local and extremely strong in their respective home countries.

Borkum Riff · Best Blend · Greve Gilbert
Hamiltons Blandning · Half&Half · Boxer ·
Mellow Breeze · Velvet · Paladin · Black &
White · 1904

Cricket · Feudor · Poppell

Solstickan · Swan Vestas · Three Stars ·
England's Glory · Redheads · Fiat Lux · Ship

Production units:

US
South Africa

Production units:

Netherlands
Philippines
Brazil

Production units:

Brazil
India
Indonesia (jointly owned)
China
Spain
Sweden
Turkey
Hungary

Sales,
7%



Operating income,
8%



Sales,
4%



Operating income,
1%



Sales,
11%

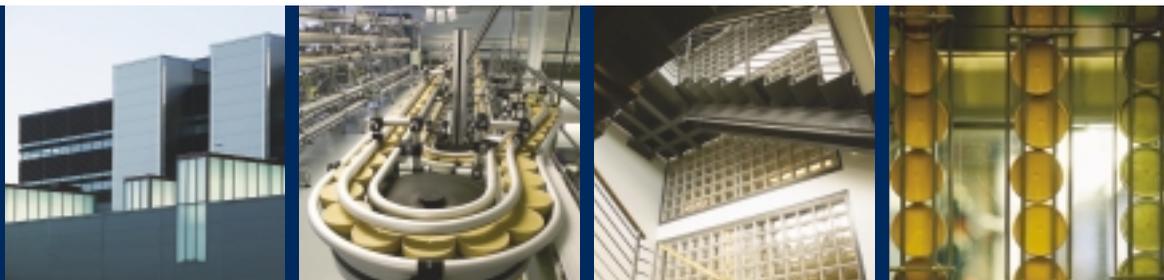


Operating income,
3%



We continue to strengthen our competitiveness and increase shareholder value

In September 2003, Swedish Match inaugurated the world's most advanced snus production plant.



Despite a difficult start, 2003 was a good year for Swedish Match. Markets worldwide began weak. Concern over the situation in Iraq, which escalated into all-out war during the spring, and uncertainty about economic prospects, combined with a depressed stock market, caused consumers and the retail sector to adopt a wait-and-see attitude. New warning texts and changed rules for smoking-tobacco packaging were also contributory factors. The slow start was followed by the relatively rapid conclusion of the war, the first signs of an economic upturn and a substantial share-price recovery on the major stock markets.

Swedish Match's first six months were correspondingly weak, but as consumer confidence returned, the trend improved, resulting in favorable full-year sales and earnings figures on the whole, although negative currency effects meant that we were sailing into a headwind throughout the year.

Sales increased by 3 percent in local currencies, but fell by 4 percent in SEK to 13,036 MSEK. Our growth area, snuff, had another good year, with a 7-percent increase in sales, thanks to strong demand in the US and Northern

Europe. Sales and earnings also increased for pipe tobacco, while other product areas were unchanged or experienced a decline in sales.

Operating income decreased by 6 percent to 2,224 MSEK, mainly due to a strengthening of the SEK in relation to other currencies. In local currencies, operating income increased by 3 percent. When we translate the local earnings of subsidiaries, we receive less in terms of SEK when the Swedish currency is strong. Lower sales volumes for matches and lighters also contributed to the weaker performance. However, the strong 12-percent increase for snuff, combined with improved margins, was a positive factor.

A strong improvement in net financial expense, from 245 MSEK to 50 MSEK, due in part to a substantial gain from the liquidation of interest swaps, helped to produce a 9-percent increase in income after tax. Income before tax exceeded the year-earlier figure by 2 percent.

For the fifth consecutive year we can report a substantial increase in earnings per share – up 14 percent to 4.68 SEK. Share buybacks contributed to this gain. Assuming the Annual General Meeting approves the dividend proposal, the dividend will also have increased over five consecutive years – by a total of 57 percent.

Strong strategies

Income for 2003 thus demonstrates once again the strength of our strategies.

Since 1999, we have built up a stable platform for balanced and very long-term growth in phase with social developments on the tobacco front. As the world's leading player in tobacco's niche areas, we are specialists in smokeless alternatives, with snuff as the primary product and growth area. We are the world number two in sales of cigars, a socially accepted pleasure-inducing product with the potential for growth as living standards rise. We also hold market-leading positions in chewing tobacco and pipe tobacco. All of these areas show a healthy and stable cash flow.

Tobacco products are complemented by matches and lighters, in which we are the world number one and number three respectively. Together, our product areas form a coherent and attractive range to offer to consumers and the retail sector.

Our strategies build further on this platform with the aim of creating competitiveness and long-term shareholder value.

Our operational strategies are based on the needs of our consumers, who buy and use our products. This provides the focus for our constant efforts to create an attractive and competitive mix of product range and prices to suit individual markets. Ongoing restructuring and efficiency programs are also essential to exploit the continuously changing competitive conditions. During the year, for example, we continued with the restructuring program in cigars. The measures included closure of one plant and



upgrading of another in Belgium and an increase in production in Indonesia. Within lighters and matches, we continued with rationalization measures aimed at meeting increased low-price competition. At the same time, ongoing Group-wide programs to reduce tied-up working capital are proving effective.

Swedish Match also has an explicit strategy of participating in the structural changes under way in the industry by making complementary acquisitions. Ongoing analyses of such opportunities have been made and contact has been established with prospective candidates for acquisition, and a few minor acquisitions were made during 2003.

Thanks to its healthy underlying cash flow, Swedish Match applies special prerequisites to its financial strategies. The express aim is to optimize the utilization of capital within the Group in order to increase the return to shareholders by various means without exposing the Group's financial strength and stability to risk. The balance-sheet trend is monitored continuously. The objectives include minimizing tied-up working capital, maintaining an adequate liquidity reserve and managing financial risks. In addition, the Group's share repurchase program strengthens earnings per share and other key figures and helps to increase the value of the share. At year-end, the Group owned nearly 7 percent of the total number of shares, compared with the Annual General Meeting's mandate of a maximum of 10 percent.

Being a global company also in ownership terms, Swedish Match endeavors to apply high standards of corporate governance and openness toward the stock market, the media and the community at large. Swedish Match was also one of the first major Swedish companies to develop corporate governance guidelines conforming to the more stringent US requirements introduced in 2002 and 2003. This involved establishing a Disclosure Committee. Swedish Match also established at an early stage a committee structure for Board work, including a Compensation Committee and an Audit Committee, to further strengthen the Board's oversight and control.

Organic growth prioritized

Efforts to increase organic growth receive a high priority, with the main focus on our growth area of smokeless products – particularly snuff. Swedish Match is well placed to benefit from the development of a significant long-term social trend.

It is not so very long ago that smoking was permitted on subway trains and aircraft and in airports and workplaces. Today, there are many environments where smoking is no longer allowed. Freedom to smoke is being further limited through a constant stream of new bans and restrictions. The same process is gathering pace in a number of large and populous developing countries.

This process is giving rise to global changes in consumer behavior on an

enormous scale. Cigarette smoking is declining by about 1.5 percent per year in the western world, while it is so far continuing to increase at about the same pace in developing countries. All the indications suggest that governments, central and local authorities and public-health organizations will continue with their efforts to restrict cigarette smoking in the future.

In parallel with this trend, we can see the beginnings of an attitude change in the international tobacco debate. A number of researchers and public health experts have begun to question the dominant strategy of total abstinence from tobacco, which has so far yielded only limited results. Instead, these people maintain that far more must now be done to reduce the health risks for those who are cigarette smokers – a public-health strategy that has been designated "Harm Reduction." This strategy openly accepts snus as a significantly better and functional alternative to cigarette smoking.

Harm Reduction attracted considerable attention during 2003 in the international debate on public health and tobacco, and also in newspapers and magazines. An increasing number of people view Harm Reduction as a far more realistic approach to reducing the harmful effects of cigarette smoking. As a result of its long-term development work on the limit values for the constituents of its Swedish snus products, protected under the **GOTHIA TEK**[®] quality designation, Swedish Match has

also received significant recognition for what a responsible company can achieve. **GOTHIA TEK®** is a clear example of the emerging debate on the regulation of tobacco products, which many researchers believe will parallel earlier developments in the food and pharmaceuticals industries.

International researchers have also drawn attention to the fact that efforts to reduce the harmful effects of cigarette smoking through the use of snus as an alternative have produced tangible results in Sweden. The country is the world leader in reducing smoking, and although total tobacco use is as high as

in the rest of Western Europe, the incidence of tobacco-related illnesses is at a record low. This is viewed as a living example of the results that can be achieved through a developed Harm Reduction strategy, and is used as an argument in favor of the Harm Reduction concept.

While Swedish Match is not expecting any quick results from the new strategies in the public-health debate, the developments to date suggest that our long-term efforts in the area of snus and smokeless alternatives have considerable potential.

Our strategies are pursuing two paths – on the one hand through investments to realize the long-term growth potential of snus both in economically advanced, health-conscious countries and in new markets – and not just where there is a tradition of smokeless tobacco use – and on the other hand through the development of new tobacco-related products.

Our launches of new snuff cover a number of large markets, such as the US, India and Russia. It is a painstaking task that will take a long time, but is so far proceeding according to plan. The new Longhorn brand was introduced in the

Harm Reduction

During the past few years the term “harm reduction” has increasingly been a subject of discussion in international public-health circles as an alternative strategy for reducing the harmful effects of tobacco.

The background to the debate is the well-known fact that the world’s leading medical and scientific institutions hold the consumption of tobacco products responsible for much human suffering, illness and death. The debate has mainly focused on cigarette smoking, since this is the most commonly occurring form of tobacco use, and since it is regarded as causing the most illnesses, due to the repeated inhalation of smoke. But even smokeless tobacco products have not been viewed as harmless. Certain forms of smokeless tobacco have been regarded as causing a substantial risk of illness, albeit a lesser risk than from cigarette smoking.

Public health mission

There are more than a billion cigarette smokers in the world. To date, the strategies of the anti-smoking lobby have had a limited effect, and the World Health Organization (WHO) estimates that, given the current level of consumption, half a billion of the smokers still alive today will die as a direct result of cigarette smoking. Since there is nothing to suggest that tobacco consumption is likely to cease in the foreseeable future, it has become a prioritized public-health mission to tackle the problem. The question is how to reduce the harmful effects for those consumers who continue to use tobacco, in parallel with continued efforts to persuade children and young people not to begin smoking, to protect people from ambient tobacco smoke, and to encourage and facilitate smokers’ efforts to quit.

Recently, lively debate has focused on the issue of the varying health effects from different tobacco products and of the need, for this reason, to

have differing rules for specific tobacco products, leading to new legislative proposals in the US Congress and an EU initiative to address the issue. The motivation for these initiatives is naturally the belief that the harm caused by tobacco consumption can be reduced.

The general view is that earlier products, such as “light” cigarettes, failed to reduce the incidence of illness. Regulation of cigarettes is inevitably a difficult task, since it is the smoke from cigarettes that is so dangerous, and since this smoke consists of literally thousands of components working together. Accordingly, the risks are not necessarily reduced by reducing the levels of a few toxic substances. Moreover, it seems unlikely that any decisive reduction of the risk can be achieved as long as smoke continues to be inhaled.

Key role for Swedish snus

The question of how to reduce the degree of harm suffered by tobacco users has received considerably more attention during the past few years in

US during the year with good results.

Work is also continuing on preparations for the case to be heard in the European Court of Justice concerning the legality of the ban on the sale of snus in the EU. We consider it unreasonable that snus is prohibited while cigarettes are permitted. A judgment is expected in slightly more than a year.

During 2003, Swedish Match initiated consumer testing of Firebreak, its first gum based chewing tobacco product, in Japan. Firebreak was specially developed for adult smokers who are seeking a smokeless alternative. The tobacco used in Firebreak conforms to

Swedish Match's proprietary standards defining, among other criteria, the limit values for undesirable substances.

We can therefore describe 2003 as a year when we were able to take further important strategic steps along the way to developing the Group's long-term potential. Our unique expertise in the area of smokeless products gives us significant advantages in a world where more and more consumers are seeking alternatives to cigarette smoking. We are continuing to build a durable and stable enterprise that can grow in pace with social trends.

Stockholm, February 2004

Lennart Sundén
President and CEO



scientific publications and articles in the press, and at medical conferences. A number of researchers have advocated "harm reduction strategies," in which Swedish snus is seen as playing a central role. Part of the reason for this is that smokeless tobacco products display a totally different profile than cigarettes in terms of harmful effects. Consumption of smokeless tobacco does not involve any burning and inhalation of toxic substances, and this immediately eliminates a very large proportion of the illnesses ascribed to tobacco use. Furthermore, smokeless tobacco contains smaller numbers of undesirable substances than the smoke that results when tobacco is burned.

Swedish Match's goal-oriented research over a period of nearly 20 years shows that the content of nitrosamines and other potentially harmful constituents in smokeless tobacco can be reduced. The development of Swedish snus under the proprietary **GOTHIA TEK**® quality designation, with stringent limit values for undesirable constituents, shows that it is possible to apply the same process to

tobacco products as to food products. Based on this strategy, the Group is continuing to develop new alternative smokeless products, such as the tobacco-based chewing gum, Firebreak, which was test-launched in Japan last year.

GOTHIA TEK® the starting point

While Swedish Match does not maintain that smokeless tobacco is harmless, there is now a growing body of scientific literature that shows that a number of the health risks associated with smoking are nonexistent or minimal for users of Swedish snus. Scientific studies have been unable to demonstrate any measurable increased cancer risk associated with the use of Swedish snus. Researchers now point to **GOTHIA TEK**® as a starting point for harm-reduction strategies and new regulations for tobacco products.

Accordingly, Swedish Match's results in terms of improved snus technology are assuming increasing importance as the global health community tackles the question of how best to reduce the illnesses associated with tobacco. It is clear that many smokers

are either unable or unwilling to stop using tobacco, and Sweden's experience of inducing large numbers of smokers to switch to snus could contribute potentially valuable knowledge to an overall strategy for reducing the risk level.

Experience gained in Sweden shows that tobacco consumption does not necessarily result in a large number of illnesses. The regulations that apply in other sectors, such as food, pharmaceuticals and alcohol, suggest that different tobacco products will eventually be regulated in different ways, to make it easier for consumers to choose tobacco and other nicotine-containing products that involve a lower degree of risk.

It is likely that interest in this type of work will increase, and this in turn will foster cooperation between companies, legislators and public-health campaigners. The market for tobacco products could thus undergo as dramatic a change as occurred in the food and pharmaceuticals markets when scientifically based regulations came into force in these areas.

Long-term strategy in the tobacco area for sustainable value creation

Swedish Match has strong global positions in niche tobacco products, and in matches and lighters. The task of building up a unique tobacco company is continuing, step by step, with a focus on world-leading brands and niche products in growing markets, in harmony with consumer and social trends.

Strategic focus

Swedish Match's long-term strategies aim to achieve sustainable growth and profitability in order to create shareholder value. There is growth on a global scale in niche tobacco products, both organically and as a result of acquisitions within the Group's core areas. The company's strategies are designed to develop existing operations by broadening the product range and capturing new markets, while reinforcing positions in the core markets in Europe and North America.

Swedish Match is focusing on expanding the markets for snuff and other smokeless products. Cigar operations focus on global growth segments and segments in which the company's presence can be further enhanced. The aim is to develop chewing tobacco, pipe tobacco, match and lighter operations in order to strengthen cash flow.

The Group plans to optimize its capital structure through share repurchases and by other means, which will result in improved key ratios. The cost structure and the use of capital are to be rationalized on a continuous basis.

Market and industry conditions

The choice of strategies is governed by current market and industry trends, the most crucial of which are as follows:

- Attitudes to smoking are becoming increasingly negative in a growing number of countries. Political actions to reduce or eliminate smoking are on the increase, with outright bans on smoking in public places, restaurants and bars, restrictions on marketing, larger and tougher warning texts on tobacco packages, other than those for smokeless products, and higher taxation at the consumer level. These social trends are increasing the potential for smokeless tobacco.
- In parallel with these restrictive policies, "Harm Reduction" is being developed as an alternative way of reducing the harmful effects of smoking (see also pages 6–7). This strategy is supported by a number of independent tobacco researchers who consider that there are smokeless alternatives – primarily moist snuff (snus) – that achieve significant results in reducing the health risks of tobacco. Harm Reduction is attracting an increasing number of adherents. The arguments are based, among other factors, on the "Swedish Experience", that is to say the fact that Sweden has a considerably lower incidence of tobacco-related illnesses than other EU countries, despite a similar level of tobacco consumption, largely due to the use of snus rather than cigarettes. Sweden is also the first country to have succeeded in reducing the proportion of smokers to below 20 percent of the adult population.

- Cigar consumption experienced a world-wide renaissance during the 1990s, as an expression of a more socially acceptable form of tobacco consumption, mainly oriented toward enjoyment in connection with food and drink. This may, to some extent, be a result of reduced cigarette consumption, but it probably also reflects rising standards of living and opportunities for luxury consumption on special occasions. Market analyses indicate that the cigar market will continue to be stable.
- Other types of tobacco consumption, in the form of chewing tobacco and pipe tobacco, are declining, since the existing consumers are growing older without new consumers appearing. These products have excellent prospects for generating a satisfactory cash flow for some time to come.

Brands and distribution

The key strategic factors for Swedish Match are the Group's brand portfolio and its global distribution expertise and capacity. The Group has strong local, regional and global brands, which represent substantial values in terms of customer loyalty, investments and know-how in the areas of product and quality development, packaging, distribution, marketing and sales. The brand portfolio is also strengthened by the growing legal restrictions on the marketing of tobacco products. This makes it difficult to establish new brands, and thus increases the value of existing brand names.

Swedish Match's overall product portfolio provides a platform for and supports a strong position at the retail level. The acquisitions made in recent years have further increased the critical mass in the distribution area, providing competitive advantages and cost and revenue synergies. Brand and distribution expertise on a global scale give Swedish Match a strategic advantage in its focus on smokeless alternatives.

Value-creation model

Since 1998, Swedish Match has improved its operating income before items affecting comparability and divested operations by 55 percent to 2,224 MSEK. This has been achieved

partly by organic growth in the snuff product area, which increased its sales by 77 percent to 2,995 MSEK during the period, and partly as a result of a number of acquisitions, in particular pipe tobacco operations in South Africa and cigars in North America.

Improved earnings and a more efficient approach to tied-up capital resulted in a doubling of underlying cash flow from current operations to 2,638 MSEK.

The Group's cash flow provides scope for investments in future growth. Funds not required for such investments will be transferred to shareholders.

The Group's endeavors to optimize the capital structure are a key tool in

improving shareholder value, through the share repurchases program for example. The existing authorization by the Annual General Meeting allows for the possible repurchases of a maximum of 10 percent of the outstanding shares. As a result of share repurchases and redemptions since 1998, the number of shares has declined by 29 percent from 463 million to 328 million.

Swedish Match's value-creation initiatives have resulted in an increase in earnings per share before items affecting comparability from 2.26 SEK in 1999 to 4.68 SEK, an increase of 107 percent. Furthermore, the redemption of shares in 2001 gave shareholders an additional 1,169 MSEK.

Cash flow					
MSEK	1999	2000	2001	2002	2003
Operations					
Income after financial items	5,280	1,710	1,840	2,126	2,174
Depreciation and amortization	381	543	670	651	665
Capital gains reported under operating income	-4,102	-	-	-	-
Other	229	51	78	-53	49
	1,788	2,304	2,588	2,724	2,888
Taxes paid	-486	-590	-634	-241	-515
Cash flow from operations before changes in working capital	1,302	1,714	1,954	2,483	2,373
Cash flow from changes in working capital	27	-769	-345	102	265
Cash flow from operations	1,329	945	1,609	2,585	2,638

Group review

Net sales

Net sales for the year declined 4 percent to 13,036 MSEK (13,643). The snuff and pipe tobacco and accessories product areas reported increased sales, while sales declined in other product areas. Compared with the preceding year, lower exchange rates in translating foreign subsidiaries' income statements to SEK had an adverse effect on sales. Sales and operating income rose 3 percent in local currencies.

Sales of snuff continued to increase in the two most important markets. Volumes increased by 4 percent in Northern Europe and by 5 percent in the US, in terms of the number of cans sold. The company's market share in the growing US market amounted to 9.2 percent, according to Nielsen data, compared with 9.1 percent in the preceding year.

Sales of cigars declined by 9 percent, mainly as a result of currency effects in translating foreign subsidiaries' income statements to SEK. In local currency, sales increased in the US for both machine-made and premium cigars. Cigar sales weakened in Europe, especially toward the end of the year.

Sales of pipe tobacco and accessories increased by 8 percent, despite a slight decrease in volumes. Sales were affected positively by the strengthening of the South African rand against the SEK. Sales of chewing tobacco, which is mainly sold in the North American market, increased somewhat in local currency. Sales of matches declined by 15 percent, due to sharply reduced volumes in most of the major markets. Lighter operations are exposed to increasing competition from producers in low-cost countries, resulting in a negative impact on sales volumes.

Operating income

Operating income decreased by 6 percent to 2,224 MSEK (2,371). Earnings were affected negatively in an amount of 202 MSEK due to lower exchange rates in translation to SEK.

Operating income for snuff increased by 12 percent compared with the preceding year. The increase was due to higher volumes and an improved operating margin, but was mitigated by currency effects when translating foreign subsidiaries' income statements to SEK.

Operating income in the cigar segment declined by 25 percent, due to the negative impact of currency effects in an amount of 58 MSEK, weak sales in both Europe and the US at the beginning of the year and substantial legal costs for the premium cigar operations. Costs of approximately 30 MSEK related to the restructuring in the European operations were also charged against earnings.

Operating income for chewing tobacco declined by 17 percent and was on par with the preceding year in local currency. Operating income for pipe tobacco and accessories increased by 23 percent. Earnings were affected positively by, among other factors, the strengthening of the South African rand (ZAR) compared with the preceding year. The lower operating income for matches resulted from sharply declining volumes in a number of markets and negative currency effects. Lower volumes in lighter operations had a negative impact on earnings. The operating margin for the export of lighters produced in Europe also deteriorated as a result of currency movements.

Other operations

Other operations include the distribution of tobacco products in the Swedish market, sales of advertising products, corporate overheads, costs for business development and certain legal expenses. For the year, net expenses for other operations were 189 MSEK (181).

Research and development

Swedish Match conducts a certain amount of research in Sweden and the US, mainly related to the characteristics of the tobacco plant and tobacco. Costs of 100 MSEK (99) for research and development are included in the company's selling expenses.

Net financial expense

Net interest expense for the year amounted to 54 MSEK (expense: 229). Swedish Match uses interest swaps to a certain extent to cover the difference between borrowing at fixed and floating interest rates. Some of these swap arrangements were

Net sales and operating income by business area

MSEK	Net sales			Operating income		
	2003	2002	2001	2003	2002	2001
Snuff	2,995	2,788	2,457	1,386	1,233	950
Chewing tobacco	1,146	1,333	1,377	336	406	372
Cigars	3,008	3,318	3,481	393	522	500
Pipe tobacco and Accessories	909	843	933	201	164	236
Matches	1,395	1,648	1,690	83	221	183
Lighters	599	700	809	14	74	101
Other operations	2,984	3,013	2,888	-189	-181	-149
Subtotal	13,036	13,643	13,635	2,224	2,439	2,193
Items affecting comparability	-	-	-	-	-68	-80
Total	13,036	13,643	13,635	2,224	2,371	2,113

terminated during the year. The gain on termination amounted to 120 MSEK. Net interest was also affected positively in an amount of 61 MSEK (20) due to a positive forward-rate premium on currency hedging of shareholders' equity in subsidiaries.

Other financial items amounted, net, to 4 MSEK (expense: 16) and include a capital gain of 17 MSEK from the sale of securities.

Taxes

Total tax expense for the year amounted to 572 MSEK (648). Tax expense was positively affected by nonrecurring items.

Earnings per share

Earnings per share for the year improved by 14 percent to 4.68 SEK (4.10).

Distribution of surplus funds

Dividend

Swedish Match's dividend policy is that the dividend should largely follow the trend of the Group's net profit. When establishing a dividend, the size of planned repurchases of shares is also taken into account. It is estimated that the dividend amount will be between 30 percent and 50 percent of net profit.

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of 1.70 SEK per share (1.60) be distributed to shareholders. This corresponds to a total of 558 MSEK (535), calculated according to the number of shares outstanding at year-end. The proposed dividend amounts to 36 percent (37) of net profit for the year.

Repurchase of Company shares

A repurchase of shares is, in principle, a reverse new share issue and makes it possible to work continuously to optimize the capital structure in the balance sheet. In view of Swedish Match's stable and positive cash flow, the position of the Board of Directors with regard to repurchase of shares is positive.

The size and scope of share repurchases depends, in exactly the same way as the size of the dividend, on Swedish Match's financial position, net profit, anticipated future profitability, cash flow, investments and expansion plans. Other factors that affect repurchases are the price of the shares, the Group's interest and tax expenses, and the earnings available for distribution.

Summary of income statement

MSEK	2003	2002	2001
Net sales	13,036	13,643	13,635
Operating income	2,224	2,371	2,113
Net financial expense	-50	-245	-273
Taxes	-572	-648	-589
Minority interest	-44	-49	-23
Net income for year	1,558	1,429	1,228
Earnings per share, SEK	4.68	4.10	3.40

Summary of balance sheet

MSEK	2003	2002	2001
Fixed assets	7,126	7,689	8,430
Inventories	2,676	3,154	3,753
Current receivables	2,634	2,588	2,834
Liquid funds	2,666	2,016	1,606
Total assets	15,102	15,447	16,623
Shareholders' equity	4,010	4,007	4,105
Minority interests	597	686	767
Provisions	2,119	2,293	2,311
Long-term liabilities	4,601	4,603	5,150
Current liabilities	3,775	3,858	4,290
Total shareholders' equity and liabilities	15,102	15,447	16,623
Operating capital	8,818	10,036	11,227
Net debt	2,715	3,492	4,410

Summary of cash flow

MSEK	2003	2002	2001
Cash flow from operations	2,638	2,585	1,609
Cash flow from investment activities	-625	-717	-1,520
Cash flow from financing activities	-1,327	-1,366	-1,453
Cash flow for the year	686	502	-1,364
Liquid funds, at the beginning of the year	2,016	1,606	2,960
Translation differences in liquid funds	-36	-92	10
Liquid funds at year-end	2,666	2,016	1,606

Share structure

At the Annual General Meeting on April 25, 2003, approval was given for a reduction of the share capital in an amount of 24 MSEK by canceling 10 million shares. This reduction was registered in October. Following the reduction, the Company's share capital amounts to 843.8 MSEK, represented by 351,596,181 shares, each with a par value of 2.40 SEK. During the year 15,276,727 shares were repurchased at an average price of 62.83 SEK. Overall, the shares repurchased over time have been purchased at an average price of 46.44 SEK. In addition during 2003, 1,604,727 previously repurchased shares were sold when holders of options exercised their redemption rights. At December 31, 2003, the company held 23,263,000 of its own shares, corresponding to 6.6 percent of the total number of shares. During the year, the company held an average of 26,583,638 shares, compared with 21,408,074 shares during full-year 2002. The total number of shares outstanding, net after buybacks, amounted to 328,333,181 at year-end. In addition, the company held issued call options on its treasury shares corresponding to 6,001,950 shares, with exercise successively from 2004 to 2008.

As approved by the shareholders at the Annual General Meeting, the Company has a mandate to repurchase its own shares in such numbers that the Company's holding at any given time does not exceed 10 percent of all the shares in the Company. The Board of Directors will be proposing to the Annual General Meeting in April 2004 that the mandate to repurchase shares up to 10 percent of all the shares in the Company be renewed. It will also be proposed that 15,000,000 previously repurchased shares be cancelled. Repurchased shares may, as an additional alternative to cancellation, be used to acquire companies and to cover options issued within the framework of the Company's options program.

Liquid funds

At December 31, 2003, cash and bank deposits plus short-term investments amounted to 2,666 MSEK, compared with 2,016 MSEK at the beginning of the year. In addition to liquid funds, Swedish Match has confirmed lines of credit amounting to 2,266 MSEK.

Financing

Interest-bearing loans amounted to 5,381 MSEK at December 31, 2003. The Group's main financing is effected through a Swedish medium-term note program of 4,000 MSEK and a global medium-term note program with a framework amount of 1,000 MEUR. Utilization of these programs amounted to 4,860 MSEK at December 31, 2003.

Equity/assets ratio and net debt/equity ratio

At the end of the fiscal year, the Group's equity/assets ratio amounted to 30.5 percent, compared with 30.4 percent a year earlier. The objective is to have an equity/assets ratio of between 25 and 30 percent over the long term.

At the end of the period, the Group had interest-bearing loans that exceeded liquid funds by 2,715 MSEK. The corresponding amount at the end of the preceding year was 3,492 MSEK. The net debt/equity ratio – that is, net debt as a percentage of shareholders' equity and minority interest – thus amounted to 58.9 percent at December 31, 2003.

The net debt/equity ratio should not exceed 100 percent over the long term.

Investments

The Group's direct investments in tangible fixed assets amounted to 551 MSEK (751). Notable major investments included the new snuff plant on the outskirts of Gothenburg in Sweden, as well as rationalization investments in the cigar product area. Total depreciation and amortization amounted to 665 MSEK (651), of which depreciation of tangible fixed assets amounted to 346 MSEK (324) and amortization of intangible assets amounted to 319 MSEK (327). The amortization of intangible assets comprised 107 MSEK relating to brands, etc. and 212 MSEK relating to goodwill.

Tobacco tax

In Sweden during the past 12 months, the Group has paid tobacco taxes and value-added tax on tobacco tax totaling 10,098 MSEK (10,352).

Financial instruments and financial risk management**Operations**

As a result of its international operations, Swedish Match is exposed to financial risks. The term "financial risks" refers to the fluctuations in Swedish Match's cash flow that are caused by changes in foreign exchange rates and interest rates, and to risks associated with refinancing and credit.

To manage its financial risks, Swedish Match has a finance policy that was established by the Board of Directors. The Group's finance policy comprises a framework of guidelines and rules governing the management of financial risks and finance operations in general. Responsibility for the Group's financing, financial risk management and other finance-related matters is mainly centered in the Parent Company's Treasury Department. The Swedish Match Group's financial operations are centralized to exploit advantages of scale and synergy effects and to minimize operating risks.

Financial instruments

Swedish Match uses various types of financial instruments to hedge the Group's financial exposure that arises in business operations and from the Group's financing and asset and debt management activities. In addition to loans, investments and spot instruments, derivative instruments are also used in order to reduce Swedish Match's financial exposure. The most frequently used derivative instruments are currency forwards, currency swaps and interest rate swaps.

Currency risks

Exchange-rate fluctuations affect Group earnings and shareholders' equity in various ways:

- Earnings – when sales revenues and production costs are denominated in different currencies (transaction exposure).
- Earnings – when the earnings of foreign subsidiaries are translated to SEK (translation exposure).
- Shareholders' equity – when the net assets of foreign subsidiaries are translated to SEK (translation exposure).

Transaction exposure

For the Group as a whole, there is a balance between inflows and outflows in the major currencies EUR and USD, which limits the Group's transaction exposure.

Such transaction exposure as exists arises when certain of the Group's production units in South Africa and Europe make purchases of raw tobacco in USD, and through the European operations' exports of lighters and matches in USD.

The anticipated commercial currency flow after net calculation of the reverse flows in the same currencies (transaction exposure) amounts to approximately 400 MSEK on an annualized basis.

Swedish Match's policy for managing the Group's transaction exposure is to hedge inward and outward flows in foreign currency within certain frameworks. The hedging transactions are initiated via currency forward contracts with durations of up to 12 months and related to projected currency flows. Currency hedging of the Group's transaction exposure had a positive effect of 6 MSEK on earnings during 2003. On December 31, 2003, approximately 30 percent of net exposure for 2004 was currency hedged as follows:

Bought/sold	Amount*	Currency	Countervalue in SEK
Sold	14	USD	102
Sold	2	EUR	18
		Total	120

* Currency in millions

Translation exposure

The most significant effect of currency movements on consolidated earnings arises from the translation of subsidiaries' earnings. Earnings in Group companies are translated into average exchange rates. Significant effects mainly pertain to USD, EUR, the Brazilian real (BRL) and the South African rand (ZAR). The single most important currency is the USD.

When the net assets of foreign subsidiaries are translated to SEK, translation differences arise that are entered directly under shareholders' equity. Swedish Match does not, as a rule, hedge shareholders' equity in foreign subsidiaries. During the year, however, most of the shareholders' equity in two of the Group's US units was hedged.

Interest-rate risk

The Swedish Match Group's sources of financing mainly comprise shareholders' equity, cash-flow from current operations and borrowing. Interest-bearing loans result in the Group being exposed to interest-rate risk. Changes in interest rates have a direct impact on Swedish Match's net interest expense.

Swedish Match's policy is that the average maturity period should not exceed 12 months. The major portion of the Group's borrowing was originally assumed at a fixed interest rate but subsequently converted to a floating rate by means of interest rate swaps. How rapidly a permanent change of interest rate impacts on net interest expense depends on the interest maturity periods of the loans. On December 31, 2003, the average interest maturity period for Group loans was 2.4 months, with interest rate swaps taken into account.

Refinancing risk and liquidity

Refinancing risk is defined as the risk of not being able to make regular payments as a consequence of inadequate liquidity or difficulty in raising external loans. Swedish Match tries to create both financial stability and flexibility in connection with its borrowing, and not to be dependent on individual sources of financing.

During 2003, Swedish Match procured a new five-year committed credit facility of 250 MEUR, which was unutilized at year-end. The credit facility includes a borrowing restriction – or covenant – that operating income after financial items plus interest expense, divided by interest expense (interest coverage ratio) must amount to at least 3.0. For 2003, the interest coverage ratio was 8.7.

At year-end 2003, cash funds and guaranteed credits amounted to 4,932 MSEK, of which 2,266 MSEK comprised lines of credit and the remaining 2,666 MSEK comprised liquid assets.

The greater part of Swedish Match's medium-term financing consists of a Swedish medium-term note program with a framework amount of 4,000 MSEK and a global medium-term note program with a limit amount of 1,000 MEUR. The programs are uncommitted borrowing programs and their availability could be limited by the Group's creditworthiness and the prevailing market conditions. At December 31, 2003, a total of 1,482 MSEK of the Swedish program and 3,378 MSEK of the global program had been utilized.

The average maturity structure of the Group's borrowing at December 31, 2003 amounted to 2.6 years. Swedish Match's sources of loans and their maturity profiles are distributed as follows:

MSEK	Swedish MTN	Global MTN	Other loans	Total
2004	60	541	244	846
2005	500	128	276	904
2006	–	2,527	1	2,528
2007	299	–	–	299
2008	623	91	–	714
2009–	–	91	–	91
Total	1,482	3,378	521	5,381

Under the Swedish bond program, Swedish Match issued bonds in SEK, and under the global program, in EUR. Borrowing in EUR is currency hedged through currency swaps and currency interest rate swaps. The average interest rates for outstanding borrowing (including derivative instruments) on December 31, 2003 amounted to:

Percent	2003	2002
Swedish MTN	3.9	4.5
Global MTN	4.9	5.0
Other loans*	7.3	9.9

* Other loans relates to loans mainly in South Africa and India.

Liquidity risks and credit risks

To limit liquidity and credit risks, investments and transactions in derivative instruments may be made only in instruments with high liquidity and with counterparties who have high credit ratings. In addition to bank accounts, Swedish Match invests surplus funds mainly in treasury bills and bank certifi-

cates, as well as in certain approved securities with approved counterparties. At December 31, 2003, the average fixed-interest term for Group investments was approximately 1.5 months.

At December 31, 2003, the Group's surplus funds were invested in the following instruments:

MSEK	2003	2002
Book value		
Treasury bills	616	492
Bank certificates	149	518
Mortgage certificates	398	–
Other financial investments	6	17
Cash and bank balances	1,497	989
Total	2,666	2,016

The Group's finance policy regulates the maximum credit exposure to various counterparties. The aim is that counterparties to Swedish Match in financial transactions should have a credit rating of at least A from Standard & Poor's or Moody's.

To reduce the credit risk in receivables that arise at banks via derivative instruments, Swedish Match has entered into netting agreements, known as ISDA Master Agreements, with all of its counterparties. At December 31, 2003, credit exposure in derivative instruments amounted to 536 MSEK.

Swedish Match has no concentration of credit risks in accounts receivable.

Credit ratings

In June 2003, the rating institution Moody's Investor Service upgraded the company's long-term rating from Baa 1 (positive outlook) to A3 (stable outlook). At December 31, 2003, Swedish Match was rated as shown below by Standard & Poor's and Moody's Investor Service:

	Standard & Poor's	Moody's
Long-term rating:	A–	A3
Outlook:	Stable	Stable

For further information about financial instruments, see Notes 14, 18 and 24 on pages 50, 51 and 53.

Transition to International Financial Reporting Standards (IFRS)

As from 2005, Swedish Match, in common with other exchange-listed companies within the EU, will prepare its financial reports in accordance with IFRS. Accordingly, the annual report for 2004 will be the last annual report to be prepared in accordance with the Swedish Financial Accounting Standards Council's recommendations. The interim report for the first quarter of 2005 and the annual report for 2005 will include a reconciliation between the balance sheets and income statements for 2004 in accordance with IFRS and in accordance with the company's present accounting principles.

The Swedish Financial Accounting Standards Council's recommendations have gradually moved closer to IFRS. A number of differences still remain between the Council's recommendations and IFRS. The number of differences is increasing as a result of the changes to IFRS currently being implemented. Not all of the IFRS that will be applied in 2005 are available as yet in their definitive form. Swedish Match is continuously following developments to facilitate adaptation to the new regulations. Based on what is known to date, the major differences between the present accounting principles and the incoming IFRS will be as follows:

- Reporting of pensions (this difference has disappeared with the introduction of the Swedish Financial Accounting Standards Council's recommendation RR 29, effective January 1, 2004).
- Reporting of financial instruments, which means that a greater number of instruments will be reported at their fair value. The requirements regarding the reporting of hedging will also be tightened.
- Goodwill and certain intangible assets will no longer be amortized. Instead, it will be obligatory to annually test for impairment.
- Growing forest will be reported at fair value. Today, growing forest is valued at cost.
- Employee options programs must be expensed at their market value at the time of issue.

The company's financial reports will also be affected by the changed requirements in IFRS regarding classifications and disclosures. These changes could also affect key figures. However, the company has not progressed sufficiently far with the introduction of IFRS to be able to quantify these differences.

Swedish Match is currently reviewing its reporting procedures to facilitate the collection of the data that will be needed for reporting in accordance with IFRS. During 2004, the company will also gather the information that will be used for comparable amounts in the interim reports and annual report for 2005. Since mid-year 2003, a number of working groups have been studying these issues. Swedish Match plans to test the new principles during the second half of 2004.

Initial training of the personnel involved has been implemented and will be supplemented on an ongoing basis during 2004.

Events after the close of the fiscal year

After the close of the fiscal year, the previously announced sale of the profile clothing distribution operations to New Wave Group was implemented. The liquidation produced a zero result. By the sale Swedish Match received an amount of 113 MSEK through the selling price and the repayment of loans granted. During 2003, the divested operations had sales of 150 MSEK.

The Board of Directors of Swedish Match has decided to continue with the restructuring program for match operations in Europe. The program is expected to proceed during 2004 and 2005. An amount in the order of 100 MSEK will be charged against earnings during 2004.

Bonus and options program

Introduction

In addition to their basic remuneration, senior executives within the Group have both a short-term incentive program in the form of bonuses and a long-term incentive program in the form of options in Swedish Match AB. Both incentive programs are performance-based, and the cost of the programs has a fixed upper limit. The amount of the bonus is based on the increase in earnings per share, except for division presidents, for whom part of the bonus amount is based on the increase in operating income in their respective areas of responsibility. The allocation of options is based partly on the increase in earnings per share and partly on the return on the share compared with the return on the shares of a selection of other companies in the industry. This reflects the view of the Board of Directors that the Group's incentive programs for senior executives should be based on measurable increases in shareholder value.

Bonuses

The bonus program for 2003 can give a maximum of 35 to 50 percent of the basic salary, as shown in the table below. For the maximum allocation to be paid for the earnings-per-share factor, earnings per share must increase by at least 20 percent compared with the preceding year. An additional requirement for division presidents to receive their bonuses is that operating income must improve in their respective area of responsibility, compared with the preceding year.

Percent	Maximum bonus as percentage of fixed cash salary	Basis of allocation	
		Earnings per share	Own division's earnings
President	50	50	
Executive Vice President	40	40	
Division Presidents	35	17.5	17.5
Heads of Group Staff	35	35	

Options

The long-term program comprises an options program whereby the options allocated have a lifetime of five years. The options can be redeemed during the fourth or fifth year. During 2003, 57 executives were participating in the options program.

The requirements for the allocation of options in any given year are as follows:

- that the total return on Swedish Match shares is positive, and better than the return on the shares of a selection of other companies in the industry, with a maximum allocation at a return that is 20 percent higher than the average of the returns on the other companies' shares.
- that earnings per share increase and are higher than the average for the three most recent years, with a maximum allocation at a per-share earnings figure that is 20 percent higher than the average over the preceding three years.

Both of these requirements (a positive total return that is higher than competitors' returns and increased earnings per share) are equal in weight. If the conditions relating to earnings have been met, the eligible executives are granted options. The options are assigned a market value in accordance with the Black-Scholes model and are issued without cost to the recipient. The options are irrevocable at the time of allocation. The value of the options allocated amounts to not more than 30 percent of the basic remuneration amount for the executives participating in the program. The exercise price for the options amounts to 120 percent of the average price for the Company's shares during a ten-day period close to the date of allocation following publication of the accounts for the year.

As part of the options program, 1,428,490 call options were issued during the first half of 2003. They may be exercised during the period from March 1, 2006 to February 28, 2008. Each option entitles the holder to purchase one

share at an exercise price per share of 74.00 SEK. Using the Black & Scholes model, the fair value of these options was calculated to be 8.40 SEK per option, or a combined total of 12 MSEK. Since the options were issued by Swedish Match AB, the amount in question was not expensed. However, the withholding tax and social security expenses that are paid at the time of allocation if applicable are expensed. This sum amounted to 6 MSEK for 2003.

The company hedges issued call options through repurchases of its own shares. During the year, 1,604,727 company-owned shares were sold to cover option-holders' redemption of previously issued options. As a result, the number of outstanding call options written on the company's own treasury shares amounted, at December 31, 2003, to a total of 6,001,950 shares, as shown in the table below.

Pensions

During 2003, the President was covered by a defined-benefit pension plan, according to which, from age 60 to 65, retirement pension benefits are paid at 70 percent of pensionable salary, and from age 65, at 45 percent of pensionable salary.

For other members of Group management, the normal pensionable age varies between 60–65 years.

Between 60 and 65 years of age, pensions are paid, if applicable, at 70 percent of pensionable salary. Eight other members of Group management have defined-benefit pension plans, while two have defined-contribution plans.

In the case of defined-benefit plans in Sweden, the retirement pension under the ITP plan is payable at a rate of 30 percent on portions of salary up to 30 base amounts and at a rate of 32.5 percent on portions of salary above 30 base amounts.

In Sweden, pension benefits on portions of salary up to 30 base amounts are funded in Swedish Match's PSF superannuation fund. Retirement pension benefits on portions of salary above 30 base amounts are funded in Swedish Match's Pension Foundation. Pension benefits of members of Group management outside Sweden are normally funded in the local unit's pension plan.

In most cases, pensionable salary refers to the fixed cash salary amount plus the average of the bonuses paid in the three preceding years. Variations may occur, depending on the country where the retiree has been working. When calculating pensionable salary, the annual bonus may in no case amount to more than 35 percent of the fixed cash salary amount. All pension benefits are irrevocable.

Options outstanding at December 31, 2003

Exercise period	Exercise price	Number of shares	Redeemed	Net outstanding
March 13, 2003 – March 14, 2005	34.70	2,847,108	1,604,727	1,242,381
March 13, 2004 – March 14, 2006	44.50	1,812,309		1,812,309
March 15, 2005 – March 15, 2007	77.50	1,518,770		1,518,770
March 1, 2006 – February 28, 2008	74.00	1,428,490		1,428,490
		7,606,677	1,604,727	6,001,950

Corporate Governance



Management and control of the Swedish Match Group is apportioned between the shareholders at the Annual General Meeting, the Board of Directors and the President, pursuant to the Swedish Companies Act and the Articles of Incorporation. External auditors are elected at the Annual General Meeting.

Annual General Meeting

The Annual General Meeting of 2003 elected the Board of Directors proposed by the Nominating Committee. Board members Bernt Magnusson, Jan Blomberg, Tuve Johannesson, Arne Jurbrant, Lennart Sundén, Meg Tivéus and Klaus Unger were reelected by the Annual General Meeting. The employee organizations appointed Kenneth Ek, Eva Larsson and Joakim Lindström as representatives, and Christer Hylén, Lennart Johansson and Stig Karlsson as deputies.

Nominating Committee

The Annual General Meeting also annually elects members of the Nominating Committee, whose task is to prepare and submit proposals to the Annual General Meeting for the election of Board members and the size of the fees paid to Board members. The committee meets as often as necessary, but at least once each year. In 2003, the Annual General Meeting appointed the following members to the committee: Bernt Magnusson (Chairman), Björn Franzon (Executive Vice President of the National Pension Insurance Fund, Fourth Fund Board), who were reelected, and Marianne Nilsson (Deputy Securities Manager, Robur) and Staffan Greffäck (President of Alecta Asset Management), who were newly elected.

Board of Directors

All members of the Board of Directors of Swedish Match AB, except the President, are independent of the company. The Board of Directors of Swedish Match AB has established an agenda that includes instructions for the allocation of duties between the Board and the President, as well as instructions for financial reporting. The Board convenes annually for the statutory meeting and five ordinary meetings. Four of the ordinary meetings are scheduled to coincide with the publication dates for financial reports. The fifth ordinary meeting, held in December, concentrates on a review of the budget. The company's auditors attend the meeting at which the year-end financial report is presented in order to inform the Board of points noted during the audit. In addition to the ordinary meetings, the Board is called to other meetings when the situation requires.

The Board of Directors monitors the President's performance of his obligations, is responsible for ensuring that the company's organization fulfills its purpose, and conducts continuous evaluations of the company's procedures and guidelines for management and investment of the company's funds. The Board also approves the strategic plan, the budget and the year-end financial report for the company and the Group, and continuously monitors the development of operations during the year. The Board of Directors makes decisions on major investments and divestments.

Each year, at least one trip is organized to one of the company's major plants.

The Board of Directors held its statutory meeting for 2003 on the same day as the Annual General Meeting. The statutory meeting passed its ordinary resolutions concerning election of the Chairman (Bernt Magnusson), the secretary

(Bo Aulin) and signatory rights. Two members of the Board may sign jointly on behalf of the company, as well as a limited number of senior company employees, two of whom may sign jointly. The President is always authorized to sign on behalf of the company in matters related to day-to-day management of the company's operations.

The number of Board meetings held during 2003 was 10, including one meeting held via remote connections (per capsulam). In addition to monitoring business operations in relation to budget and strategic plans, and strengthening the company's systems for management and control, the Board also devoted a significant amount of time to consideration of the company's strategic orientation, social and market issues, follow-up of acquisitions, the distribution of surplus funds, and the company's incentive and benefit structures.

During 2003, the Board approved the Code of Ethics, the Policy on Related Party Transactions and the document setting forth Disclosure Control and Procedures.

Chairman

The Chairman leads the work of the Board and ensures that other Board members at all times receive all the information required to ensure that the quality of Board work is maintained and that the Board is exercising its duties as stipulated in the Swedish Companies Act. The Chairman represents the company in matters regarding ownership.

Remuneration Committee

The Remuneration Committee of the Board of Directors is appointed from within the Board and is charged with discussing and resolving issues concerning salaries and other terms of employment, pension benefits and bonus systems for the President and the management personnel who report



directly to the President, and other remuneration issues that involve matters of principle. However, the Board now decides in corpore (excluding the President) on committee proposals concerning remuneration for the President, as well as in certain other remuneration issues that involve matters of principle or are otherwise especially important, for example option programs and profit-sharing systems. The Committee meets as often as required, but at least twice a year. Eight meetings were held during 2003. The Chairman of the Remuneration Committee is Chairman of the Board Bernt Magnusson. Other members during the year were Jan Blomberg, Klaus Unger and Lennart Sundén. However, Lennart Sundén did not participate in decisions regarding his own employment terms. It is incumbent upon the Chairman of the Remuneration Committee to periodically update the Board of Directors on the progress of its work and the decisions taken. The Committee carried out its tasks with the support of external expertise regarding the issue of remuneration levels and structures.

Control and audit

The Board of Directors has overall responsibility for the company's internal control system, the purpose of which is to secure shareholders' investments and Group assets, and ensure that proper accounts are prepared and that financial information used for internal purposes and for publication is reliable. The system is designed to make sure that operations run efficiently and that laws and regulations are upheld. However, the internal control system cannot totally guarantee against significant nonconformances or losses.

The company uses several methods to continuously supervise and control risks associated with its operations. Identification and evaluation of the greatest risks affecting the Group's operations is an

ongoing process. Furthermore, the Board of Directors also performs assessments and ensures that the operative agenda is focused on the most decisive risks.

External auditors proposed by the Audit Committee are elected for a term of four years by the Annual General Meeting. Åke Danielsson and Göran Tidström of Öhrlings PricewaterhouseCoopers were elected external auditors until the Annual General Meeting in 2004.

Audit Committee

The duty of the Board's Audit Committee is to supervise the routines for accounting, financial reporting and audit within the Group. The Audit Committee scrutinizes the quality and accuracy of the Group's financial accounts and related reports, the procedures for internal financial controls within the Group, the work, qualifications and independence of the auditors, the Group's fulfillment of requirements in line with pertinent statutes and other regulations and – should the occasion arise – transactions between the Group and affiliates. The Committee also discusses other significant issues related to the company's financial reporting, and submits its observations to the Board of Directors. The Committee is required to meet at least six times a year. Six meetings were held during 2003. Audit Committee members during 2003 were Jan Blomberg (Chairman), Arne Jurbrant and Meg Tivéus.

During 2003, the Board of Directors approved the document Policy on Related Party Transactions, compliance with which it is the Audit Committee's task to oversee.

President

The President manages the company's operations within the framework established by the Board of Directors. The President prepares the required information and documentation prior to Board

meetings and submits reasoned proposals for decisions by the Board. The President also provides Board members, on a monthly basis, with the information required to monitor the company's and the Group's position, operations and development, while also providing the Chairman with continuous information regarding the company's operations.

Group Management

The President leads Group management's work and, after consultations with its members, makes decisions regarding business operations. Group management consists of all division managers and heads of Group staffs, a total of 11 members. Executive management meetings are held during one or two days each month. Many of the meetings are scheduled to coincide with visits to various Group units. The President also conducts business review meetings with all divisions of Swedish Match, three times per year with each division, in accordance with a rolling schedule.

Disclosure Committee

Pursuant to the requirements set by the US Sarbanes-Oxley Act, the President has appointed a Disclosure Committee, whose primary task is to examine and verify all external reports, including year-end financial statements and annual reports, in both the Swedish version and the English-language version as stipulated in Form 20-F in the US, as well as corporate press releases. The heads of Investor Relations, Corporate Control, Corporate Communications and Group Corporate Affairs (Bo Aulin) have been appointed as members of this committee, with the latter designated as chairman.

The document Disclosure Controls and Procedures sets forth the Group's structure and systems for reporting, follow-up and control.



Continued strong growth for snuff



Sales and earnings in 2003

Sales increased by 7 percent to 2,995 MSEK (2,788). Sales in local currency increased by 12 percent. Operating income increased by 12 percent to 1,386 MSEK (1,233). The increase resulted from higher volumes and an improved operating margin, but currency effects from the translation of foreign subsidiaries' operating income to SEK had a negative impact. The operating margin amounted to 46 percent (44).

Market

Snuff has been consumed for centuries in the Nordic region, North America, Africa and Asia. Growing health awareness, combined with restrictions on smoking in an increasing number of countries worldwide, has increased the market potential for smokeless alternatives. In scientific and medical circles, smokeless tobacco products – particularly Swedish snus – are increasingly recognized as an effective alternative to cigarette smoking, with a significantly lower health risk. The concept of “The Swedish

Experience” has become established in public-health circles and can be summarized as high snus consumption, low cigarette consumption and a lower incidence of tobacco-related illness. The trend is attracting interest in the media, other tobacco companies and the research world, and among public-health representatives.

Northern Europe

Swedish Match's sales amounted to 223 million cans, a volume increase of 4 percent compared with 2002, measured in terms of the number of cans. Portion-packed snus continued to increase its share of the market and today accounts for more than 50 percent of total sales.

There are more than a million snus consumers in Sweden, the largest market in Northern Europe. According to market research company Temo, one in five snus users is a woman, which represents a doubling of the number of female snus consumers over the past five years. The majority of new snus users are former

2003 in brief

- **Increased sales and higher margins.**
- **New snus plant placed in operation in September.**
- **Continued favorable growth.**

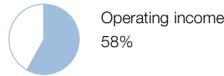


Key ratios, MSEK	2003	2002	2001
Sales	2,995	2,788	2,457
Operating income	1,386	1,233	950
Operating margin, %	46	44	39
Investments in tangible assets	219	424	238
Average operating capital	1,180	735	650
Average number of employees	908	825	846

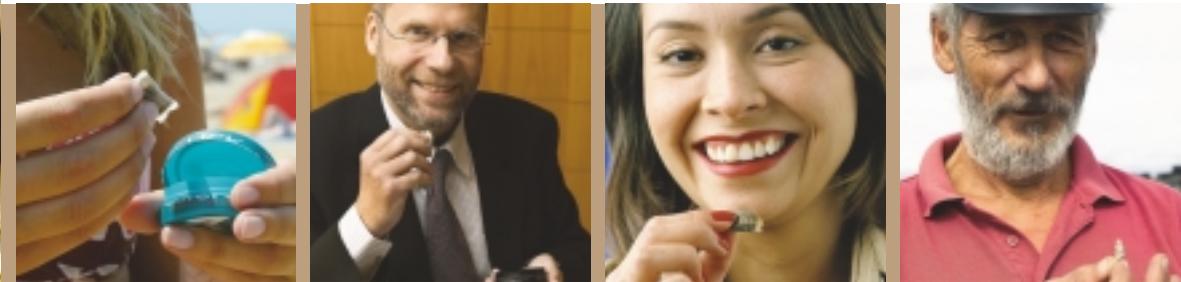
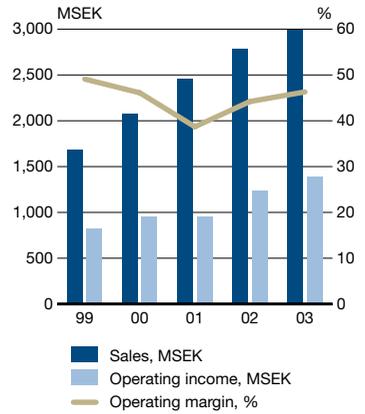
Production units
Sweden, USA and South Africa.

Main brands
Ettan, General, Catch, Grovsnus, Göteborgs Rapé, Timber Wolf, Longhorn, Renegades and Taxi.

Share of Group



Sales and earnings



smokers. Surveys show that snus users earn more and have a higher level of education than smokers. Swedish snus has made a unique class migration. After once being more or less eclipsed by the competition from cigarettes and something of a poor man's symbol, snus has bounced back as a smokeless alternative. In terms of volume, sales have more than doubled since 1970. Snus is now socially accepted in all social groups.

The two most important sales channels are supermarkets and convenience stores.

Swedish Match is by far the largest player in Sweden, with an estimated market share of 98 percent. In addition to Swedish Match, there are now a number of relatively small players, in this context, in the Swedish market, including the major international tobacco company Gallaher.

Swedish Match is also the largest player in the Norwegian market, where sales showed a solid increase during 2003. At the beginning of the year, the

Group established its own sales office in Oslo. As in the Swedish market, distribution is primarily via supermarkets and convenience stores.

Swedish Match's largest brands in Northern Europe are General, Ettan, Grovsnus and Catch.

At mid-year, General and Grovsnus were launched in two new product variants in Sweden: General White Portion and Grovsnus White Portion. The new products are based on new production technology for portion-packed snus, whereby the product retains its flavor for longer and runs less. The new technology also keeps the portion bags whiter than the traditional bags. The cans were also given a new double lid, creating an extra space in the lid where used portion bags can be placed.

In Norway, Göteborgs Rapé was launched in two product variants – loose-weight snus and White Portion – during the second half of the year.

To cope with increasing demand, a new snus plant was placed in operation

during the year. The plant, located in Kungälv, in western Sweden, is the world's most advanced snus production plant.

North America

According to market survey company AC Nielsen, the North American market, the largest market in the world for snuff, increased by 5.7 percent during 2003, which was slightly more than the average growth rate of 2–3 percent by volume during the past few years. Swedish Match's sales increased by 5



percent in terms of volume. Total consumption in the market amounted to approximately 880 million cans.

Swedish Match is one of four major players in the market, with a market share of 9.2 percent (9.1), according to AC Nielsen. Other competitors include US Smokeless Tobacco Company (USST), a subsidiary of the exchange-listed company US Tobacco, and the privately owned companies Conwood and Swisher. Competition is intense, with virtually non-stop sales campaigns, discount offers and other stratagems, at or perhaps exceeding the limit of what is permissible. The situation has led to lawsuits against USST.

Swedish Match's Timber Wolf is the leading brand in the growing value-priced segment. Sales of Timber Wolf continued to increase during the year, but at a slightly slower rate than during the preceding year. The brand's share of the market amounts to 8.9 percent, according to AC Nielsen data. Swedish Match's product portfolio also includes the portion-packed snuff brand Rene-

gades. Swedish Match's total snuff sales increased by 5 percent in terms of the number of cans sold.

Longhorn, a value-priced snuff brand, was introduced during the third quarter and was well received. Longhorn is sold in the flavor variants Long Cut Wintergreen and Fine Cut Natural.

The Exalt snuff brand that was test-launched earlier is clearly marketed as a tobacco product for smokers seeking an alternative to cigarettes. The product was developed in accordance with the principles of Swedish Match's **GOTHIA TEK**® quality standard. Sales of Exalt continued, with expanded distribution during 2003.

Convenience stores and discount stores specializing in tobacco products are the main distribution channels for snuff in the North American market.

South Africa

Southern Africa is an important market for snuff. Swedish Match has been the second largest player in the South African market since 1999, when the

Group acquired Leonard Dingler, whose Taxi brand is among the market leaders. The product variant Taxi Gold was launched during the year.

Swedish Match's tobacco products in South Africa are supplied directly, via the company's own sales organization, to wholesalers, cash-and-carry stores and supermarkets. The Group also has its own sales company, which distributes the Group's other products, such as cigars and lighters.

Since availability is vitally important for sales of Swedish Match products in South Africa, measures were taken to improve distribution efficiency during the year. To increase proximity to customers, simple container stores were set up at various locations in Johannesburg and Pretoria. Trials were also initiated in which the products are distributed to customers in the suburbs via mini-buses and salespersons on bicycles.

Continental Europe

In the markets for dry nasal snuff, Swedish Match sells the brands Single-



Longhorn snuff was launched on the US market at the end of 2003. Longhorn is sold in two product variants – Long Cut Wintergreen and Fine Cut Natural.

ton's, Kensington and Rumney's in Germany, Switzerland, Austria, Italy and France. During the year, the Singleton's brand was expanded with the launch of a nasal snuff with a peppermint aroma.

India

Sales of Swedish snus in India continued with the launch of the new product variant Click Cardamom during the first half of the year. The new variant joins those already sold by Swedish Match in the Indian market: Click Eucalyptus, Click Licorice and Click Original. The snus is sold in small cans containing ten portion bags, as well as in sachets – smaller packages containing only two bags – which is an adaptation to Indian purchasing behavior. The products are distributed in India by the company's own sales force to kiosks and local stores. During the year, operations were concentrated to the channels and sales locations considered to have the best potential. Both the price levels and the sales value are low for these products in India.

Russia

A decision was made in autumn 2002 to test-launch Swedish snus in Moscow. The launch was implemented at around 100 sales locations – all equipped with Swedish Match coolers – in tobacco stores, supermarkets and service stations. During 2003, the test launch was expanded to include St. Petersburg. The products have been well received and further expansion will be implemented.

European Union

Sales of moist snuff for oral use were forbidden within the European Union in 1992. Among the reasons for the decision was the claim that oral snuff was highly carcinogenic. However, Sweden succeeded in obtaining an exemption from the sales ban for the Swedish market at the time of its accession in 1995. Since then, a number of epidemiological studies in Sweden have shown that there are no scientific grounds for suspecting that moist snuff can cause cancer. Accordingly, the EU authorities decided during 2001 to abolish the requirement

for cancer warnings on snuff packaging. In Swedish Match's view, the consequence of this decision should have been that the ban itself was also lifted. The company has always maintained that the ban is unlawful. At the end of 2002, a German court decided to refer the issue of the ban's legality to the European Court of Justice in Luxembourg. In April 2003, the High Court in the UK made a similar decision. A ruling is expected during the latter part of 2004 at the earliest, but more probably during 2005.

Outlook

Snuff generates good organic growth for Swedish Match. The market potential is still considered favorable in both established and new markets. Sales and operating income are expected to show a positive trend for the product area in the long term.



With the Taxi snuff brand, Swedish Match is the second largest player in the South African market. In the Indian market, the Group sells the Click brand.

Demand for flavored cigars increasing



Sales and earnings in 2003

Sales in 2003 decreased by 9 percent to 3,008 MSEK (3,318), mainly as a result of currency effects. Sales in local currency increased by 2 percent, with machine-made cigars in North America showing the largest increase. In local currency, sales were marginally higher for premium cigars in North America. Operating income decreased by 25 percent to 393 MSEK (522). Operating income was adversely affected by currency effects in an amount of 58 MSEK, by weak sales in both Europe and North America in the early part of the year, and by substantial legal costs for the premium cigar operations. Costs of approx-

imately 30 MSEK relating to restructuring measures in the European operations during the fourth quarter were charged against income.

Market

The world market for cigars has an estimated value of SEK 30 billion. North America and Western Europe combined account for approximately 75 percent of the world market. Swedish Match is one

of the world's leading producers and distributors of cigars and is the second largest globally in terms of sales value. The Group produces both handmade premium cigars and machine-made cigars, and markets an extensive portfolio of some 30 brands in more than 90 countries. In addition to local and regional brands, Swedish Match owns some of the few brands that are globally represented, including Macanudo, La Paz and Willem II.

2003 in brief

- Sales and earnings in SEK declined due to currency effects.
- Sales in local currencies increased.
- Demand for flavored cigars continued to grow.
- Product launches were implemented in Europe and North America.

Continental Europe

Cigar sales in Europe are dominated by machine-made cigars, while the premium cigar segment accounts for a relatively small portion of sales. Sales of machine-made cigars declined during 2003. To some extent, this was due to adaptation of inventory levels on the part of retailers. Several markets in southern Europe showed a certain amount of growth. Demand for flavored cigars and cigarillos continued to increase.



Key ratios, MSEK	2003	2002	2001
Sales	3,008	3,318	3,481
Operating income	393	522	500
Operating margin, %	13	16	14
Investments in tangible assets	193	169	239
Average operating capital	5,330	6,247	6,446
Average number of employees	7,148	6,504	5,922

Production units

Belgium, Dominican Republic, Indonesia, Honduras, USA, Germany (through partly-owned Arnold André).

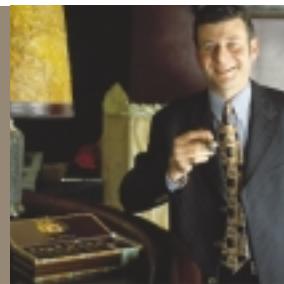
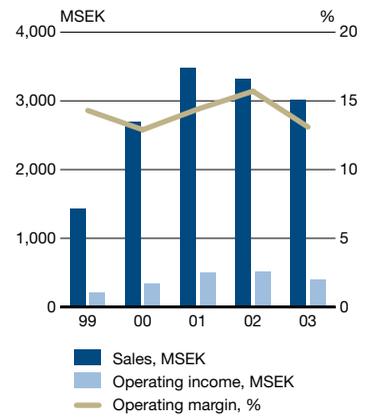
Main brands

Macanudo, La Paz, Clubmaster, Willem II, Wings, de Heeren van Ruysdael, Justus van Maurik, White Owl, Bellman and Garcia y Vega.

Share of Group



Sales and earnings



A number of small and a few larger players are active in the European market. Swedish Match's market share is on par with last year at around 15 percent. Sales of machine-made cigars in Europe account for about 30 percent of total Group sales of cigars. Sales are handled primarily by Group-owned companies.

The Group's La Paz brand is one of the world's largest machine-made cigar brands. This highly successful brand continued to capture market shares in all markets during the year. La Paz Mini Wilde achieved particular success.

The increased demand for flavored cigars in the European market benefited Swedish Match's Wings brand and products from the Group's jointly owned company in Germany, Arnold André.

An extensive branding and rationalization program was undertaken for the Willem II brand, whose product portfolio was updated with the addition of Red Line and Black Line.

During 2002, Swedish Match developed the umbrella concept Casa del Oro

for marketing of premium cigars in selected markets. The grouping includes, among other brands, Macanudo, El Credito and Excalibur. The aim is to form a global network of tobacco retailers with a thorough knowledge of premium cigars and the Dominican Republic, their land of origin. The new concept enables marketing activities to be concentrated. During 2003, the concept was launched in the major European cigar markets.

North America

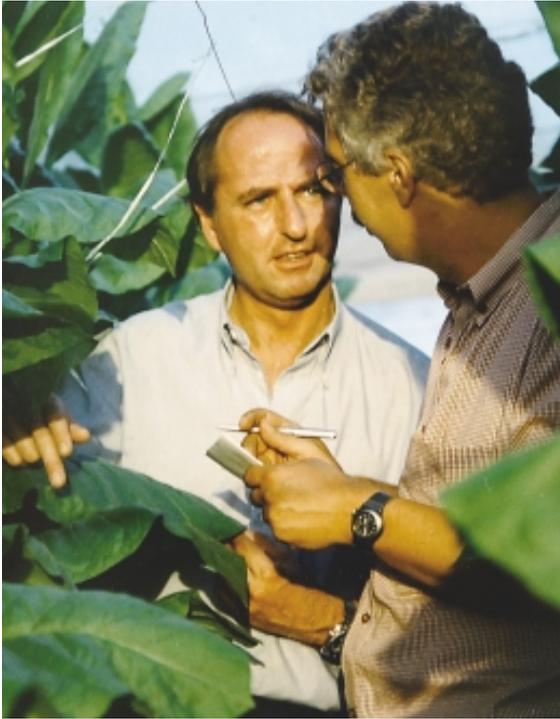
Machine-made cigars

Swedish Match produces and markets a broad product range of machine-made cigars in the North American market. The Group is one of four major players, with a market share of 6 percent in terms of volume, the other players being Altadis, Swisher International and Middleton. Swedish Match's machine-made cigar operations in North America account for nearly 30 percent of the Group's total sales of cigars.

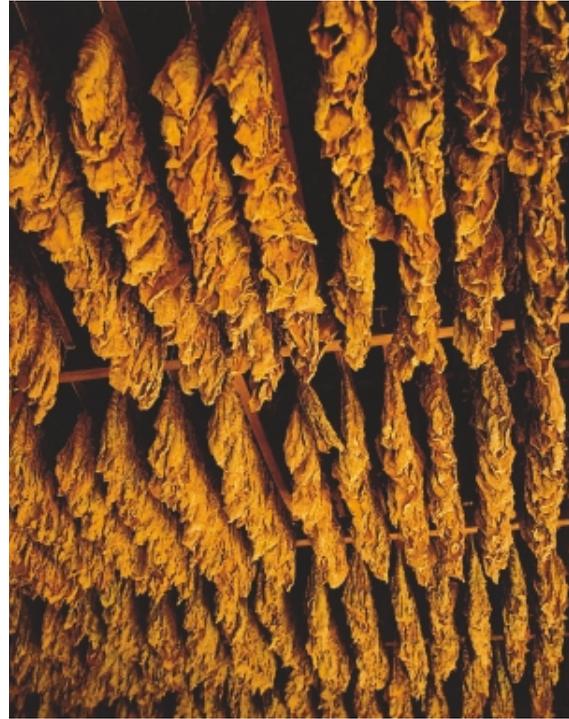
The increasing demand for flavored cigars experienced in previous years continued, and Swedish Match launched four new product variants in this segment during the first half of 2003. The new cigars were successfully launched under the White Owl brand, and a favorable volume trend was noted during the first six months.



Handmade quality cigars



A wealth of craftsmanship lies behind the Group's premium cigars from the Dominican Republic. It takes six weeks to precultivate the tobacco seedlings before they are planted out, six more weeks to cultivate the plants to maturity, and a further six weeks to completion of harvesting. Then it is time for a two-month period of storage to raise the moisture content from about 10 percent to 25-30 percent, followed by the important fermentation stage, when the tobacco leaves are stored in large bales within which the temperature can climb as high as 40-50°C. The fermented tobacco is then packed in bales for a curing process that takes two to three years.



Before the actual manufacturing process, the leaves are sorted into four different sizes and three different main colors, tied together in bundles, aired and packed into crates in a series of batches over a period of six weeks.

Handmade cigars

Through its majority ownership of General Cigar, Swedish Match is the largest player in the US market for handmade cigars, with a market share of slightly more than 25 percent. The handmade cigar operations in the US account for approximately 40 percent of total Group sales of cigars. The Macanudo, Partagas, Punch, Excalibur, La Gloria Cubana and Hoyo de Monterrey brands are among the market's leading brands. Macanudo is also marketed internationally.

The market for handmade cigars was stable during most of 2003. An increase in demand was noted toward the end of

the year. Demand for smaller and slightly less expensive cigars increased during the year. The premium segment also saw increased demand for flavored cigars. In this segment, General Cigar launched its Kahlua cigar during the fourth quarter. In the small-cigars segment, Macanudo Ascot was launched. Other launches during the second half of the year included Macanudo Robust, Partagas Spanish Rosado and Punch Gran Puro.

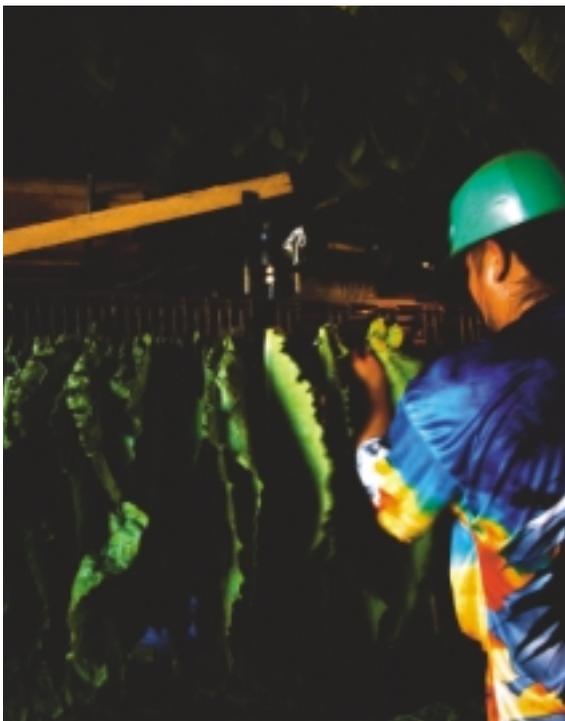
Other regions

Asia and Australia represent growth markets for cigars. Swedish Match has a strong position in Australia, where vol-

umes increased slightly following the acquisition of distribution company Hamilton Cigars. Otherwise, the Group's efforts dedicated to introducing its premium brands in the world market continued. The launch of the El Credito brand, initiated during 2002, continued during 2003 with introductions in South Africa, among other countries.

Outlook

While the world market for cigars is relatively stable, increasing restrictions on smoking could have an adverse effect on demand.



The cigar consists of a mixture of different tobacco leaves, beginning with the filler, which is surrounded by the binder that holds the cigar together, and finally the wrapper, which gives the cigar a fine, smooth outer surface. The combination of leaves of different ages and from different sources is the "secret recipe" with which the producer competes in terms of quality and flavor.

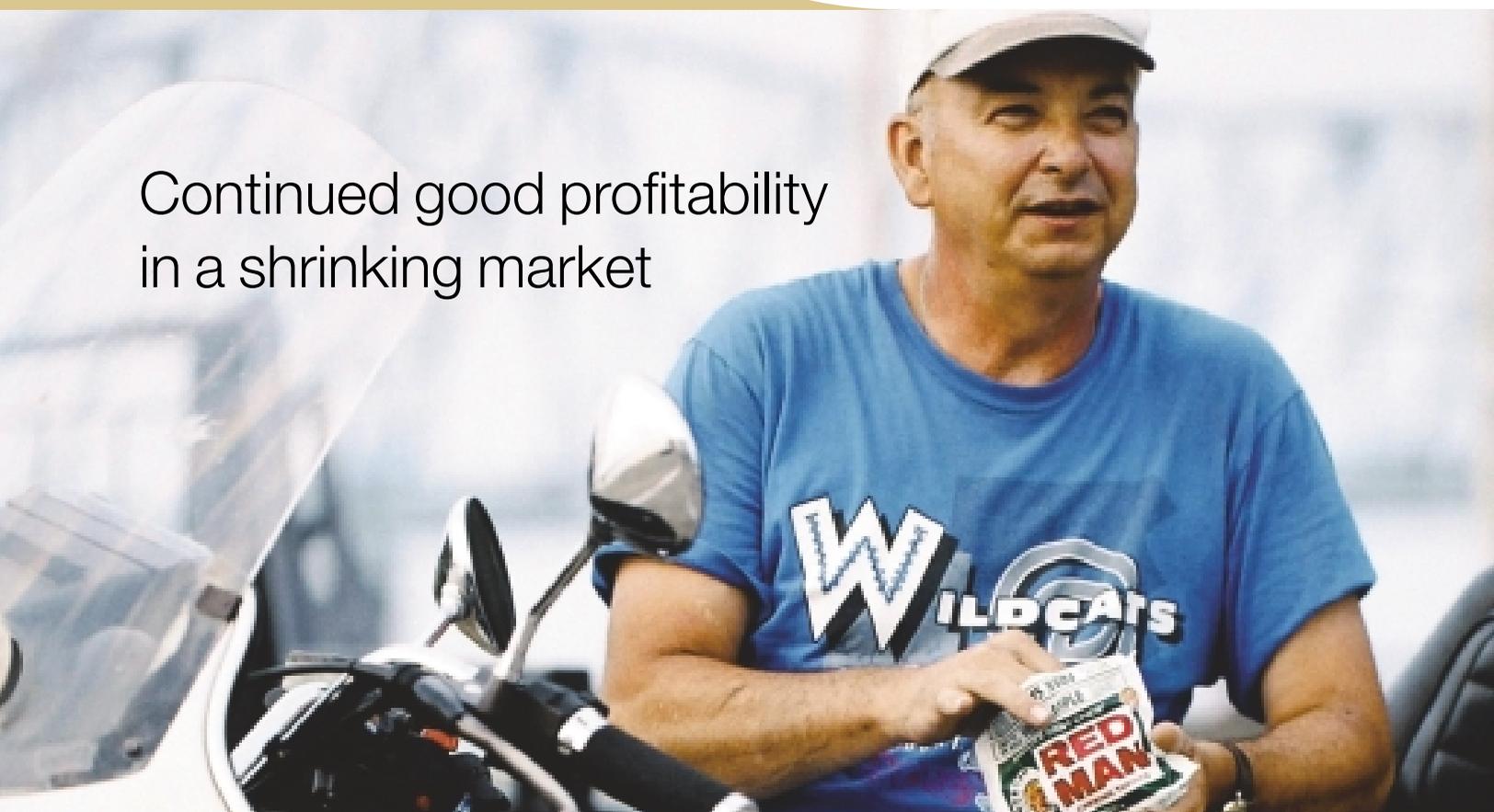


The cigar-roller takes the filler leaves, presses them together by hand and rolls them into a cigar form before tying the bunch together with a binder. The oval bunch is then placed in a mold and compressed for about an hour, after which it is time to add the final, elegant wrapper, which is sealed with vegetable glue at the top where the cigar will be trimmed.



Quality control is performed manually, cigar by cigar. Then the cigars are once again placed in storage for a curing process that may take from 25 to 180 days, depending on the quality. The final check, once again performed cigar by cigar, involves selecting cigars based on color and appearance prior to final packing in cedarwood boxes.

Continued good profitability in a shrinking market



mainly in outdoor environments. The tobacco used in this product is of the same type as the tobacco used in cigars and is grown mainly in Wisconsin and Pennsylvania in the US. A small portion of the tobacco is purchased from Asia and Latin America. Consumers can choose between two product variants: loose leaf and plug. In the latter case, the tobacco leaves are compressed into a block. The special tobacco blend used in plug gives the user

a stronger flavor experience. Chewing tobacco is sold in a premium segment that accounts for about 70 percent of the total market, and a “value-priced” segment in which prices are lower.

Demand for chewing tobacco has been declining by an average of 3-5 percent per year, and declined by about 5 percent during 2003. The market is characterized by a low influx of new consumers.

Swedish Match is the market leader, with the Red Man brand family as its main products. The Group’s market share amounted to 43 percent during 2003. Another major player is the privately owned Conwood company.

The main distribution channels for chewing tobacco are convenience stores and discount stores specializing in tobacco products.

Tobacco chewing gum

During October, Swedish Match carried out a consumer trial of its smokeless tobacco product Firebreak on a limited

Sales and earnings in 2003

Sales in 2003 declined by 14 percent to 1,146 MSEK (1,333). In local currency, sales increased by 3 percent. Operating income declined by 17 percent to 336 MSEK (406). Operating income was on par with the preceding year in local currency terms.

Market

Chewing tobacco is consumed primarily in the southeastern states of the US, and

2003 in brief

- Sales and earnings in SEK declined due to currency effects.
- Sales in local currency increased.
- Firebreak tobacco chewing gum test-launched in Tokyo.



Key ratios, MSEK	2003	2002	2001
Sales	1,146	1,333	1,377
Operating income	336	406	372
Operating margin, %	29	30	27
Investments in tangible assets	23	42	36
Average operating capital	355	504	574
Average number of employees	346	347	309

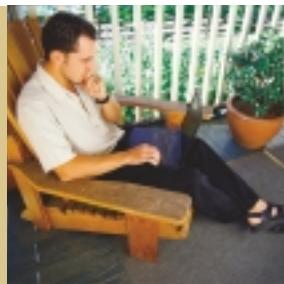
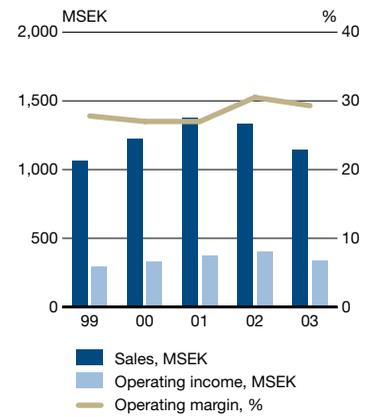
Production unit
USA

Main brands
Red Man, Red Man Golden Blend, Red Man Select, Southern Pride, Granger Select and JD's Blend.

Share of Group



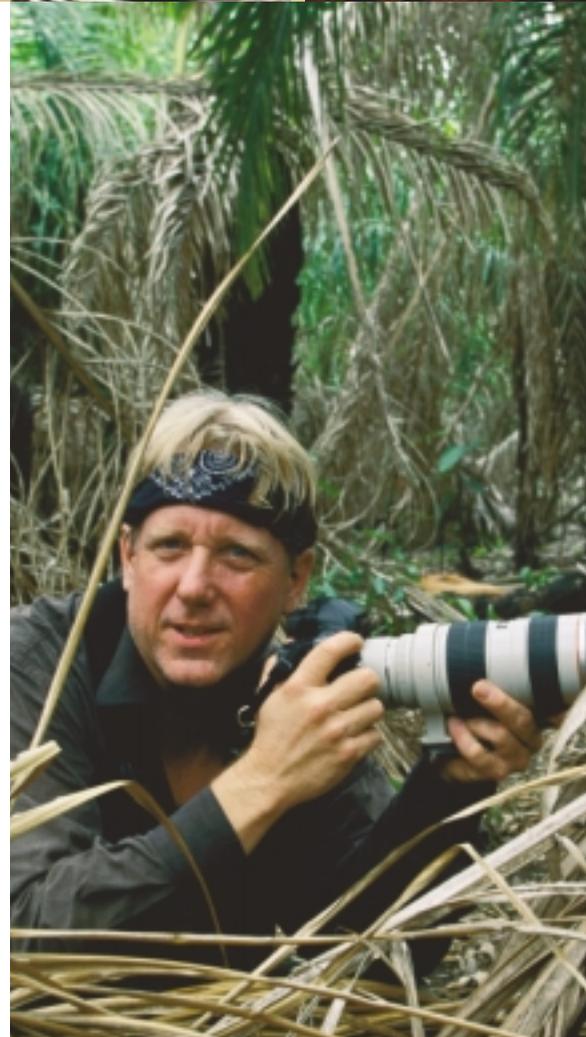
Sales and earnings



scale in Tokyo. The product is a tobacco chewing gum developed by Swedish Match and is the first product of its kind in the world market. The purpose of Firebreak is to offer cigarette smokers an alternative tobacco product that presents a substantially lower health risk. The product was developed fully in line with the requirements of the GOTHIA TEK® quality standard, which means that it contains extremely low levels of undesirable substances. Tokyo was chosen for the test launch due, among other factors, to the high proportion of smokers among the population, combined with the rigorous restrictions on smoking in public places. The fact that the age limit of 20 for purchasing tobacco products is relatively strictly enforced in Japan was also considered positive in this context as an assurance that Firebreak will not be sold to underage consumers. The product has been included in the Chewing Tobacco product area since the fourth quarter of 2003.

Outlook

The decline in the consumption of chewing tobacco is expected to continue. However, profitability is expected to remain favorable, with a positive cash flow.





Successful product launches



Sales and earnings in 2003

Sales increased by 8 percent to 909 MSEK (843). Operating income was 201 MSEK (164). The strengthening of the South African currency (ZAR), among other factors, had a positive effect on operating income.

Market

The largest market for pipe tobacco is the US, followed by Western Europe, South Africa, Australia, Japan and Canada. The market for pipe tobacco in Western Europe and North America is declining in volume by 7–10 percent annually due to the fact that the average

age of consumers is rising and the number of additional new users is small.

Producers of pipe tobacco are generally large companies with other tobacco products in their ranges. Nine producers account for approximately 75 percent of the world market. These companies often apply a defensive strategy in their pipe-tobacco operations, with limited marketing activities.

Swedish Match is one of the world's largest producers of pipe tobacco. The products are marketed globally, with the major markets in South Africa, Western Europe and North America. Marketing

efforts are characterized by product launches and brand care. The relaunch of Borkum Riff implemented at the end of 2002 continued to be well received by customers and consumers during 2003. New product variant Borkum Riff Gold Cherry & Vanilla was also launched during the year.

Northern and Continental Europe

Pipe tobacco consumption in Europe fell by about 8 percent in 2003, which is in line with the average rate of decline in recent years.

A number of large producers dominate the market, although in some countries, such as Germany, there are also many smaller producers. Tobacco shops and convenience stores are the most common distribution channels for pipe tobacco in Europe.

The Group is well established in Sweden, Finland, Switzerland and Spain. Group sales in Northern Europe increased slightly compared with the preceding year.

2003 in brief

- **Reduced volumes offset by positive currency effects.**
- **New products launched in a number of markets.**

Key ratios, MSEK	2003	2002	2001
Sales	909	843	933
Operating income	201	164	236
Operating margin, %	22	19	25
Investments in tangible assets	15	20	9
Average operating capital	1,107	1,052	811
Average number of employees	553	558	578

Production units

USA and South Africa. During 2002, sub-contracted production of pipe tobacco for some of the Group's brands was also initiated at the Danish company MacBaren.

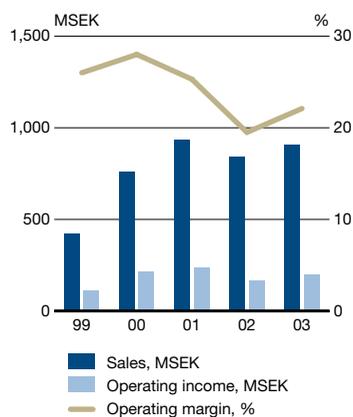
Main brands

Borkum Riff, Best Blend, Greve Gilbert Hamiltons Blandning, Half & Half, Boxer, Mellow Breeze, Velvet, Paladin and Black & White.

Share of Group



Sales and earnings



North America

The trend of pipe tobacco consumption in North America shows a decline of 8–10 percent per year. The decline in 2003 was in pace with the average rate in recent years.

Swedish Match's volumes declined by about 12 percent compared with 2002. Its market share also fell slightly

to just over 16 percent. The main competitors are Lane, Middleton and Altadis. The main distribution channel is drugstores, which account for more than half of the volume sold.

South Africa

Following the acquisition of two traditional pipe tobacco companies and a distribution company during the past few years, Swedish Match is now the leading player in the market. While the Group's stable market position is primarily attributable to the 60-year old Boxer brand, the 1904, Black and White, and Giraffe brands have also made a significant contribution.

Sales volumes declined by about 3.5 percent in terms of volume during 2003.

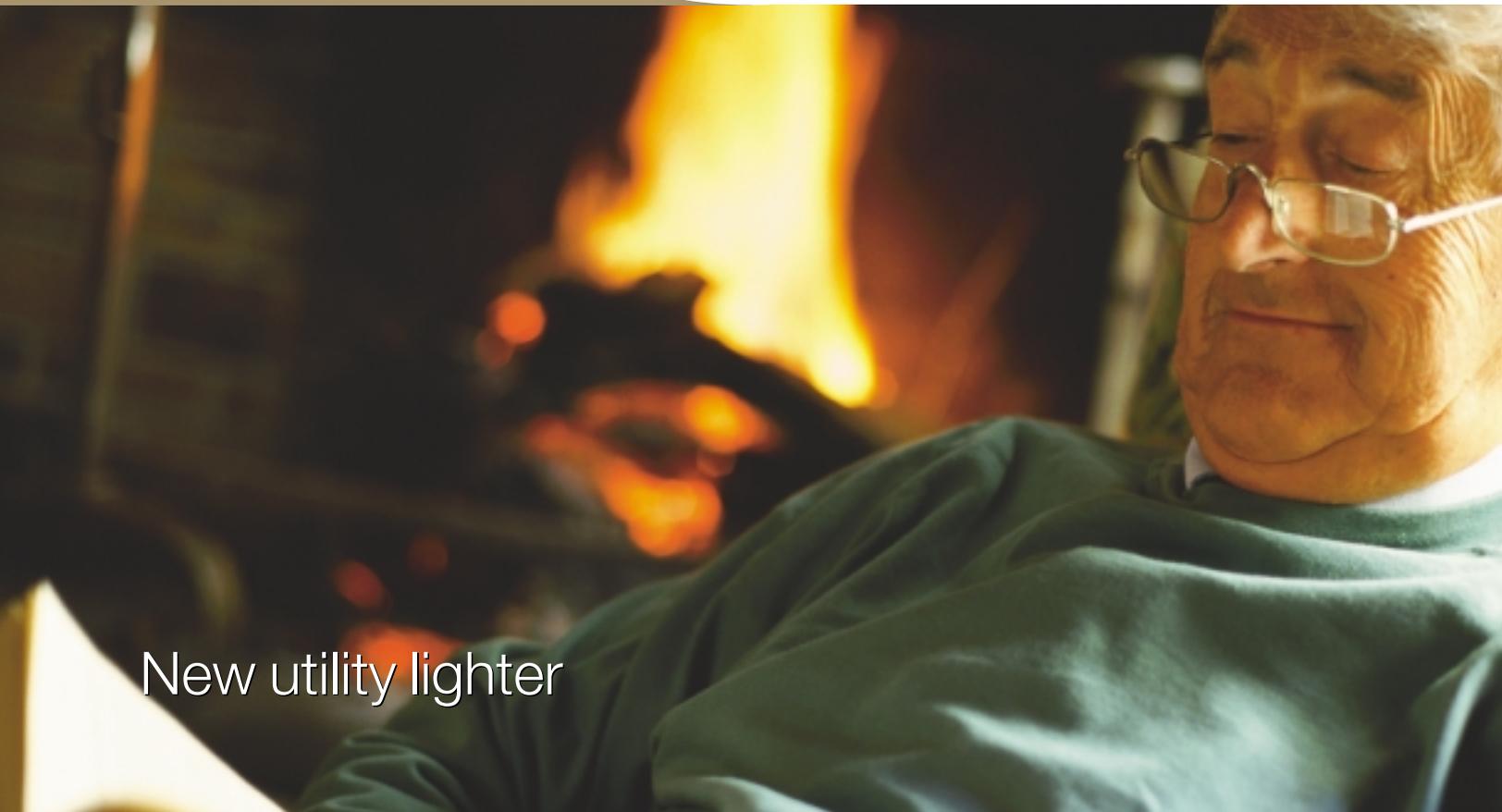
During the year, exports of the 1904 brand to Europe and – with notable success – to Hong Kong were initiated.

At the beginning of the year, Boxer Mild Gold, a milder variant of the classic Boxer brand, was launched.

Outlook

The decrease in the consumption of pipe tobacco is expected to continue. Operations are expected to continue to show good profitability, with a healthy cash flow.





New utility lighter



Market

The world market for disposable lighters is growing by 1–2 percent annually in terms of volume. Growth exceeds this level, however, in developing countries where populations are increasing, and in certain countries where a high proportion of the inhabitants smoke cigarettes. This is true of many heavily populated countries in Asia, and in Eastern Europe and Russia, for example. In other markets, volumes are essentially stable.

The market for high-quality disposable lighters is dominated by three large

players – Bic, Tokai and Swedish Match – which together have about 50 percent of the world market. The main markets for Swedish Match are Russia and Southeast Asia. Intense competition continues to come from producers in China, in particular, where lighters are produced at extremely low cost.

Eastern Europe

Swedish Match further strengthened its market position in Eastern Europe during 2003. Russia is the single most important market for Swedish Match's disposable lighters. With its Cricket brand, Swedish Match retained its market share and hence its leading position in Russia, despite increasing competition. Volumes increased slightly as a result of improved distribution.

Western Europe

The lighter market in Western Europe is sensitive to low-price imports. In Western Europe, Swedish Match distributes lighters via its own sales companies to

Sales and earnings in 2003

Sales amounted to 599 MSEK (700) and operating income to 14 MSEK (74). Operating income declined as a result of pressure on prices and reduced volumes in several markets.

Profitability worsened due to increased price competition and unfavorable currency movements affecting certain export markets.

2003 in brief

- **Firepower utility lighter launched.**
- **Increased price competition in market.**



Key ratios, MSEK	2003	2002	2001
Sales	599	700	809
Operating income	14	74	101
Operating margin, %	2	11	12
Investments in tangible assets	11	21	27
Average operating capital	381	468	525
Average number of employees	470	533	570

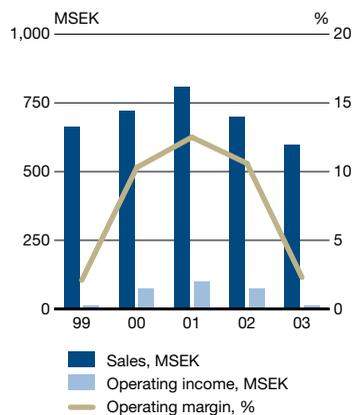
Production units
Netherlands, Philippines and Brazil.

Main brands
Cricket, Feudor and Poppell.

Share of Group



Sales and earnings



tobacco retailers and supermarket chains.

During 2003, the product portfolio was broadened through the launch of the Firepower utility lighter.

Work also continued on the expansion of operations for “fire boutiques” in supermarket chains in Spain and France, among other countries. The concept involves grouping such products as matches, lighters and grill- and fire-lighters under a common brand for marketing purposes, thereby gaining more prominent exposure on the shelves of retail outlets.

Asia

Swedish Match has less than 10 percent of the lighter market in Asia. The increasingly tough competition from Chinese producers, particularly in the Philippines, resulted in a weaker volume trend. In other Southeast Asian markets, the Group retained its market shares.

Latin America

In Brazil, the largest market in Latin America, Swedish Match’s sales volume of lighters declined somewhat during the year.

North America

The North American market for lighters continued to decline. Swedish Match has approximately a 5-percent market share.

Outlook

Despite the fact that the production units in Assen, Netherlands, and Manila in the Philippines are highly automated, and although some growth is expected for disposable lighters, pressure on profit margins is expected to result in a continued weak earnings trend.



The FirePower utility lighter was launched during 2003.

Expanded product range in key markets



Sales and earnings in 2003

Sales for 2003 amounted to 1,395 MSEK (1,648) – a decline of 15 percent, of which 11 percent was attributable to currency translation. Operating income declined to 83 MSEK (221) due to sharp volume reductions in a number of markets and negative currency effects from exports and translation of foreign subsidiaries' earnings. Restructuring costs in Europe during the fourth quarter amounted to approximately 30 MSEK.

Market

Match consumption varies depending on economic development, with higher utilization of matches in countries with a low standard of living. This applies in Southeast Asia and Africa, which have the highest volumes in the world. As living standards rise, consumption of matches generally declines. In economically developed markets, on the other hand, this factor is offset by stronger demand for specialty matches and other ignition products.

2003 in brief

- **Volumes decline in a number of markets.**
- **Adjustment of production capacity continues.**
- **Product launches in a number of markets.**

Most producers in the global match market generally operate only regionally or locally. Swedish Match is the largest international player, with sales in all world regions. The Group's main markets are Western Europe, Brazil, Indonesia and India. The Group supplies consumers in 140 countries with matches in the volume and quality segments, as well as other ignition products.

The market situation is characterized by declining volumes in many parts of the world. In Central Europe, this trend has resulted in some manufacturers in Croatia, Slovakia and Poland discontinuing production during 2003.

Swedish Match's market share in Brazil amounts to about 50 percent. Volumes in this market, which is of a similar size to the European market, also declined slightly during the year. Operations show a good level of profitability, however.

Despite continued population growth, the match market in India has been stable as a result of increased use of

Key ratios, MSEK	2003	2002	2001
Sales	1,395	1,648	1,690
Operating income	83	221	183
Operating margin, %	6	13	11
Investments in tangible assets	81	58	68
Average operating capital	1,207	1,394	1,598
Average number of employees	5,388	5,743	5,893

Production units

Brazil, Bulgaria, India, Indonesia*, China, Spain, Sweden, Turkey and Hungary.
* through the jointly-owned company Jamafac.

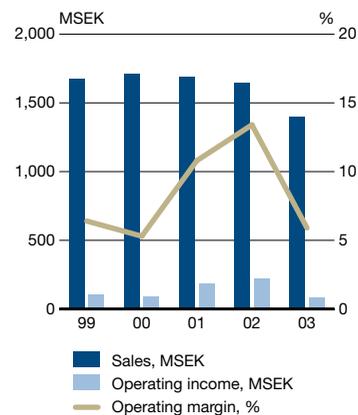
Main brands

Solstickan, Swan Vestas, Three Stars, England's Glory, Redheads and Fiat Lux.

Share of Group



Sales and earnings



gas lighters for cooking and a decline in cigarette smoking. Volumes in Indonesia, where the Group has a jointly owned match operation, declined during the year.

The Group's production capacity has been gradually adjusted to lower volumes during recent years through cut-backs at production units in Europe, Brazil and India. This process continued during 2003, and the total number of employees in consolidated operations was reduced by slightly more than 600 persons, most of them in India.

The Swedish Match product range includes grillbags, firelighters and firelogs. Distribution of these products was expanded during 2003. The new products were favorably received by retailers and consumers when they were test-launched in a number of key markets. Specialty cigar matches were launched in several European markets, where they are distributed via tobacconists' stores.

The Arengo engineering company, which manufactures match production

machines and packaging machines, continued to develop its operations by acquiring a small packaging company.

Outlook

The weak market trend is expected to continue, particularly in Europe. The reduction of production capacity begun

during 2003 will continue during 2004 and 2005. An amount of around 100 MSEK will be charged against income during 2004.



Human Resources

One of Swedish Match's fundamental principles is to work in harmony with social, cultural and economic developments in the markets in which the Group is active. The Group takes responsibility for the social and environmental impact of its operations, and it strives to promote respect for human rights.

Policies

The Group's control documents for its operations – policy documents – are revised and amended every year to meet the demands made on Swedish Match, as a company, by employees, shareholders and the outside world. For many years, the Group has been actively working to increase awareness of these policies and improve compliance with them.

Policies on social issues

The Group has agreed on a number of fundamental standards to safeguard the rights, health and safety of employees.

- The Group does not accept forced labor or any form of discrimination on the grounds of ethnic background, religion, age or gender, and it maintains that all employees are entitled to voluntarily join associations, in accordance with local legislation and rules. In accordance with the UN Convention on the Rights of the Child, Swedish Match does not tolerate child labor.
- Swedish Match endeavors to achieve a satisfactory work environment which does not merely safeguard health and safety in the workplace but also provides opportunities for personal development and job satisfaction. The Group endeavors to make continuous improvements in this area, based on local conditions and competition and efficiency requirements.

- Remuneration to employees must be based on objective criteria such as skills, qualifications and experience, and must reflect local market and industry levels of pay. Ethnic background, language, religion, skin color, gender, financial position or other forms of social status are not permitted to exert an influence. This also applies to the company's recruitment policy, which is designed to ensure the employment of skilled and well-qualified personnel, with priority given to existing employees unless there are special reasons to the contrary.

During 2003, Swedish Match adopted procedures for monitoring and following up the company's social policies. The procedure stipulates that all policies apply to all companies and divisions within the Group. Subsidiaries and divisions may never fall below Group standards, but are encouraged to exceed them. The Human Resources Council is responsible for the monitoring and follow-up of policies in this area.



Efforts are now being made to achieve a systematic follow-up of compliance with social policies for operations under the company's own auspices and operations conducted in cooperation with external parties.

Personnel and skills development

Swedish Match's personnel and professional development programs are designed to ensure that the company's strategic requirements in terms of competent managers and employees are met, thus enabling the Group to achieve its overall objectives.

We can ensure a strong management team that supports our results-oriented culture by offering professional skills training programs based on entrepreneurship and our fundamental values: communication, cooperation, trust, creativeness, recognition and growth.

Managers and competent employees throughout the organization play a key role in Swedish Match's business and change processes.

The Group's skills training programs focus on the further development of pro-

fessional management skills and ensuring a satisfactory supply of management resources in the future. During the year, a number of programs and projects for continuous and long-term training of managers and employees were conducted at different levels within the Group. One activity which has been in progress for several years involves reinforcement of Swedish Match's common, global corporate culture, with the aim of developing synergies and integrating the large number of companies acquired since 1999. During 2003, for example, performance management was given priority in view of a greater strategic emphasis within the Group on organic growth.

International Managers Program

For several years, Swedish Match has conducted international management programs to reinforce a businesslike approach, multicultural management, management skills and teambuilding. These programs normally extend over a 12-month period and usually involve the participation of 15–20 managers with several years of experience and at least three years' employment in the Group.

A new version of the International Managers Program was initiated during the year, providing an opportunity for participants from various countries, divisions and continents, and holding a variety of positions, to develop their management skills in line with the Group's core values.

This program ran from May 2003 to March 2004, and was divided into four working weeks, featuring seminars, project assignments and presentations of Swedish Match's operations.

Trainee programs

Swedish Match arranges trainee programs on a regular basis for younger employees with a few years' experience. The program that started in 2002 was completed during the year, and took the form of systematically tutored assignments in various international environments in three six-month periods. In addition, there were four seminar sessions which focused on teambuilding, a more detailed understanding of Group operations and basic management training.



Performance Management

Swedish Match carries out annual Management Reviews for the entire Group. The aim is to follow up the development and planning of the Group's key positions and the salary structure. For several years, management reviews have focused on the Group's performance-management routines, partly due to the increased strategic emphasis on organic growth. The primary focus is on broadening and deepening the development of effective managers and skilled employees.

A project for the further development of performance management and processes continued during 2003. The overall aim is

to establish clearer links between individual and team objectives and the Group's vision, objectives and strategies, and also to reinforce the business planning process to improve profitability.

Mentor program

A mentor program is being drawn up for various parts of the Group as an aid to establishing an even more distinct performance culture.

Management conference

A two-day Groupwide management conference was held at the beginning of the year in which some 100 Group man-

agers participated. The conference focused on a review of current and future Group and divisional strategies in a short-term and long-term perspective.

Human Resources Council

Representatives of the divisions' Human Resources functions have been meeting twice a year since 1998 to exchange experiences, coordinate policies and plan and coordinate future activities in the human resources field.



The purpose of Swedish Match's event sponsorship is to establish and consolidate business relationships that reinforce the Group's image and improve the business climate. This is achieved through forward-looking sponsorship of successful sportspersons and investment in attractive events that function as a meeting-place for customers, colleagues and partners. Swedish Match sponsors, among others, Tony Rickardsson, five-time world speedway champion and one of the most popular sports personalities in Sweden.

Profit-sharing scheme for Swedish employees
A profit-sharing scheme for Group employees in Sweden was launched in 2000. The scheme is based on a profit-sharing foundation with a fund to which the Swedish companies make allocations in line with the increase in the Group's earnings per share. The fund's assets are mainly invested in Swedish Match shares. No disbursements are made until three years after such allocations are made, at the earliest. During 2003, 14.6 MSEK was allocated to this foundation, based on income for 2002.

Cooperation with the unions
Swedish Match has had a cooperation agreement with trade union organizations in the Swedish part of the Group since 1996. Under this agreement, representatives of Group management and the employee representatives on the Board meet prior to each Board meeting. This group discusses items on the Board's agenda, especially items that may lead to negotiations under the terms of the Swedish Employment Act (MBL). In addition, a reference group consisting of local representatives of the Swedish Trade Union Confederation and the Negotiation Cartel for Salaried Employees in the

Private Business Sector covering the Group's operations in Sweden usually meets prior to each Board meeting.

European Works Council

The European Works Council is a consultative group established as a result of an agreement concluded in 1998 between the Group and its employee representatives in the EU countries. In 2003, this agreement was extended for a further two years.

The European Works Council is an information and consultation forum for issues of a Groupwide nature in a European context.



The globe-encircling Swedish Match Tour sailing competition comprises nine world-class sailing events and has become the world's foremost professional sailing series. The Group has been the main sponsor of one of the events in the series, the Swedish Match Cup in Marstrand, western Sweden, since 1994. The competition attracts the entire international match-racing elite, including such well-known sailors as Magnus Holmberg, Sweden, Peter Gilmour, Australia, and Ed Baird, USA.

The environment

Vision

Swedish Match's environmental vision is to achieve a balance in which the company meets shareholder-oriented business goals, customer goals and other stakeholder goals in a sustainable manner. Swedish Match integrates its operations and its products into the natural ecocycle system, thus interlinking the results of the Group's commercial and environmental endeavors so that they reinforce each other.

Policy

To implement this vision, Swedish Match has adopted an environmental policy that covers all aspects of its operations. The main points are:

- Swedish Match shall comply with all the relevant legislation, regulations and other requirements, wherever the Group has operations.
- Swedish Match shall apply appropriate environmental management systems at all locations, designed to prevent pollution and reduce the risk of negative environmental consequences.
- Swedish Match is to evaluate all commercial initiatives on the basis of both financial and environmental criteria.

- Swedish Match shall identify and progressively implement changes in each phase of the life-cycle for products, processes and services in order to reduce negative environmental consequences that may adversely affect the conditions for a sustainable society.

Climate issue crucial

Wholesalers and consumers are becoming increasingly interested in environmental issues. One key factor is that Swedish Match's products are sold through large retail food chains whose customers are increasingly demanding environmentally compatible products. The increasingly stringent environmental-compatibility requirements made by public authorities for plants and production processes are another crucial factor.

Swedish Match continuously adapts its operations by cleaning and reducing emissions and by introducing environmental management systems in a growing number of plants. The initial starting point is favorable, since roughly 80 percent of the Group's raw materials are renewable and production involves limited use of substances that could harm the environment. The most important

plants from a financial viewpoint now have environmental certification. The aim is that all plants will have ISO 14001 certification within the near future.

Climate change is regarded as the most serious global environmental issue. As a result, Swedish Match has placed special emphasis on reducing emissions that have a negative climate impact. These efforts are evaluated in the Folksam Index, which covers a number of major Swedish companies. Swedish Match has achieved good results in recent years. The Group is also well on the way to achieving total elimination of ozone-depleting substances.

Swedish Match's scores in the Folksam Climate Index indicate a positive trend, with the ratio between emissions and sales showing a 9-percent decline between 2001 and 2002*. The Group received a "five-star" rating for "outstanding climate-related work" and the high quality of the data reported.

Environmental management systems

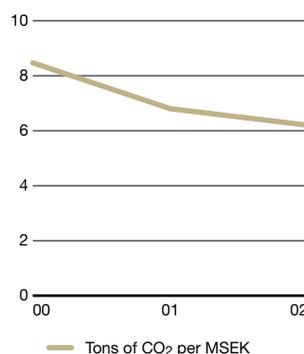
The progressive introduction of environmental management systems for plants and operations is continuing as scheduled. An environmental management

Positive climate trend

Swedish Match displays a positive trend in the Folksam Climate Index. The ratio between emissions and sales declined by 9 percent* between 2001 and 2002. The Group received a "five stars out of five possible" rating for outstanding climate work and excellent reporting of carbon dioxide emissions.

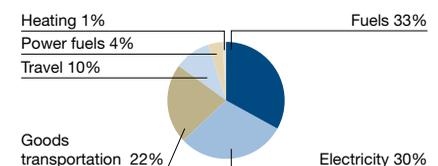
Climate indicator

The diagram shows Swedish Match's emissions in relation to sales.



Carbon dioxide emissions

The diagram shows Swedish Match's carbon dioxide emissions distributed by emission source. During 2002, emissions from fuels declined by 15 percent*.



* The data for 2003 will be compiled and published by Folksam at mid-year 2004.



The Paraná pine, *Araucaria angustifolia*, is a threatened species native to the Brazilian state of Paraná, of which it is the state tree. It is a protected species, which means that felling is not permitted. The specimen shown here is growing in the middle of Swedish Match's own plantation of poplar, which provides the raw material for the Group's match production in Brazil.

system for snus operations in the North Europe division was implemented during 2003. The plants in Pandaan in Indonesia, Manaus in Brazil, Dothan in the US and Santiago in the Dominican Republic are expected to follow suit by early 2004. The new Kungälv plant in Sweden, which was inaugurated during the year, is designed to comply with all the most recent and stringent environmental standards.

Permits and notification obligations

All plants complied with their permits during 2003. The snus plants in Gothenburg and Kungälv are subject to notifi-

cation obligations under the Swedish Environmental Code.

The Vetlanda plant manufactures matchsticks and matchbox materials, including striking surfaces that are used in other parts of the world. The operations are subject to a reporting obligation under the Environment Protection Act and the permit applies until further notice. Noise levels, timber storage and solvent emissions are regulated.

The Tidaholm plant manufactures matches, firelighters and match heads for local production and export. Operations are subject to a reporting obligation under the Environment Protection Act.

The permit entitles Swedish Match to increase production of matches and match heads to a maximum of 90 billion matches per year and a maximum 2,000 tons of match heads per year. The permit specifies limits for wastewater discharged into the sewage system, the dust content in ventilation outflows, and noise levels.

The Kalmar plant produces machinery for match production. Operations are subject to a reporting obligation under the Environment Protection Act.

The Group has permits for Swedish Match's production in other countries in accordance with the legislation in each of the countries concerned.

Consolidated Income Statement

(MSEK)	Note	2003	2002	2001
Net sales, including tobacco tax		21,841	22,599	22,428
Less tobacco tax		-8,805	-8,956	-8,793
Net sales		13,036	13,643	13,635
Cost of goods sold		-7,103	-7,451	-7,627
Gross profit		5,933	6,192	6,008
Selling expenses	2	-2,258	-2,362	-2,475
Administrative expenses	2	-1,156	-1,125	-1,027
Other operating income	3	23	52	19
Other operating expenses	3	-19	-13	-19
Share of earnings in associated companies		20	22	28
Amortization of intangible assets	7	-319	-327	-341
Items affecting comparability	4	-	-68	-80
Operating income		2,224	2,371	2,113
Interest income		229	108	121
Interest expenses		-283	-337	-407
Exchange rate differences and other financial items	5	4	-16	13
Income after financial items		2,174	2,126	1,840
Taxes	6	-572	-648	-589
Minority interests		-44	-49	-23
Net income for the year		1,558	1,429	1,228
Average number of shares (millions), basic		332.7	348.3	361.5
Average number of shares (millions), diluted*		334.2	350.9	363.0
Earnings per share, basic, SEK		4.68	4.10	3.40
Earnings per share, diluted, SEK		4.66	4.07	3.38

* Dilution attributable to the effect of options issued.

Consolidated Balance Sheet

(MSEK)	Note	Dec. 31, 2003	Dec. 31, 2002
ASSETS			
Fixed assets			
Intangible fixed assets	7	3,648	4,145
Tangible fixed assets	8	2,862	2,938
Financial fixed assets			
Shares and participations	9	145	148
Deferred tax receivables	6, 10	245	206
Long-term receivables	11	226	252
Total fixed assets		7,126	7,689
Current assets			
Inventories	12	2,676	3,154
Current operating receivables			
Trade receivables	13	1,880	1,931
Other receivables		562	492
Prepaid expenses and accrued income		192	165
Liquid funds			
Short-term investments	14	1,169	1,027
Cash and bank	14	1,497	989
Total liquid funds		2,666	2,016
Total current assets		7,976	7,758
TOTAL ASSETS		15,102	15,447
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	15		
Restricted equity			
Share capital		844	868
Restricted reserves		2,006	1,575
Unrestricted equity			
Unrestricted reserves		-398	135
Net income for the year		1,558	1,429
Total shareholders' equity		4,010	4,007
Minority interests		597	686
Provisions			
Provisions for pensions and similar commitments	16	372	395
Provisions for taxation	6	1,083	1,031
Other provisions	17	664	867
Total provisions		2,119	2,293
Long-term liabilities			
Interest-bearing bond loans	18	4,508	4,485
Interest-bearing liabilities to credit institutions	18	27	33
Other long-term liabilities		66	85
Total long-term liabilities		4,601	4,603
Current liabilities			
Interest-bearing liabilities to credit institutions	18	846	990
Accounts payable		719	715
Tax liability		91	69
Other current liabilities	19	1,329	1,302
Accrued expenses and prepaid income	20	790	782
Total current liabilities		3,775	3,858
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		15,102	15,447
Pledged assets	21	154	92
Contingent liabilities	22	441	299

Changes in Consolidated statements of shareholders' equity

(MSEK)	Note	Share capital	Restricted reserves	Unrestricted equity	Total equity
Shareholders' equity at Dec. 31, 2001		892	1,625	1,588	4,105
Allocation to unrestricted reserves through cancellation of shares		-24		24	-
Transfers between restricted and unrestricted equity			-50	50	-
Dividend paid				-508	-508
Repurchase of own shares				-552	-552
Translation differences for the year				-467	-467
Net income for the year				1,429	1,429
Shareholders' equity at Dec. 31, 2002		868	1,575	1,564	4,007
Allocation to unrestricted reserves through cancellation of shares		-24		24	-
Transfers between restricted and unrestricted equity			431	-431	-
Dividend				-535	-535
Repurchase of own shares				-959	-959
Sale of treasury shares				55	55
Translation differences for the year				-116	-116
Net income for the year				1,558	1,558
Shareholders' equity at Dec. 31, 2003	15	844	2,006	1,160	4,010

Consolidated Cash-Flow Statement

(MSEK)	Note	2003	2002	2001
Operations				
Income after financial items		2,174	2,126	1,840
Depreciation and amortization		665	651	670
Other		49	-53	78
		2,888	2,724	2,588
Taxes paid		-515	-241	-634
Cash flow from operations before changes in working capital		2,373	2,483	1,954
Cash flow from changes in working capital				
Trade receivables		-34	56	-182
Inventories		169	86	-127
Other assets		-32	1	75
Accounts payable		38	0	-28
Accrued expenses and other current liabilities		124	-41	-83
Cash flow from operations		2,638	2,585	1,609
Investment activities				
Investments in property, plant and equipment		-551	-751	-633
Sales of property, plant and equipment		26	106	72
Acquisitions of subsidiaries and associated companies	23	-78	-53	-962
Investments in intangible assets		-27	-18	-12
Change in financial receivables		5	-1	15
Cash flow from investment activities		-625	-717	-1,520
Financing activities				
Change in short-term loans		-35	-339	58
Increase in long-term loans		635	670	1,407
Amortization of long-term loans		-731	-832	-1,181
Dividends paid		-535	-508	-490
Repurchase of shares		-1,012	-499	-1,169
Sale of treasury shares		55		
Hedge of foreign exchange rates		296	264	-200
Other		-	-122	122
Cash flow from financing activities		-1,327	-1,366	-1,453
Cash flow for the year		686	502	-1,364
Liquid funds at the beginning of the year		2,016	1,606	2,960
Translation differences in liquid funds		-36	-92	10
Liquid funds at the end of the year	14	2,666	2,016	1,606
Supplementary information, see Note	23			

The Annual Report has been prepared in accordance with Sweden's Annual Accounts Act and recommendations and statements of the Swedish Financial Accounting Standards Council.

As of the current fiscal year, the following new recommendations from the Swedish Financial Accounting Standards Council apply: RR 2:02 Inventories, RR 22 Presentation of Financial Reports, RR 24 Investment Properties, RR 25 Reporting for Segments, RR 26 Events after the Balance Sheet Date, RR 27 Financial Instruments; Disclosures and Classification, and RR 28 Government Subsidies. The new recommendations did not involve any changes to the accounting principles applied. In all other respects, the accounting principles are unchanged compared with the preceding year.

During 2004, Swedish Match will change the principles for reporting pensions, etc. to conform with the Financial Accounting Standards Council's recommendation RR 29 Employee Benefits. One of the implications of this recommendation is that all deficits or surpluses in funded defined-benefit pension plans are to be reported in the consolidated balance sheet as liabilities, and all surpluses as assets. Swedish Match estimates that the transition to RR 29 during the first quarter of 2004 will result in an increase in the liability in the consolidated balance sheet in an amount of approximately 260 MSEK, net after adjustment for deferred taxes, with a corresponding reduction in shareholders' equity.

1. Significant accounting principles

Consolidated financial statements

The consolidated financial statements include the Parent Company, all subsidiaries and associated companies. Subsidiaries are defined as companies in which Swedish Match holds shares vested with more than 50 percent of the votes or in which Swedish Match has a decisive influence in some other way. Associated companies are defined as companies in which Swedish Match exercises a significant long-term influence without the jointly owned company being a subsidiary. This normally means that the Group holds 20–50 percent of total voting rights. Holdings in associated companies are reported in accordance with the equity method. The Group's share of the reported income of associated companies is reported as a proportion of operating income and income taxes.

All acquisitions of companies are reported in accordance with the purchase method. Companies divested during the year are included in the consolidated financial statements up to the date of sale. Companies acquired during the year are included in the consolidated financial statements from the date of acquisition.

Minority interests in Swedish Match's income are reported after income taxes.

Other shareholdings are reported at acquisition value; dividends received are reported as income.

Foreign currencies

Translation of the accounts of foreign subsidiaries

The accounts of foreign subsidiaries are translated to Swedish kronor using the current method. Balance sheets, accordingly, are translated at year-end exchange rates and income statements are translated at average exchange rates for the year. Exchange rate differences arising from translations of income statements and balance sheets are entered directly under equity.

The exchange rates used for the Group's most significant currencies are shown in the table below.

Country	Currency	Average exchange rate Jan.–Dec.			Exchange rate at Dec. 31		
		2003	2002	2001	2003	2002	2001
USA	USD	8.09	9.72	10.33	7.25	8.78	10.61
Euro	EUR	9.12	9.16	9.25	9.07	9.15	9.35
Brazil	BRL	2.64	3.47	4.42	2.52	2.46	4.55
South Africa	ZAR	1.07	0.92	1.22	1.10	1.02	0.91

Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currency are translated at the closing day rate, with the exception of hedged items, which are translated at the respective rate of the associated forward contract. Exchange gains and losses are reported in operating income to the extent they amount to operating balance dealings and otherwise in net financial items.

Derivative instruments

Currency forward contracts

The Group enters forward contracts mainly to hedge its currency risks with regard to certain financial liabilities and expected, but not yet contracted, sales and purchases in foreign currencies. Forward contracts entered for the purpose of hedging future transactions are not booked until the transactions actually take place. Balances in foreign currency that have been hedged, are translated using the relevant rate according to the forward contract, and realized and unrealized exchange gains and losses are reported in the income statement.

To some extent, Swedish Match hedges investments in foreign net assets, including goodwill. Hedging is implemented by arranging forward contracts valued at the closing day rate. Exchange-rate differences in hedging operations are eliminated from the income statement and, in common with differences from the translation of net assets, are transferred directly to shareholders' equity in the balance sheet.

Interest swaps

The Company uses interest-rate swaps to adjust the relationship between borrowing at fixed and variable interest rates. An interest swap involves the exchange of fixed interest rates on a loan or investment for variable interest, or vice versa. Since interest swaps are linked to the underlying loan or investment in terms of the amount and maturity period, interest swaps are reported at amounts corresponding to the accrued interest.

Currency swaps

The Company conducts currency swaps to hedge currency risks from loans in currencies other than the domestic currency. A currency swap involves the exchange of interest and amortization payments in one currency for interest and amortization payments in another currency. Since currency swaps are linked to the underlying loan in terms of the currency, amount and maturity period, currency swaps are reported at amounts corresponding to accrued interest and unrealized exchange-rate differences.

Revenue reporting

Revenue from the sale of goods is recognized when an agreement exists with the customer, delivery has taken place and all significant risks have been transferred to the customer.

Items affecting comparability

Significant revenue or expense items which are not expected to take place frequently, are classified net as Items affecting comparability and reported separately. Items affecting comparability include costs for restructuring programs as well as nonrecurring revenues from sales of operations and shares, which has previously been reported as operating assets.

Income taxes

Reported income taxes include tax to be paid or refunded with regard to the current year, adjustments concerning prior years' taxes, changes in deferred taxes, and shares in the taxes of associated companies.

Valuation of all tax liabilities/receivables takes place in nominal amounts, and is performed in accordance with the tax rules and tax rates that have been enacted.

In the case of items reported in the income statement, related tax effects are also reported within the income statement. Tax effects of items that are entered directly against shareholders' equity are recorded against shareholders' equity.

Deferred taxes are calculated according to the liability method on all temporary differences that arise between the reported and taxation values of assets and liabilities.

Deferred tax assets with regard to loss carryforwards or other future tax-related deductions are reported to the extent that it is likely that the deduction can be offset against any surplus at time of future taxation.

Due the relationship between reporting and taxation, the Parent Company reports the deferred tax liability on untaxed reserves as a part of the untaxed reserves.

Intangible fixed assets

Intangible fixed assets are amortized on a straight-line basis over 5–20 years. Goodwill in major subsidiaries with long-term documented operations, strong brands and good market positions, is amortized over 20 years. Acquired brands are amortized over 20 years if similar conditions prevail.

If the book value of an asset is higher than the expected recoverable value, the asset is written down to the latter value.

Tangible fixed assets

Tangible assets are reported after deduction for accumulated depreciation according to plan and after any accumulated write-downs. Depreciation of property, machinery and equipment is based on the acquisition cost of the asset and its estimated economic life. Plant buildings and related land improvements are generally depreciated over periods of 20–25 years, while office properties are generally depreciated over 40–50 years. The estimated economic life for vehicles is normally 5 years and 5–15 years for machinery and equipment.

New acquisitions and replacements are capitalized, while repair and maintenance costs are expensed as incurred. When assets are sold or discarded, the acquisition cost is written off, and the associated accumulated depreciation and any gain or loss is entered in the income statement. Any interest expenses are not added to the acquisition cost of the asset but are expensed as they arise. The straight-line depreciation method is used for all types of assets.

If the book value of an asset is higher than the expected recoverable value, the asset is written down to the latter value.

Inventories

Inventories are reported at the lower of cost or market and in all significant respects in accordance with the FIFO (first-in, first-out) method after deductions for obsolescence. Unrealized inter-company gains are eliminated in their entirety.

Leasing

Leasing of fixed assets, whereby the Group is essentially subject to the same risks and benefits as with direct ownership, is classified as financial leasing. However, the Group has entered into certain financial leasing agreements relating to company cars, photocopiers, etc. that, based on materiality criteria, are reported as operational leasing. Leasing of assets where the lessor essentially retains ownership of the assets is classified as operational leasing. Leasing charges are expensed linearly over the leasing period.

Provisions

Provisions are defined as obligations that pertain to the fiscal year or previous fiscal years, and which, on the closing day, are deemed certain or likely to occur, but for which the amounts or the time when they will be fulfilled are uncertain. In the balance sheet, pensions, deferred tax liabilities, restructuring reserves, guarantee commitments and similar items are reported as provisions. For 2003 and earlier years, pension provisions were calculated in accordance with local laws and ordinances in each country.

Research and development

The Group has ongoing costs for product development. These costs are expensed against operating income as they occur. The applicable recommendation imposes stringent requirements as to when a product development project can be reported as an intangible asset in the balance sheet. In practice, these requirements resulted in all product development costs being expensed as they occurred. Research costs are expensed continuously as they occur.

Reporting by segment

Swedish Match's operations comprise seven operational segments: snuff, chewing tobacco, cigars, pipe tobacco and accessories, matches, lighters and other operations. Geographic areas constitute secondary segments and cover the following market regions: the Nordic region, Europe excluding the Nordic region, North America and Other areas.

Use of estimates

The preparation of annual reports in accordance with generally accepted accounting principles requires the board and the president to make estimates and assumptions that affect the amounts of reported assets and liabilities, disclosures regarding uncertain conditions and possible future events and their financial effects on closing day and upon reported income and expenses during the accounting period. The actual outcome may differ from such estimates.

2. Selling and administrative expenses

Selling expenses include expenses for research and development and similar expenses totaling 100 (99, 100) MSEK.

Administration expenses include costs for auditors' fees in accordance with the table below:

	2003	2002	2001
Auditing	13	14	16
Other	7	8	8
PricewaterhouseCoopers	20	22	24
Other accountants (auditing assignments)	1	1	1

3. Other operating income and other operating expenses

Other operating income includes exchange rate gains amounting to 12 (12, 15) MSEK.

Other operating expenses include exchange rate losses amounting to 19 (13, 14) MSEK.

4. Items affecting comparability

During 2002, a cost of 68 MSEK was charged against income for a rationalization program in the Continental Europe division, both within sales and production of cigars and lighters.

A provision of 80 MSEK for the restructuring of cigar operations in Belgium and the US was reported as an item affecting comparability for 2001.

5. Exchange-rate differences and other financial items

	2003	2002	2001
Exchange-rate differences	1	4	43
Other financial items	3	-20	-30
Total	4	-16	13

6. Taxes

Income taxes in 2003, 2002 and 2001 were distributed as follows:

	2003	2002	2001
Current income taxes	-524	-453	-399
Deferred income taxes	-30	-190	-181
Other taxes	-18	-5	-9
Total	-572	-648	-589

The tax effects of temporary differences that resulted in assets and liabilities in the form of deferred tax at December 31, 2003, December 31, 2002 and December 31, 2001 are summarized below:

	2003	2002	2001
Loss carryforwards	268	255	342
Reserve for bad debts	6	-	-
Restructuring reserve	34	36	35
Pension and healthcare benefits	79	95	102
Tax allocation reserve	-397	-378	-344
Depreciation in excess of plan	-417	-358	-317
Inventory reserve	-60	-63	-63
Other	-215	-218	-229
Valuation reserve	-136	-194	-187
Net deferred income tax liabilities	-838	-825	-661

Classified per balance sheet category

Deferred tax assets	245	206	230
Less tax provisions	-1,083	-1,031	-891
Net deferred income tax liabilities	-838	-825	-661

The valuation reserve amounting to 136 MSEK pertains to loss carryforwards not assigned value in the amount of 100 MSEK, restructuring costs not deemed to be tax-deductible in the amount of 29 MSEK and other temporary deductible differences not assigned value in the amount of 7 MSEK.

At December 31, 2003, the Group had deductible loss carryforwards corresponding to 856 MSEK. The Group's deductible tax-loss carryforwards expire as follows:

Year	Amount
2004	58
2005	43
2006	18
2007	16
2008	33
2009	11
Thereafter	677
Total deductible tax loss carryforwards	856

In 2003, 2002 and 2001, the Group's net income was charged with tax of 26.4, 30.5 and 32.0 percent, respectively. The difference between the Group's tax expense and application of the statutory tax rate in Sweden of 28 percent is attributable to the items shown in the following table:

	2003	2002	2001
Swedish tax rate	28.0	28.0	28.0
Adjustments for foreign tax rates	1.1	2.2	2.5
Losses that could not be utilized	1.4	0.7	2.1
Non-taxable items	-2.3	-2.4	-5.2
Non-deductible amortization of goodwill	2.1	2.0	2.6
Adjustments for taxes in prior years	-3.6	-1.2	-0.7
Non-deductible expenses	0.7	2.3	2.6
Other items	-1.0	-1.1	0.1
Total	26.4	30.5	32.0

Nonrecurring items had a positive effect on the tax rate for 2003.

7. Intangible assets

Intangible fixed assets at December 31 are as follows:

	Goodwill		Trademarks		Other intangible assets		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
Acquisition value brought forward	3,783	4,375	2,053	1,964	79	76	5,915	6,415
Purchases/investments	-	-	-	-	27	18	27	18
Companies acquired	54	14	-	-	-	-	54	14
Reclassifications	-	-125	-	125	18	-	18	0
Exchange differences, etc.	-390	-481	-27	-36	-4	-15	-421	-532
Accumulated acquisition value carried forward	3,447	3,783	2,026	2,053	120	79	5,593	5,915
Amortization brought forward	-1,338	-1,298	-405	-313	-27	-35	-1,770	-1,646
Amortization for the year	-212	-208	-100	-115	-7	-4	-319	-327
Reclassifications	-	5	-	-5	-	-	-	0
Exchange differences	149	163	10	28	-15	12	144	203
Accumulated amortization carried forward	-1,401	-1,338	-495	-405	-49	-27	-1,945	-1,770
Book value carried forward	2,046	2,445	1,531	1,648	71	52	3,648	4,145

8. Tangible fixed assets

Tangible assets at December 31 include the following:

	Buildings and land*		Machinery		Equipment, tools and fixtures		New construction		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Acquisition value brought forward	1,815	2,192	3,011	3,117	439	380	599	381	5,864	6,070
Purchases/Investments	62	33	274	169	53	77	162	472	551	751
Companies acquired	3	17	–	2	2	–	–	–	5	19
Sales/disposals	-17	-96	-56	-39	-27	-12	–	-3	-100	-150
Reclassifications	284	36	225	195	62	7	-589	-210	-18	28
Exchange differences	-227	-367	-280	-433	-5	-13	-29	-41	-541	-854
Accumulated acquisition value carried forward	1,920	1,815	3,174	3,011	524	439	143	599	5,761	5,864
Depreciation brought forward	-703	-787	-1,967	-2,064	-253	-225	-3	-24	-2,926	-3,100
Depreciation for the year	-77	-43	-214	-233	-55	-48	–	–	-346	-324
Companies acquired	–	-2	–	-2	-1	–	–	–	-1	-4
Sales/disposals	6	26	55	32	25	10	–	–	86	68
Write-downs	–	-13	–	-7	–	–	–	–	–	-20
Reclassifications	-1	-6	–	10	–	-6	–	2	-1	0
Exchange differences	91	122	179	297	5	16	14	19	289	454
Accumulated depreciation carried forward	-684	-703	-1,947	-1,967	-279	-253	11	-3	-2,899	-2,926
Book value carried forward	1,236	1,112	1,227	1,044	245	186	154	596	2,862	2,938

* Buildings and land includes land at a book value of 361 (387) MSEK.

At fiscal year-end, the Company has commitments to acquire tangible fixed assets at a value of 40 MSEK.

The tax assessment value at December 31 for property in Sweden is shown below:

	2003	2002
Buildings	302	124
Land	16	16
Total assessed tax value for property in Sweden	318	140

Depreciation of tangible assets was distributed under the following headings in the income statement:

	2003	2002	2001
Cost of goods sold	-233	-208	-220
Selling expenses	-35	-32	-19
Administrative expenses	-78	-84	-90
Total depreciation	-346	-324	-329

9. Shares and participations

Participations in associated companies and other shares included in financial assets at December 31:

	2003		2002	
	Owner-ship %	Book value	Owner-ship %	Book value
Arnold André GmbH & Co. KG	40	79	40	84
P.T. Jamafac	40	48	40	43
Other associated companies		7		8
Total shares in associated companies		134		135
Other shares and participations		11		13
Total shares and participations		145		148

Within the framework of normal business, Swedish Match conducts various transactions with associated companies. Receivables from these companies totaled 30 MSEK at December 31, 2003, and 54 MSEK at December 31, 2002. Total sales to associated companies amounted to 147 MSEK in 2003, 133 MSEK in 2002 and 121 MSEK in 2001.

Participations in associated companies and other shareholdings comprise the following items and changed during 2003 and 2002 as shown in the table below:

	2003	2002
Opening balance from preceding year	148	144
Write-downs of shares in other companies	-2	-
Income from associated companies net after tax	18	16
Dividends from associated companies	-16	-8
Exchange rate differences	-3	-4
Closing balance	145	148

10. Deferred tax receivables

Deferred tax receivables changed during 2003 and 2002 as shown in the table below:

	2003	2002
Opening balance from preceding year	206	230
Changes in deferred tax receivables	69	22
Differences	-30	-46
Closing balance	245	206

11. Long-term receivables

Long-term receivables changed during 2003 and 2002 as shown in the table below:

	2003	2002
Opening balance from preceding year	252	317
Changes in long-term receivables	12	-22
Differences	-38	-43
Closing balance	226	252

12. Inventories

Inventories at December 31 consist of the following items, after deductions for obsolescence:

	2003	2002
Finished goods	800	787
Work in progress	124	141
Leaf tobacco	1,610	2,086
Other input and consumable materials	254	248
Reserve for obsolescence	-112	-108
Total inventories	2,676	3,154

The reserve for obsolescence changed during the year as shown below:

Reserve for obsolescence	2003	2002
Balance brought forward	-108	-143
Provision during the year	-50	-22
Withdrawal during the year	25	39
Write-off and other	21	18
Closing balance	-112	-108

13. Reserve for bad debts

Reserve for bad debts at December 31, consists of the following:

	2003	2002
Balance brought forward	-111	-146
Provision during the year	-42	-10
Recovery during the year	24	12
Write-off during the year	10	15
Exchange rate difference	8	18
Closing balance	-111	-111

14. Liquid funds

Liquid funds consist of short-term investments in the form of interest-bearing securities, cash and bank balances in accordance with the following:

	2003	2002
Short-term investments		
Treasury bills	616	492
Bank certificates	149	518
Mortgages certificates	398	-
Other financial investments	6	17
	1,169	1,027
Cash and bank		
Bank accounts and cash	1,412	959
Investment loans in banks	85	30
	1,497	989
Total liquid funds	2,666	2,016

The Group includes in liquid funds short-term financial investments that are traded in the open market and for which the risk of fluctuations in value is insignificant.

15. Shareholders' equity

Swedish Match's share capital is distributed among 361,596,181 shares with a par value of SEK 2.40 per share. Each share carries one vote. Through repurchases and after share cancellations, the Company owns 23,263,000 shares, and the net total of shares outstanding, accordingly, amounts to 328,333,181.

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of 1.70 SEK (1.60) be distributed to shareholders, which corresponds to a total of 558 MSEK (535) based on the number of shares outstanding at year-end.

Shareholders' equity includes accumulated translation differences as follows:

	2003	2002
Opening balance	-745	-278
Translation differences	-116	-467
Closing balance	-861	-745

The translation difference was reduced by currency hedging of shareholders' equity amounting to 61 MSEK (280).

16. Pensions and similar obligations

The Group applies various pension plans for its employees worldwide. Pension provisions are calculated in accordance with actuarial principles in each country. Most of the company's pension plans are defined as benefit-based pension obligations, which are covered either by insurance, or by funded or unfunded pension plans.

The pension benefits offered to employees of the Group's Swedish operations are covered mainly by two fully independent superannuation funds. These funds also provide pension benefits for the employees of a former subsidiary. At December 31, 2003, the market value of assets in the funds exceeded the actuarial value of the pension obligations. The surplus funds can be used only after approval by the Boards of these funds. In 2002 and 2003, no contributions were made from these funds to the group's companies' in Sweden. In 2001, the funds contributed 53 MSEK. The Company has initiated a review of the pension funds' operations.

The Group also has foundations or similar arrangements for a number of benefit-based pension obligations, primarily in the US, Sweden and the UK.

Some of the Group's benefit-based pension commitments, primarily local and national general plans, are covered by the Company. The current value of these future pension benefits is reported as a liability in the Consolidated Balance Sheet and totals 93 (88) MSEK.

In addition to pension plans, the Group's US subsidiaries employ unfunded plans for healthcare and other benefits for retired employees who fulfill the requirements for minimum age and years of service. These plans generally involve a cost contribution, for which the retired employee's share of cost is adjusted regularly and includes other components such as deductible amounts and co-insurance. The estimated future cost of pension benefits for healthcare is entered as a liability, in accordance with US accounting principles. This liability in the consolidated balance sheet amounts to 279 (319) MSEK.

17. Other provisions

Other provisions at December 31 consist of the following:

	Total provisions	Restructuring provisions	Tax provisions	Other provisions
Opening balance	867	88	596	183
Provisions	58	0	8	50
Utilization	-45	-19	13	-39
Reversals for the year	-77	-19	-56	-2
Reclassifications	-29	-29	-	-
Translation differences	-110	-3	-92	-15
Closing balance	664	18	469	177

The restructuring reserves pertain mainly to the non-performing part of the past two years' restructuring of the Group's cigar operations in regard to severance pay, etc. Most of these provisions will be paid during the next two years.

The tax-related provisions mainly pertain to reserves for taxes in foreign subsidiaries in respect of previous income years. The timing of outflows of resources is difficult to predict.

Other provisions include allocations for issued discount coupons and for tobacco tax disputes in Sweden.

18. Interest-bearing bond loans/liabilities to credit institutions

The maturity structure of the Group's long-term interest-bearing liabilities is as follows:

Year	Amount
2005	903
2006	2,528
2007	299
2008	714
2009 and later	91
Total	4,535

Current interest-bearing liabilities to credit institutions	2003	2002
Next year's amortization of long-term loans	601	730
Bank overdraft facility utilized	36	35
Other current liabilities	209	225
Total	846	990

19. Other current liabilities

Other current liabilities at December 31 consist of the following:

	2003	2002
Tobacco taxes	840	798
Value Added Tax liability	263	231
Other	226	273
Total	1,329	1,302

20. Accrued expenses and prepaid income

Accrued expenses and prepaid income at December 31 consist of the following:

	2003	2002
Accrued wage/salary-related expenses	183	155
Accrued vacation pay	72	67
Accrued social security charges	66	61
Other	469	499
Total	790	782

21. Pledged assets

	2003	2002
For the Group's own long-term liabilities		
Property mortgages	1	–
Inventories	35	36
Receivables	25	18
Liquid funds	–	30
Total own long-term liabilities	61	84
Other collateral pledged		
Liquid funds	93	8
Total other collateral pledged	93	8

22. Commitments and contingent liabilities

Operating lease agreements

Future annual minimum charges under the terms of irrevocable operating lease agreements with initial or remaining terms of one year or more consisted of the following at December 31, 2003:

Within one year	113
More than one year but less than five years	351
More than five years	674
Total minimum lease charges	1,138

The Group's leasing expenses for operating lease agreements amounted to 117 (118, 108) MSEK during 2003, 2002 and 2001 respectively.

Future irrevocable minimum lease income for properties that are sublet is distributed in accordance with expiration dates as follows:

Within one year	44
More than one year but less than five years	83
More than five years	5
Total minimum lease income	132

Rental revenues, own properties

Within the Group are properties which in part are rented externally. At year-end, the properties being rented externally consist of the following:

Accumulated acquisition value, closing balance	409
Accumulated depreciation, closing balance	–136
Book value, carried forward	273

Depreciation for the year amounts to 15 MSEK.

Future irrevocable minimum lease income for own properties that are leased externally is distributed in accordance with expiration dates as follows:

Within one year	37
More than one year but less than five years	107
More than five years	96
Total minimum lease income	240

The Group's rental revenues from own properties in 2003 amounted to 42 MSEK.

Contingent liabilities

	2003	2002
Guarantees to subsidiaries	158	194
Guarantees to external companies	3	6
Other guarantees and contingent liabilities	280	99
Total contingent liabilities	441	299

Guarantees to subsidiaries pertain to undertakings on behalf of the companies above and beyond the amounts utilized and entered as liabilities in the companies. Other contingent liabilities pertain in part to guarantees placed vis-à-vis state authorities for Group companies' fulfillment of undertakings in connection with import and payment of tobacco taxes.

Performance-based adjustment of acquisition values

In the case of some of Swedish Match's acquisitions there are agreements with the seller concerning a supplement to the purchase price if the profit of the acquired company reaches a certain pre-specified level. The maximum amount to which this can give rise is 28 MSEK.

There is an agreement with the minority shareholders of General Cigar concerning selling and buying options with regard to the minority's holdings. The options can be exercised over the period 2004–2006. Valuation of the shares in connection with the exercising of sales options is determined on the basis of the company's earnings, at certain minimum levels. The value of the minority shareholders' total holdings, cannot be less than 97 MUSD.

Leaf tobacco purchases

Some subsidiaries have entered contractual commitments with tobacco growers regarding future purchases of leaf tobacco.

Legal disputes

The Company is involved in a number of legal proceedings of a routine character. Among others, there are proceedings against General Cigar, where Cubatobacco is claiming that General Cigar does not have the right to use the Cohiba brand. General Cigar, jointly with a number of persons in the company's management, Board of Directors and ownership sphere, is also the subject of a class action in the state of Delaware that was initiated in May 2000 as a result of Swedish Match's purchase of shares in General Cigar. No damages amount has been determined in the case. Although the outcomes of these proceedings cannot be anticipated with any certainty, and accordingly no guarantees can be made, the view of management is that liabilities attributable to these disputes, if any, should not have any significant negative impact on the earnings or financial position of Swedish Match.

Subsidiaries of Swedish Match in the US are the defendant in cases where it is claimed that the use of tobacco products has caused health problems. Pinkerton Tobacco Company (subsidiary of Swedish Match North America, Inc.) is one of the defendants in a case in Minnesota in which the plaintiff claims that use of chewing tobacco caused her husband's death. However, the court dismissed the case from any further proceedings in March

Note 22, cont.

2003. An appeal has been lodged against the court's decision, but corporate management is convinced that in the end Pinkerton will be dismissed from the case. Pinkerton is also named as a defendant in some of the more than 1,200 cases against cigarette manufacturers and other tobacco companies that have been initiated in state courts in West Virginia. Pinkerton, however, has been severed out of the consolidated process in these cases and it is unclear whether any of the plaintiffs intends to pursue their demands separately against Pinkerton. Finally, Pinkerton Tobacco Company and Swedish Match North America Inc. are named as defendants in a class-action suit filed in Florida in November 2002 against several different companies active in the American market for smokeless tobacco and their joint interest association. Swedish Match has not yet replied to the charge and has been granted an unlimited time extension by the plaintiff. Although management cannot in any meaningful way estimate the damages that might be awarded, if any, in any ongoing or anticipated disputes, it holds the view that there are good defenses against all the claims and each case will be defended vigorously.

The Securities and Exchange Board of India (SEBI) has ordered Swedish Match AB and certain of its subsidiaries to make a public offer to acquire 20 percent of the shares outstanding in Wimco Ltd. In accordance with the ruling, the price per share shall be not less than 35 INR plus 15 percent annual interest from January 27, 2001. The total purchase price in this case would amount to approximately 83 MSEK. The ruling was appealed to the Securities Appellate Tribunal, which decided, however, not to change it. Swedish Match has appealed this decision to the Supreme Court in India, which has granted a retrial. A final decision is expected during the first half of 2004. If the Indian Supreme Court does not uphold Swedish Match's plea, it could rule in favor of SEBI's original decision or rule that Swedish Match must sell its shares in Wimco. There is a risk that shares that may be covered by compulsory bidding could be acquired at a price substantially higher than the book value of Swedish Match's shares in Wimco.

Swedish Match North America, Inc. has filed a federal civil antitrust action against U.S. Smokeless Tobacco Company (USST) and other companies within the UST group in the United States District Court for the Western district of Kentucky. Swedish Match North America, Inc. is seeking a permanent injunction against USST, to stop the use of illegal methods aimed at suppressing competition in the American snuff market, and substantial damages. USST is contesting the allegations. (This lawsuit was settled in March 2004.)

The administrative court in Minden, Westphalia, Germany, has decided to refer the question of the legality of the EU's snuff prohibition to the European Court in Luxemburg. In its decision the Court decided to stay the initiated proceedings pending a ruling from the European Court of Justice concerning the following question: Is the snus prohibition in accordance with imperative law of the European Community? Swedish Match's distributor in Germany, Arnold André GmbH is claiming that the ban on the sales of snus is discriminatory and disproportionate, and that the EU exceeded its legislative competence when the prohibition was enacted. A similar case was also referred from the High Court of Justice in the UK in June 2003. Hearing for both these cases has been set for June 8th, 2004.

23. Supplementary information to cash flow statement

The cash flow statement is prepared using the indirect method. The cash flow reported only covers transactions involving payments received or made. For foreign subsidiaries, all transactions are translated at the average exchange rate for the year. Acquisitions or divestments by subsidiaries are included net under investment activities and do not affect cash flow in operations. Liquid assets comprise cash and bank balances. See Note 14.

Acquisitions of subsidiaries in 2003

During 2003, subsidiaries were acquired for a total of 78 MSEK, including minority shares in already partly owned subsidiaries. For these companies taken as a whole, the total value of acquired assets and liabilities, purchase sums, and the impact on the Group's liquid funds were as follows:

Tangible fixed assets	4
Intangible fixed assets	54
Inventories	14
Other assets/liabilities, net	6
Purchase price paid	78
Cash and bank balances in acquired companies	0
Effect on the Group's liquid funds	78

Interest paid and dividends

Interest payments during the year amounted to 283 (330, 399) MSEK. Interest received during the year amounted to 249 (95, 138) MSEK.

Dividends received from associated companies during the year amounted to 16 (8, 11) MSEK.

24. Reported and current value for interest-bearing financial instruments

The table below shows the book value (including accrued interest) and the actual value of each type of interest-bearing financial instrument as at December 31, 2003. Accounts receivable and accounts payable – trade, are reported at their actual value and have not been included in the table. The estimated fair value is based on market prices at year-end. Loans have been assigned market value based on the current interest rate for the remaining duration, the original credit spread and the present-value computation of future cash flow. The values shown are indicative and will not necessarily be realized.

	2003		2002	
	Book value	Estimated fair value	Book value	Estimated fair value
Short-term investments				
Treasury bills	621	622	509	516
Bank certificates	150	150	519	519
Mortgage certificates	399	399	0	0
Total	1,170	1,171	1,028	1,035
Long-term loans				
Fixed interest	-3,763	-3,984	-4,046	-4,269
Variable interest	-1,022	-1,021	-500	-501
Total	-4,785	-5,005	-4,546	-4,770
Short-term loans				
Fixed interest	-560	-565	-439	-442
Variable interest	-308	-307	-566	-566
Total	-868	-872	-1,005	-1,008
Derivative instruments				
Currency forwards	4	5	35	35
Currency swaps	239	263	86	94
Interest rate swaps	234	252	253	386
Total	477	520	374	515

25. Reporting of segments

Primary segments – product areas

The Group is organized in seven main product areas. Other operations include, among others, distribution of tobacco products in the Swedish market, sales of advertising products, Groupwide costs and costs for business development and legal fees.

The product area assets consist primarily of tangible and intangible fixed assets, inventories and operating receivables. Product area liabilities comprise operating liabilities. Non-allocated assets and liabilities are mainly assigned to financial items and taxes.

No sales are transacted between the different product areas.

The tables below summarize selected information by product area:

External sales	2003	2002	2001
Snuff	2,995	2,788	2,457
Chewing tobacco	1,146	1,333	1,377
Cigars	3,008	3,318	3,481
Pipe tobacco and accessories	909	843	933
Matches	1,395	1,648	1,690
Lighters	599	700	809
Other operations	2,984	3,013	2,888
Total	13,036	13,643	13,635

Income	2003	2002	2001
Snuff	1,386	1,233	950
Chewing tobacco	336	406	372
Cigars	393	522	500
Pipe tobacco and accessories	201	164	236
Matches	83	221	183
Lighters	14	74	101
Other operations	-189	-181	-149
Subtotal	2,224	2,439	2,193
Items affecting comparability*	-	-68	-80
Total	2,224	2,371	2,113

Non-allocated costs and revenues

Interest income	229	108	121
Interest expense	-283	-337	-407
Other financial items	4	-16	13
Taxes	-572	-648	-589
Minority interests	-44	-49	-23
Total	1,558	1,429	1,228

* Items affecting comparability for 2002 in an amount of 68 MSEK were divided between cigars (50 MSEK) and lighters (18 MSEK). Items affecting comparability for 2001 in an amount of 80 MSEK pertain entirely to cigars.

Income from associated companies for the year amounted to 7 MSEK (11, 15) for cigars and 13 MSEK (11, 10) for matches. During 2001, operating income for lighters was affected in an amount of 3 MSEK pertaining to profit participations in associated companies.

Assets and liabilities	Assets		Liabilities	
	2003	2002	2003	2002
Snuff	1,558	1,505	401	301
Chewing tobacco	398	473	88	74
Cigars	5,391	6,407	560	578
Pipe tobacco and accessories	1,244	1,246	139	136
Matches	1,466	1,566	294	335
Lighters	483	572	137	161
Other operations	1,116	973	1,219	1,120
Non-allocated assets/liabilities	3,446	2,705	7,657	8,049
Minority interests and shareholders' equity	-	-	4,607	4,693
Total	15,102	15,447	15,102	15,447

Equity shares in associated companies for the year amounted to 79 MSEK (84) for cigars, 48 MSEK (43) for matches and 7 MSEK (7) for lighters.

Investments	Tangible fixed assets			Intangible fixed assets		
	2003	2002	2001	2003	2002	2001
Snuff	219	424	238	3	1	139
Chewing tobacco	23	42	36	-	-	-
Cigars	193	169	239	49	13	36
Pipe tobacco and accessories	15	20	9	20	-	673
Matches	81	58	68	3	10	5
Lighters	11	21	27	-	-	3
Other operations	9	17	16	6	8	23
Total	551	751	633	81	32	879

Depreciation/Amortization	Tangible fixed assets			Intangible fixed assets		
	2003	2002	2001	2003	2002	2001
Snuff	71	56	56	18	17	16
Chewing tobacco	29	41	35	-	-	-
Cigars	111	111	123	177	203	197
Pipe tobacco and accessories	13	9	9	58	53	63
Matches	80	60	60	39	34	26
Lighters	29	35	37	11	6	1
Other operations	13	12	9	16	14	38
Total	346	324	329	319	327	341

Note 25, cont.

Secondary segments – geographic areas

The Group's operations are primarily conducted in four geographic areas. The sales figures relate to the geographic area where the customer is domiciled. Assets and investments are reported where the asset in question is located. Non-allocated assets and liabilities are mainly assigned to financial items and taxes.

External sales	2003	2002	2001
Nordic region	4,874	4,683	4,260
Europe excluding Nordic region	2,076	2,214	2,154
North America	4,135	4,688	4,973
Other areas	1,951	2,058	2,248
Total external sales	13,036	13,643	13,635

Assets	2003	2002
Nordic region	3,321	3,093
Europe excluding Nordic region	2,065	2,307
North America	4,224	5,335
Other areas	2,046	2,007
Non allocated assets	3,446	2,705
Total assets	15,102	15,447

Investments	Tangible fixed assets			Intangible fixed assets		
	2003	2002	2001	2003	2002	2001
Nordic region	253	420	209	5	17	12
Europe excluding Nordic region	68	124	106	42	2	136
North America	172	136	248	–	–	27
Other areas	58	71	70	34	13	704
Total investments	551	751	633	81	32	879

26. Net income and shareholders' equity in accordance with US GAAP

The accounts of Swedish Match are prepared in accordance with Swedish accounting principles ("Swedish GAAP"). Since the listing of Swedish Match on the NASDAQ Exchange in the US, the company has issued certain financial information prepared in accordance with American accounting principles (US GAAP). Swedish Match also submits a report each year (Form 20-F) to the US Securities and Exchange Commission (SEC), which includes additional information about Swedish Match's business activities in accordance with established regulations.

A summary of the effects on the Group's income and shareholders' equity due to the application of US GAAP is presented in the tables below:

	Note	2003	2002	2001
Reconciliation of net income				
Net income in accordance with Swedish GAAP		1,558	1,429	1,228
Items that increase or reduce income				
Reversal, changed accounting principles		–	–	–51
Reporting of goodwill, etc.	a	211	191	–146
Restructuring expenses	b	–	–29	–47
Sale-leaseback properties	c	6	–24	4
Derivative instruments	d	–99	126	–29
Pensions	e	–25	–9	17
Other	f	22	21	3
Tax effects of above US GAAP adjustments		7	–38	2
Net income in accordance with US GAAP before cumulative effect of revised accounting principle		1,680	1,667	981
Cumulative effect of revised accounting principle	a	–	–206	–
Net income in accordance with US GAAP		1,680	1,461	981

Note 26, cont.

	Note	2003	2002	2001
Earnings per share in acc. with US GAAP before cumulative effect of revised accounting principle				
– basic		5.05	4.79	2.71
– diluted		5.03	4.75	2.70
Cumulative effect per share of revised accounting principle				
– basic		–	0.60	–
– diluted		–	0.59	–
Earnings per share, in accordance with US GAAP, basic		5.05	4.19	2.71
Earnings per share, in accordance with US GAAP, diluted		5.03	4.16	2.70
Reconciliation of shareholders' equity				
Shareholders' equity in accordance with Swedish GAAP		4,010	4,007	
Items that increase/reduce shareholders' equity				
Reporting of goodwill, etc.	a	1,776	1,587	
Restructuring expenses	b	–34	–41	
Sale-leaseback of properties	c	–284	–290	
Derivative instruments	d	27	126	
Pensions	e	–81	–81	
Other	f	64	43	
Tax effects of above US GAAP adjustments r		43	40	
Shareholders' equity in accordance with US GAAP		5,521	5,391	

a) Reporting of goodwill, etc.

At December 31, 1995, Swedish Match was owned by the Volvo Group, which acquired the Parent Company in two stages, November 1993 and June 1994, whereby the purchase method was applied in reporting the transactions. US GAAP requires that “push down” accounting be applied for independent annual reports of wholly owned subsidiaries if the ownership share is 95 percent or more, which was the case in Volvo’s acquisition in 1994. Consequently, the adjustments made in accordance with the purchase method by Volvo, pertaining to Swedish Match, began being reported for US GAAP purposes by Swedish Match in June 1994. The goodwill thereby calculated has subsequently been further adjusted since US GAAP requires that the acquisition price shall be set on the basis of the payment amount at the time the transaction was completed and not the date the transaction was announced, as required by Swedish GAAP. Total gross value of goodwill which, according to the above, was transferred to Swedish Match in 1994 amounted to 6,158 MSEK. Adjustments for property, machinery and equipment amounted to 119 MSEK. In 1999, Swedish Match divested its cigarette operations. This has resulted in a reduction in the goodwill value that was transferred from Volvo to the extent it was applicable to cigarette operations. The original gross value attributable to the cigarette operations totaled 3,605 MSEK. The planned residual value of this goodwill entry, consequently, has been settled against the capital gains that arose in the sale of the cigarette operations. The remaining acquisition value for goodwill pertaining to the remaining operations within Swedish Match amounts to 2,553 MSEK. The corresponding amount for properties, machinery and equipment is 49 MSEK. Amortization of the above goodwill amounted to 128 MSEK in 2001.

According to Swedish accounting principles, goodwill is to be amortized in a systematic manner over its useful life. The useful life for goodwill is always limited. In accordance with the U.S. accounting recommendation FAS 142, “Goodwill and Other Intangible Assets,” which applies from

January 1, 2002, goodwill and intangible fixed assets with an indeterminate useful life may no longer be subject to amortization. Instead, an impairment test shall be made in connection with the transition to FAS 142, and then on an annual basis. Trademarks and other intangible assets in the company have thereby been deemed to have a fixed useful life. As a consequence, the goodwill amortizations made since 2002 in accordance with Swedish accounting principles, amounting to 212 (208) MSEK, were reversed for US GAAP purposes. According to FAS 142, potential impairment arises if the book value of a “reporting unit” exceeds its fair value. With the transition to FAS 142, an impairment test of goodwill was made January 1, 2002. This resulted in a goodwill write-down in accordance with US GAAP of 206 MSEK in pipe tobacco operations in northern Europe. The actual value of the operations was calculated as the present value of the estimated future payments which the operations could be expected to give rise to. This write-down was, in accordance with US GAAP, reported as the cumulative effect of revised accounting principles, and was therefore charged to income for 2002. Examinations during the year of the possible need for a write-down did not result in any further adjustment.

Reported income in accordance with US GAAP for 2001 was not affected by the FAS 142 regulations. Had the Company applied FAS 142 beginning in January 2001, reported income and earnings per share in accordance with US GAAP would have been as follows:

	2001
Reported income in accordance with US GAAP	981
Reversal of goodwill amortization	330
Adjusted income in accordance with US GAAP	1,311
Earnings per share, basic	
	2001
Reported income in accordance with US GAAP	2.71
Goodwill amortization	0.92
Adjusted income in accordance with US GAAP	3.63
Earnings per share, diluted	
	2001
Reported income in accordance with US GAAP	2.70
Goodwill amortization	0.91
Adjusted income in accordance with US GAAP	3.61

A performance-based supplementary amount to the purchase amount for a company has, in accordance with Swedish accounting principles, increased the reported value of goodwill. In accordance with US GAAP, the specified purchase amount shall in certain cases be reported as an expense for services performed. A specified purchase amount of 0 MSEK (16, 17) was expensed during the period.

b) Restructuring costs

Up to and including December 31, 2002, restructuring costs specified in EITF 94-3 in accordance with US GAAP were not reported until an informal obligation had arisen. An informal obligation was considered to have arisen at the point in time when the appropriate decision-making level had committed the company to the restructuring plan, identified all significant measures, including the methods and timetable for implementation, and, in the event that employees were to be laid off, had specified the severance terms and communicated them to the employees. Prior to 2002, Swedish reporting principles were less restrictive with regard to the types of costs that could be included, which could lead to discrepancies in results. Since 2002, Swedish reporting principles have been essentially in concord with EITF 94-3.

Certain costs for reorganization reserves, related to acquisitions prior to 2002, which affect the acquired company are included in the goodwill amount in the consolidated balance sheet in accordance with Swedish accounting principles. In accordance with US GAAP, these costs have been expensed since they were not associated with the acquired company.

Note 26, cont.

In January 2003, SFAS 146 was issued within US GAAP. SFAS 146 requires that a liability in conjunction with a closure or divestment shall be reported when the liability formally arises, rather than on the day when the company has decided upon, communicated and thereby entered into an informal undertaking. The exact point in time for reporting and for the related determination of the liability for severance pay for employees who must leave the company involuntarily depends on whether the employees must provide services until the termination of their employment in order to receive severance pay, and if this is the case, whether the employees will be remaining at the company for a longer period than the shortest possible period of notice as defined in local laws and agreements.

SFAS 146 invalidates EITF 94-3 and must be applied in the case of closures or divestments initiated after December 31, 2002. All restructuring measures begun prior to January 2003 will continue to be reported in accordance with EITF 94-3 in conformity with US GAAP. The company undertook no new restructuring measures during 2003, but in accordance with the new US GAAP recommendation, certain differences will occur in the future.

c) Sale and leaseback of properties

In 1998 and 2002, the Group sold properties and is now leasing them back under leasing agreements, which, according to Swedish accounting principles, are classified as operational leasing. Since Swedish Match has an option to repurchase these properties, the sales are regarded in terms of US GAAP as financing arrangements, with the result that income recognition is postponed and the sale proceeds are booked as a liability. The capital gain that arose in 2002 amounted to 27 MSEK, and the corresponding capital gain in 1998 amounted to 266 MSEK. The value of the properties has thus been recovered and normal depreciation according to plan is being applied.

d) Derivative instruments

In connection with valuation of derivatives, the Company has applied hedge accounting under Swedish GAAP. Since the Company does not meet the requirements stipulated by US GAAP for qualifying to apply hedge accounting, changes in the actual value of derivatives are reported in the income statement.

e) Pensions

According to Swedish accounting principles, pensions are reported by every unit of the Swedish Match Group, if required, based on principles deemed appropriate for local statutory purposes, provided they stipulate that pension entitlements are reported as an expense. Under US GAAP, pensions are reported in accordance with FAS 87, "Employers' Accounting for Pensions." The Group has estimated the effects on net income and shareholders' equity under the assumption that FAS 87 provisions are being applied.

The Alecta insurance company decided in April 2000 in favor of rebates to customers, including Swedish Match. In accordance with accepted accounting practice in Sweden, both the cash component and the discounted present value of future premium reductions are recognized as revenues. In accordance with US GAAP, future premium reductions are reported as revenues only upon being received.

f) Other

Borrowing costs which are directly attributable to purchases, construction or production of an asset which requires considerable time to complete for its intended use, shall, in accordance with US GAAP, be included as part of the assets' acquisition value. In accordance with Swedish accounting principles, these borrowing costs are expensed on an ongoing basis. During 2003, 24 (16) MSEK was included in the acquisition value of buildings and land.

The Board of Directors decided in 1999 to introduce an options program for Senior Management. In accordance with Swedish GAAP, the Company makes provisions for social fees and withholding tax on the options. In accordance with US GAAP, these costs are not reported until the tax liability arises, which normally occurs when the options are issued.

Short-term investments are reported according to Swedish GAAP, at the lower of cost or market value. In accordance with US GAAP, Swedish Match's short-term investments can be classified as "available for sale." According to US GAAP, such assets must be valued at market value in the balance sheet. Accrued interest is thus reported in the income statement, while the difference between market value and accrued acquisition value, after due consideration of taxes, is entered directly as equity. Reversal from equity to income statement takes place when a capital gain or loss is realized.

g) Deconsolidation of General Cigar

Swedish Match acquired 64 percent of the American company General Cigar in May 2000. The Cullman family holds the remaining 36 percent. According to the shareholder agreement between Swedish Match and the Cullman family the minority shareholder has the opportunity to actively participate in significant issues pertaining to daily operations in General Cigar, known as "substantive participating rights." Accordingly, General Cigar should not be consolidated by Swedish Match. Therefore, the investment in General Cigar is reported applying the equity method according to US GAAP. This does not result in any effect on reconciliation of net income for the year or shareholders' equity in accordance with Swedish GAAP or US GAAP. However, the balance sheet is affected by this difference. The table presents a condensed consolidated balance sheet in accordance with Swedish GAAP and US GAAP, whereby all US GAAP adjustments described in this section are considered.

Consolidated balance sheet, point g	Reported in accordance with Swedish GAAP		Reported in accordance with US GAAP	
	2003	2002	2003	2002
Fixed assets	7,126	7,689	9,660	9,989
Current assets	7,976	7,758	6,531	6,132
Total assets	15,102	15,447	16,191	16,121
Shareholders' equity	4,010	4,007	5,521	5,391
Minority interests	597	686	27	41
Provisions	2,119	2,293	1,745	1,825
Long-term liabilities	4,601	4,603	5,207	5,153
Current liabilities	3,775	3,858	3,691	3,711
Total liabilities and shareholders' equity	15,102	15,447	16,191	16,121

h) Cash-Flow Statement

According to SFAS 95, "cash and cash equivalents" only cover funds with terms of three months or less. Some of Swedish Match's liquid funds (see Note 14) do not meet this requirement. As a result, changes in this segment of liquid funds are reported as investments, as defined by SFAS 95.

Also, in accordance with Swedish accounting principles, changes in short-term borrowing, where the term is twelve months or less, are reported net. In accordance with SFAS 95, there is a three-month limit for such net reporting.

27. Personnel

The average number of employees in the Parent Company during 2003 was 45, and in the Group was 15,115. The corresponding numbers in 2002 were 40 and 14,795, respectively.

Wages, salaries, other remuneration and social costs are summarized below:

	2003			2002		
	Salaries and other compensation	Social costs (of which pension costs)		Salaries and other compensation	Social costs (of which pension costs)	
Parent Company	46	25 (8)		42	23 (8)	
Subsidiaries	1,725	620 (104)		1,774	592 (124)	
Group	1,771	645 (112)		1,816	615 (132)	

Wages, salaries and other remuneration by country and between members of the Board, etc., and other employees, are summarized below:

	2003			2002		
	Board and CEO (of which bonuses, etc)	Other employees		Board and CEO (of which bonuses, etc)	Other employees	
Parent Company						
Sweden	14 (2)	32		14 (3)	28	
Subsidiaries						
Australia	3 (0)	15		2 (0)	16	
Belgium	1	91		2	103	
Brazil	3 (1)	32		4 (1)	38	
Bulgaria	–	3 (0)		–	2	
Dominican Republic	–	121		–	146	
Philippines	–	7 (0)		–	11	
France	–	29		–	24	
Honduras	–	33		–	37	
India	1	55		1 (0)	65	
Indonesia	–	13		–	1	
Ireland	1	12		1 (0)	13	
China	–	13		–	15	
Netherlands	4	172		4 (1)	151	
Portugal	–	5		–	4	
Switzerland	2	3 (0)		–	10	
South Africa	–	62		1	42	
Spain	–	47		4	44	
United Kingdom	3	43		4 (1)	52	
Sweden	4 (1)	357		4 (0)	303	
Turkey	–	22		2	21	
Germany	1	20		1	22	
Hungary	–	14 (0)		–	15	
United States	11 (4)	504		13 (2)	582	
Other countries	3 (0)	15		2 (0)	10	
Total in subsidiaries	37 (6)	1,688		47 (5)	1,727	
Group total	51 (8)	1,720		61 (8)	1,755	

During 2003, 14.6 MSEK (13.7) was paid into the profit-sharing fund for Group employees in Sweden.

Employees by country are detailed below:

Average number of employees	2003	of whom men, %	2002
Parent Company			
Sweden	45	53	40
Other			
Australia	50	60	54
Belgium	378	31	475
Brazil	800	72	802
Bulgaria	115	43	120
Dominican Republic	3,270	38	2,886
Philippines	129	51	175
France	66	64	73
Honduras	1,087	45	1,018
India	3,364	99	3,632
Indonesia	1,466	13	1,166
Ireland	38	41	46
China	292	64	296
Netherlands	414	83	445
Portugal	30	67	24
Switzerland	6	67	8
Spain	167	77	173
United Kingdom	72	61	87
Sweden	996	57	929
South Africa	553	91	553
Turkey	208	84	236
Germany	60	48	58
Hungary	188	41	209
United States	1,264	58	1,250
Other countries	57	72	40
Group total	15,115	60	14,795

Leading executives, gender distribution:

	2003		2002	
	At end of period	(of whom men, %)	At end of period	(of whom men, %)
Parent Company				
Board members	10	80	10	80
CEO and other management	11	100	11	100
Group				
Board members	130	95	130	95
CEO and other management	137	96	128	96

Compensation to senior executives

Compensation to Board

Fees are paid to the Chairman of the Board and Board members in accordance with decisions of the Annual General Meeting. No Board fee is paid to the President. A study fee in an amount of 38,750 SEK was paid to each of the three employee representatives on the Board, and in an amount of 29,000 SEK to each of the three deputy members. The fees paid to Board members elected by the Annual General Meeting for Board work during 2003 are shown in the table below:

Note 27, cont.

Board fees to Board members elected by AGM

(SEK)	Board fee	Com- pensation Committee	Audit Committee	Total fees for Board work
Bernt Magnusson	625,000	37,500		662,500
Jan Blomberg	262,500	28,125	56,250	346,875
Tuве Johannesson	262,500			262,500
Arne Jurbrant	262,500		37,500	300,000
Meg Tivéus	262,500		37,500	300,000
Klaus Unger	262,500	28,125		290,625
Total	1,937,500	93,750	131,250	2,162,500

Principles for compensation of senior executives

Compensation to the President and other senior executives is comprised of base salary, variable compensation in the form of a bonus, share-related instruments in the form of options, and other benefits. By senior executives is meant the ten persons who, together with the President, comprise Group management. For the composition of Group management, see pages 76–77.

The breakdown between base salary, bonus and options is weighted with respect to the executive's responsibility and authority. For 2003, the President's bonus was maximized to 50 percent of base salary, for the Executive Vice President the bonus was maximized to 40 percent of base salary, and for other senior executives, 35 percent of base salary.

Compensation and other benefits during the year

(SEK 000s)		Base salary	Bonus	Options	Other com- pensation	Other benefits	Pension cost	Total
President	2002	4,600	1,400	1,300	183	188	398	8,069
	2003	5,300	1,610	924	166	153	463	8,616
Other senior executives	2002	20,730	6,842	5,850	0	1,564	5,844	40,830
	2003	22,435	5,482	4,158	0	1,391	6,936	40,402
Total	2002	25,330	8,242	7,150	183	1,752	6,242	48,899
	2003	27,735	7,092	5,082	166	1,544	7,399	49,018

Comments on the table

- Bonus pertains to bonus payments made during the year based on the results for 2002. The expensed bonuses for fiscal 2003, which are paid during 2004, amount to 1,855,000 SEK for the President and a total of 4,485,000 SEK for the rest of Group management.
- Options. Reported here are gross amounts, excluding social costs, which are disposable for allocation of options. Unless the employee personally pays income tax on the received options, the amount is reduced by the amount of the calculated income tax and the allocation is based on the net amount. For further information on options, see also page 16.
- Other compensation to the President pertains to bonuses derived from associated companies.
- Other benefits pertain to automobile benefit, housing benefit and other taxable benefits.
- The Group has both defined-benefit and defined-contribution pension plans. Pension costs refer to the costs that affect net income for the year. The increase in pension liability in the foundation relates to defined-benefit pensions funded in a pension foundation. A certain portion of the pensions of the President and the Swedish members of Group management is funded in a pension foundation. The increase in liability in the foundation for these obligations during 2003 was 6,251 TSEK (4,085) for the President and 5,619 TSEK (5,436) for other members of Group management. No allocation was made to the foundation.

Bonus

For the President and staff managers, the bonus is based on the income-per-share trend, and for the division Presidents, on the operating income trend within the division and income per share. See also page 16.

Options

The table below shows the number of shares corresponding to options received or acquired.

	Programs from previous years	Program of 2002 (paid in 2003)	Total
President			
Number of options	269,387	110,000	379,387
Other members of Group management			
Number of options	1,082,119	369,560	1,451,679

Pensions

Up to and including 2003, the President is covered by a defined-benefit pension plan. From age 60 to 65, pension benefits are paid at 70 percent of pensionable salary, and from age 65, at 45 percent of pensionable salary.

For other members of Group management, the normal pensionable age varies between 60–65.

Between 60 and 65 years of age, pensions are paid, if applicable, at 70 percent of pensionable salary. Eight other members of Group management have defined-benefit pension plans, while two have defined-contribution plans. In the case of defined-benefit plans in Sweden, the retirement pension under the ITP plan is payable at a rate of 30 percent on portions of salary up to 30 base amounts and at a rate of 32.5 percent on portions of salary above 30 base amounts.

Note 27, cont.

In most cases (variations may occur, depending on the country where the retiree has been working), pensionable salary refers to the fixed cash salary amount plus the average of the three previous years' bonuses. When calculating pensionable salary, the annual bonus may in no case amount to more than 35 percent of the fixed cash salary amount. All pension benefits are irrevocable.

Severance pay, etc.

For the President, a six-month period of notice applies if the President gives notice of termination, and a 12-month period of notice if termination is initiated by the Company. Severance pay is a maximum of two years salary if initiated by the Company. A maximum severance payment of two years' salary is payable if the company terminates the employment contract. Severance pay will be reduced by a maximum of 50 percent of any other income, but not to less than half of the contracted severance pay.

A six-month mutual notice of intent to terminate employment applies for all other members of Group management. If the Company terminates employment, severance pay is payable in an amount equivalent to 18 months of cash salary.

Preparation and decision-making process

The Compensation Committee held eight meetings during 2003.

The President's salary, bonus and other employment conditions for 2003 were decided by the Compensation Committee. The Compensation Committee also decided, in consultation with the President, the salary, bonus and other employment conditions for 2003 for those employees who report directly to the President. The Compensation Committee decided on the criteria for incentives to senior executives and the payment of incentives. In addition, the Compensation Committee submitted proposals regarding the Group's options program and profit-sharing system to the Board of Directors, which decided on this matter with the guidance of the Committee's recommendations.

As from 2004, the Board of Directors acting in corpore will determine the President's salary, bonus and other terms of employment, and adjudicate on remuneration issues based on principle.

Parent Company Income Statement

(MSEK)	Note	2003	2002
Net sales		15	18
Cost of goods sold		-8	-10
Gross profit		7	8
Selling expenses	1	-11	-12
Administrative expenses	1	-220	-194
Other operating income	2	29	67
Other operating expenses	2	-1	-3
Operating income		-196	-134
Income from participations in Group companies	3	1,390	1,007
Interest income, Group companies		261	336
Other interest income		195	64
Interest expenses, Group companies		-64	-86
Other interest expenses		-205	-243
Exchange differences and other financial items	4	-90	-389
Income after financial items		1,291	555
Appropriations			
Accelerated amortization, trademarks		-5	-12
Appropriations to tax equalization reserve		-230	-110
Reversal of tax equalization reserve		168	-
Income before tax		1,224	433
Taxes	5	-253	-116
Net income for the year		971	317

Parent Company Balance Sheet

(MSEK)	Note	Dec. 31, 2003	Dec. 31, 2002
ASSETS			
Fixed assets			
Intangible fixed assets	6	88	98
Tangible fixed assets	7	1	1
Financial fixed assets	8		
Shares and participations in Group companies		6,821	6,821
Other long-term securities		10	10
Other long-term receivables in Group companies		2,791	3,478
Other long-term receivables		-	2
Total fixed assets		9,711	10,410
Current assets			
Trade receivables		-	3
Receivables in Group companies		1,938	2,197
Tax receivables		-	12
Other receivables		10	6
Prepaid expenses and accrued income		286	164
Liquid funds			
Current investments	9	1,164	1,010
Cash and bank	9	812	492
Total liquid funds		1,976	1,502
Total current assets		4,210	3,884
TOTAL ASSETS		13,921	14,294
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	10		
Restricted equity			
Share capital		844	868
Statutory reserve		194	194
Unrestricted equity			
Profit brought forward		1,662	2,830
Net income for the year		971	317
		3,671	4,209
Untaxed reserves	11	1,419	1,352
Long-term liabilities			
Interest-bearing debenture loan		4,508	4,485
Liabilities to Group companies		63	65
		4,571	4,550
Current liabilities			
Liabilities to credit institutions		686	872
Liabilities to Group companies		3,517	3,242
Accounts payable		12	12
Accounts payable, Group companies		11	24
Tax liabilities		12	-
Other current liabilities		2	15
Accrued expenses and prepaid income		20	18
		4,260	4,183
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		13,921	14,294
Pledged assets	12	93	38
Contingent liabilities	12	420	425

Changes in Parent Company equity

(MSEK)	Note	Share capital	Statutory reserve	Unrestricted equity	Total equity
Shareholders' equity at Dec. 31, 2001		892	194	3,924	5,010
Allocation to unrestricted reserves through cancellation of shares		-24		24	-
Dividend				-508	-508
Repurchase of own shares				-552	-552
Group contribution paid				-81	-81
Tax effect of Group contribution				23	23
Net income for the year				317	317
Shareholders' equity at Dec. 31, 2002		868	194	3,147	4,209
Allocation to unrestricted reserves through cancellation of shares		-24		24	-
Dividend				-535	-535
Repurchase of own shares				-959	-959
Sale of treasury shares				55	55
Group contribution paid				-96	-96
Tax effect of Group contribution				26	26
Net income for the year				971	971
Shareholders' equity at Dec. 31, 2003	10	844	194	2,633	3,671

Parent Company Cash-Flow Statement

(MSEK)	Note	2003	2002
Operations			
Income after financial items		1,291	555
Depreciation/amortization according to plan		13	12
Other items not affecting cash flow		319	459
		1,623	1,026
Income tax paid		-202	38
Cash flow from operations before changes in operating capital		1,421	1,064
Cash flow from changes in operating capital			
Accounts receivable		3	-
Inventories		-	1
Other assets		-8	-4
Accounts payable		-1	-12
Accrued expenses and other current liabilities		-10	4
Cash flow from operations		1,405	1,053
Investment activities			
Investments in machinery and equipment		-1	-
Investments in intangible assets		-2	-
Change in financial receivables		-	-15
Cash flow from investment activities		-3	-15
Financing activities			
Change in short-term loans		1	-250
Increase in long-term loans		635	250
Amortization of long-term loans		-730	-360
Changes in corporate transactions		658	693
Dividends paid		-535	-508
Repurchase of own shares		-1,012	-499
Sale of treasury shares		55	-
Cash flow from financing activities		-928	-674
Cash flow for the year		474	364
Liquid funds at the beginning of the year		1,502	1,138
Liquid funds at the end of the year	9	1,976	1,502
Supplementary information, see Note	13		

Notes, Parent Company

(All amounts in MSEK unless stated otherwise)

The Parent Company's accounting principles correspond, where applicable, with those applied in the Group.

1. Selling and administrative expenses

In addition to management functions, Parent Company operations comprise sales of nasal snuff in Germany, Switzerland and France. During 2003, sales to Group companies amounted to 15 MSEK (18). Purchases from Group companies amounted to 0 MSEK (0).

Administrative expenses include costs for auditing fees as shown below:

	2003	2002
Auditing	2	3
Other	3	2
PricewaterhouseCoopers	5	5

2. Other operating income and expenses

Other operating income mainly pertain to the portion of joint administration costs charged to Group companies.

Other operating income include exchange gains in an amount of 1 MSEK (1). Other operating expenses include exchange losses in an amount of 1 MSEK (2).

3. Income from participations in Group companies

	2003	2002
Dividends	389	-
Group contributions	1,001	1,020
Liquidation of Group companies	-	6
Write-down of shares in Group companies	-	-19
Total	1,390	1,007

4. Exchange-rate differences and other financial items

Exchange-rate differences amounted to a loss of 80 MSEK in fiscal 2003 and a loss of 382 MSEK in fiscal 2002.

5. Taxes

Difference between tax expense and tax expense based on current tax rate:

	2003	2002
Reported income before tax	1,224	433
Tax based on current tax rate of 28%	-343	-121
Tax effect of nondeductible expense	-1	-7
Tax effect of non-taxable dividends	109	2
Tax pertaining to earlier fiscal years	2	10
Foreign withholding tax on dividends received	-19	-
Foreign coupon tax	-1	-
Tax on income for the year in accordance with the Income Statement	-253	-116

6. Intangible fixed assets

Intangible fixed assets at December 31 include the following:

	2003	2002
<i>Trademarks and other intangible fixed assets</i>		
Accumulated acquisition value carried forward	114	114
Investments	2	-
Closing balance	116	114
Amortization brought forward	-16	-4
Amortization for the year	-12	-12
Closing accumulated amortization	-28	-16
Closing balance	88	98

7. Tangible fixed assets

Tangible fixed assets at December 31 include equipment as follows:

	2003	2002
Acquisition value brought forward	7	9
Investments	1	-
Sales/disposals	-2	-2
Closing accumulated acquisition value	6	7
Depreciation brought forward	-6	-7
Depreciation for the year	-1	-1
Sales/disposals	2	2
Closing balance, accumulated depreciation	-5	-6
Closing balance, book value	1	1

8. Financial fixed assets

Change in financial fixed assets:

	2003	2002
Opening amount brought forward from preceding year	10,311	11,209
Liquidation of Group companies	-	-2
Write-down of Group companies	-	-19
Change in other long-term receivables due from Group companies	-687	-879
Change in other long-term receivables	-2	2
Total	9,622	10,311

Note 8, cont.

Shares and participations in Group companies at December 31, 2003:

	Number of shares or participations	Currency	Par value*	Book value MSEK	Parent Company holding, %	Corp. Reg. No.	Domicile
Swedish Match Arenco AB	305,500	SEK	30,550	31	100	556040-2157	Kalmar
Swedish Match Industries AB	30,853	SEK	30,853	195	100	556005-0253	Tidaholm
Swedish Match United Brands AB	200,000	SEK	20,000	122	100	556345-7737	Stockholm
Intermatch Sweden AB	710,000	SEK	71,000	85	100	556018-0423	Stockholm
Svenska Tändsticks AB	1,000	SEK	100	0	100	556105-2506	Stockholm
Treab Plus AB	96,000	SEK	4,800	13	100	556013-4412	Stockholm
Svenska Tobaks AB	8,000	SEK	800	1	100	556337-4833	Stockholm
Tobak Fastighetsaktiebolaget	2,000	SEK	2,000	146	100	556367-1253	Stockholm
Svenskt Snus AB	1,000	SEK	1,000	47	100	556367-1261	Stockholm
Swedish Match North America Inc	100	USD	100	849	100		
Swedish Match Group BV	20,900,000	EUR	948	5,331	100		
Nitedals Taendstiker A/S	500	NOK	500	1	100		
SA Allumettièrre Caussemille ¹	10,000	EUR	152	0	100		
The Burma Match Co. Ltd ²	300,000	BUK	3,000	0	100		
Vulcan Trading Co. Ltd ³	4,000	BUK	400	0	100		
Total shares				6,821			

* Local currency in 000s

¹ Nationalized in November 1963

² Nationalized in December 1968

³ Nationalized in January 1969

In addition, shares are owned in:

- Union Allumettièrre Marocaine S.A.

Ownership is purely formal. Group companies hold all rights and obligations.

Other shares at December 31, 2003

The Parent Company holds shares in a company connected to operations.

Name	Currency	Par value	Book value	Parent Company holding, %
Yaka Feodor SA	JPY	100,000	0	15.4

9. Liquid funds

Liquid funds comprise short-term investments in the form of interest-bearing securities and cash and bank deposits as follows:

	2003	2002
Short-term investments		
Treasury bills	616	492
Bank certificate	149	518
Mortgage certificates	398	–
Other financial investments	1	–
	1,164	1,010
Cash and bank deposits		
Bank accounts and cash	727	462
Investment loans in banks	85	30
	812	492
Total liquid funds	1,976	1,502

10. Shareholders' equity

The Parent Company's share capital at December 31, 2003 consisted of 351,596,181 shares with a par value of SEK 2.40 per share. All shares carry one vote each. Through buybacks, and after cancellation, the company owns 23,263,000 shares, and the total number of shares outstanding, accordingly, is 328,333,181.

11. Untaxed reserves

	2003	2002
Accumulated difference between booked depreciation and depreciation according to plan	48	42
Tax allocation reserve	1,371	1,310
Total	1,419	1,352

12. Pledged assets and contingent liabilities

Pledged assets	2003	2002
Liquid assets	93	38
Total	93	38

Of the above, 85 (30) were pledged for the benefit of subsidiaries.

Contingent liabilities	2003	2002
Guarantees for subsidiaries	418	425
Other guarantees and contingent liabilities	2	–
Total	420	425

13. Supplementary information to Cash-Flow Statement

Taxes paid, interest paid, etc.

Net taxes paid in 2003 amounted to 202 MSEK (in 2002, tax refunded amounted to 38 MSEK). Interest payments amounted to 206 MSEK (236). Interest received amounted to 216 MSEK (51). Dividends received during the year amounted to 389 MSEK (0).

14. Sick leave data

(percent)	July 1, 2003 – Dec. 31, 2003
Total sick leave	2.1
Long-term sick leave	1.4
Sick leave for men	2.7
Sick leave for women	1.5
Sick leave for employees under 29	*
Sick leave for employees age 30–49	1.0
Sick leave for employees age 50+	4.3

* No data provided if number in group is less than 10 persons.

Proposed distribution of earnings

According to the Consolidated Balance Sheet, the Company's unrestricted shareholders' equity amounts to 1,160 MSEK, of which 1,558 MSEK is the net profit for the fiscal year. It is proposed that no allocations be made to restricted reserves.

As shown in the Parent Company's Balance Sheet, 2,633 MSEK in retained earnings is at the disposal of the Annual General Meeting, of which 24 MSEK comprises unrestricted reserves, after the reduction in share capital, and 971 MSEK comprises net profit for the year.

The Board of Directors and the President propose that the 2,633 MSEK at the disposal of the Annual General Meeting be distributed so that shareholders receive a dividend of 1.70 SEK per share, amounting to a total of 558 MSEK, based on the number of shares outstanding at year-end, and that the remaining earnings be brought forward. It is proposed that the dividend for the year be first charged against unrestricted reserves after write-down of share capital, and the balance against retained earnings.

The income statements and balance sheets will be presented to the Annual General Meeting on April 26, 2004 for adoption.

The Board of Directors also proposes April 29, 2004 as the record date for shareholders listed in the Swedish Securities Register Center (VPC).

Stockholm, February 11, 2004

Bernt Magnusson
Chairman of the Board

Jan Blomberg

Kenneth Ek

Tuve Johannesson

Arne Jurbrant

Eva Larsson

Joakim Lindström

Meg Tivéus

Klaus Unger

Lennart Sundén
President

Our audit report was submitted on March 3, 2004

Åke Danielsson
Authorized Public Accountant

Göran Tidström
Authorized Public Accountant

To the Annual General Meeting of Swedish Match AB (publ)

We have audited the annual report, the consolidated financial statements, the accounts and the administration by the Board of Directors and the President of Swedish Match AB (publ) for year 2003. The accounts and administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the annual report, the consolidated financial statements and the administration of the Company based on our audit.

The audit was conducted in accordance with generally accepted auditing standards in Sweden. These standards require that we plan and perform the audit to obtain reasonable assurance that the annual report and the financial statements are free of material misstatement. An audit includes examining, on a random basis, evidence supporting the amounts and other disclosures in the financial statements. An audit also includes assessments of the accounting principles applied and their application by the Board of Directors and President, as well as evaluations of the overall presentation of information in the financial statements. We examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any Board member or the President, or whether they have in some other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for the opinion set out below.

In our opinion, the Annual Report and the consolidated financial statements have been prepared in accordance with the Annual Accounts Act and, consequently, provide a fair presentation of the Company's and the Group's earnings and financial position in accordance with generally accepted auditing principles in Sweden.

We recommend that the income statements and the balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the Board of Directors' Report and that the members of the Board of Directors and the President be discharged from liability for the fiscal year.

Stockholm, March 3, 2004

Åke Danielsson
Authorized Public Accountant

Göran Tidström
Authorized Public Accountant

Five-year summary

Consolidated income statements in summary

(MSEK)	1999	2000	2001	2002	2003
Net sales	9,420	11,533	13,635	13,643	13,036
Gross profit	4,282	4,886	6,008	6,192	5,933
Items affecting comparability	3,707	–	–80	–68	–
Operating income	5,396	1,886	2,113	2,371	2,224
Net financial items	–116	–176	–273	–245	–50
Income after financial items	5,280	1,710	1,840	2,126	2,174
Net income	4,656	1,144	1,228	1,429	1,558
Operating income before depreciation/amortization	5,777	2,429	2,863	3,090	2,889

Consolidated balance sheets in summary

(MSEK)	1999	2000	2001	2002	2003
Assets					
Intangible fixed assets	3,268	4,288	4,769	4,145	3,648
Tangible fixed assets	1,866	2,576	2,970	2,938	2,862
Financial fixed assets	543	727	691	606	616
Inventories	1,732	3,270	3,753	3,154	2,676
Current receivables	1,965	2,460	2,834	2,588	2,634
Liquid funds	7,296	2,960	1,606	2,016	2,666
Total assets	16,670	16,281	16,623	15,447	15,102
Equity and liabilities					
Equity	5,940	4,584	4,105	4,007	4,010
Minority interests	162	620	767	686	597
Provisions	1,195	1,918	2,311	2,293	2,119
Long-term liabilities	5,303	4,845	5,150	4,603	4,601
Current liabilities	4,070	4,314	4,290	3,858	3,775
Total equity and liabilities	16,670	16,281	16,623	15,447	15,102

Cash flow

(MSEK)	1999	2000	2001	2002	2003
Cash flow from operations	1,329	945	1,609	2,585	2,638
Cash flow from investment activities	2,005	–1,967	–1,520	–717	–625
Cash flow from financing activities	1,181	–3,273	–1,453	–1,366	–1,327
Cash flow for the year	4,515	–4,295	–1,364	502	686
Liquid funds at beginning of the year	2,876	7,296	2,960	1,606	2,016
Translation difference in liquid funds	–95	–41	10	–92	–36
Liquid funds at year-end	7,296	2,960	1,606	2,016	2,666

Key figures

	1999	2000	2001	2002	2003
Operating capital at year end, MSEK	6,352	9,821	11,227	10,036	8,818
Net debt, MSEK	-1,267	2,739	4,410	3,492	2,715
Investments in tangible fixed assets, MSEK	452	331	633	751	551
Operating margin, %	17.9	16.4	16.1	17.9	17.1
Return on operating capital, %	30.6	23.3	20.8	22.9	23.6
Return on shareholders equity, %	115.0	21.8	28.3	35.2	38.9
Net debt/equity ratio, %	pos	52.6	90.5	74.4	58.9
Equity/assets ratio, %	36.6	32.0	29.3	30.4	30.5
Share capital, MSEK	949	969	892	868	844
Dividend per share, MSEK	1.22	1.35	1.45	1.60	1.70*
Earnings per share basic, SEK					
Excluding items affecting comparability	2.26	2.76	3.54	4.23	4.68
Including items affecting comparability	10.56	2.76	3.40	4.10	4.68

* Board proposal

Net sales by product area

(MSEK)	1999	2000	2001	2002	2003
Snuff	1,688	2,071	2,457	2,788	2,995
Chewing Tobacco	1,068	1,227	1,377	1,333	1,146
Cigars	1,438	2,690	3,481	3,318	3,008
Pipe Tobacco and Accessories	420	762	933	843	909
Matches	1,673	1,712	1,690	1,648	1,395
Lighters	662	720	809	700	599
Other operations	1,742	2,351	2,888	3,013	2,984
Subtotal	8,691	11,533	13,635	13,643	13,036
Divested operations	729	-	-	-	-
Total	9,420	11,533	13,635	13,643	13,036

Operating income by product area

(MSEK)	1999	2000	2001	2002	2003
Snuff	828	954	950	1,233	1,386
Chewing Tobacco	297	331	372	406	336
Cigars	206	347	500	522	393
Pipe Tobacco and Accessories	109	213	236	164	201
Matches	107	90	183	221	83
Lighters	14	74	101	74	14
Other operations	-127	-123	-149	-181	-189
Subtotal	1,434	1,886	2,193	2,439	2,224
Divested operations	255	-	-	-	-
Items affecting comparability	3,707	-	-80	-68	-
Total	5,396	1,886	2,113	2,371	2,224

Operating margin by product area

(Percent)	1999	2000	2001	2002	2003
Snuff	49.1	46.1	38.7	44.2	46.3
Chewing Tobacco	27.8	27.0	27.0	30.5	29.3
Cigars	14.3	12.9	14.4	15.7	13.1
Pipe Tobacco and Accessories	26.0	28.0	25.3	19.5	22.1
Matches	6.4	5.3	10.8	13.4	5.9
Lighters	2.1	10.3	12.5	10.6	2.3
Group	17.9	16.4	16.1	17.9	17.1

Quarterly data

Income statements in summary

(MSEK)	2001				2002				2003			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net sales	3,069	3,495	3,541	3,530	3,317	3,533	3,467	3,326	3,006	3,274	3,412	3,344
Gross profit	1,331	1,554	1,584	1,539	1,552	1,612	1,528	1,500	1,389	1,505	1,579	1,460
Items affecting comparability	-	-	-80	-	-	-	-68	-	-	-	-	-
Operating income	491	555	482	585	605	640	552	574	516	553	624	531
Net financial items	-46	-70	-81	-76	-71	-71	-60	-43	-19	69	-55	-45
Income after financial items	445	485	401	509	534	569	492	531	497	622	569	486
Net income	297	324	265	342	361	369	320	379	337	513	378	330
Operating income excluding depreciation/amortization	647	710	658	768	776	814	712	720	674	711	786	718
Operating income before items affecting comparability and depreciation/amortization	647	710	738	768	776	814	780	720	674	711	786	718

Key figures

	2001				2002				2003			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Operating margin, %	16.0	15.9	15.9	16.6	18.2	18.1	17.9	17.3	17.2	16.9	18.3	15.9
Net debt/equity ratio, %	72.4	88.5	82.6	90.5	80.4	100.0	78.0	74.4	84.7	89.5	75.1	58.9
Equity/assets ratio, %	31.8	30.3	29.8	29.3	30.6	27.9	29.4	30.4	28.9	27.6	29.1	30.5
Investments in tangible fixed assets, MSEK	132	127	163	211	167	231	178	175	169	115	100	167

Earnings per share basic, SEK

Excluding items affecting comparability	0.80	0.89	0.88	0.97	1.03	1.06	1.05	1.09	0.99	1.53	1.16	1.00
Including items affecting comparability	0.80	0.89	0.74	0.97	1.03	1.06	0.92	1.09	0.99	1.53	1.16	1.00

Net sales by product area

(MSEK)	2001				2002				2003			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Snuff	528	642	629	658	672	711	707	698	689	758	776	772
Chewing Tobacco	314	365	349	349	344	367	312	310	295	294	291	266
Cigars	750	892	944	895	778	871	864	805	644	751	826	787
Pipe Tobacco and Accessories	205	245	247	236	190	211	217	225	214	214	228	253
Matches	425	408	421	436	460	421	387	380	348	343	340	364
Lighters	220	203	190	196	186	184	165	165	151	154	149	145
Other operations	627	740	761	760	687	768	815	743	665	760	802	757
Total	3,069	3,495	3,541	3,530	3,317	3,533	3,467	3,326	3,006	3,274	3,412	3,344

Operating income by product area

(MSEK)	2001				2002				2003			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Snuff	214	235	242	259	290	313	320	310	305	350	372	359
Chewing Tobacco	89	99	90	94	106	105	100	95	84	86	94	72
Cigars	101	124	137	138	122	149	140	111	80	87	129	97
Pipe Tobacco and Accessories	59	64	62	51	42	36	41	45	46	45	54	56
Matches	44	44	46	49	65	59	53	44	38	31	9	5
Lighters	25	26	23	27	20	23	17	14	9	0	6	-1
Other operations	-41	-37	-38	-33	-40	-45	-51	-45	-46	-46	-40	-57
Subtotal	491	555	562	585	605	640	620	574	516	553	624	531
Items affecting comparability	-	-	-80	-	-	-	-68	-	-	-	-	-
Total	491	555	482	585	605	640	552	574	516	553	624	531

Operating margin by product area

(Percent)	2001				2002				2003			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Snuff	40.5	36.6	38.5	39.4	43.2	44.0	45.3	44.4	44.3	46.2	47.9	46.5
Chewing Tobacco	28.3	27.1	25.8	26.9	30.8	28.6	32.1	30.6	28.5	29.3	32.3	27.1
Cigars	13.5	13.9	14.5	15.4	15.7	17.1	16.2	13.8	12.4	11.6	15.6	12.3
Pipe Tobacco and Accessories	28.8	26.1	25.1	21.6	22.1	17.1	18.9	20.0	21.5	21.0	23.7	22.1
Matches	10.4	10.8	10.9	11.2	14.1	14.0	13.7	11.6	10.9	9.0	2.6	1.4
Lighters	11.4	12.8	12.1	13.8	10.8	12.5	10.3	8.5	6.0	0.0	4.0	-0.7
Group	16.0	15.9	15.9	16.6	18.2	18.1	17.9	17.3	17.2	16.9	18.3	15.9

Board of Directors



Bernt Magnusson



Jan Blomberg



Tuve Johannesson



Arne Jurbrant



Lennart Sundén



Meg Tivéus



Klaus Unger

Bernt Magnusson

Born 1941. Chairman since 1995. Board member since 1993. Chairman of the Remuneration Committee.

Other Board assignments: Chairman of Dyno Nobel ASA. Board member of Volvo Car Corp, Höganäs AB, Nordea AB, Pharmadule AB and Net Insight AB. Advisor to the European Bank for Reconstruction and Development.

Shares: 15,858

Jan Blomberg

Born 1939. Board member since 1996. Chairman of the Audit Committee and member of the Remuneration Committee. Other Board assignments: Chairman of Handelsbanken Regionbank City, Stockholm. Board member of Skandia Investment, Capio AB, Svenska Spel AB and H & B Capital.

Shares: 3,638

Tuve Johannesson

Born 1943. Board member since 2002. Other Board assignments: Chairman of EcoLean International A/S and Arctic Islands Ltd, Vice Chairman of Volvo Car Corp. Board member of SEB, IFS AB, Cardo and Chumak. Advisor to J.C. Bamford Excavators Ltd.

Shares: 6,000

Arne Jurbrant

Born 1942. Board member since 2002. Member of the Audit Committee. Other Board assignments: Board member of IFL/MTC AB.

Shares: 1,500

Lennart Sundén

Born 1952. Board member since 1999. Member of the Remuneration Committee. President and CEO of Swedish Match AB since 1998. Other Board assignments: Board member of FöreningsSparbanken AB, JM AB, General Cigar and Arnold André GmbH & Co KG.

Shares: 60,000

Call options 379,387

Meg Tivéus

Born 1943. Board member since 1999. Member of the Audit Committee. President and CEO of Svenska Spel AB. Other Board assignments: Board member of Cloetta Fazer AB, Operan, Billerud AB and Danderyd Hospital.

Shares: 500

Klaus Unger

Born 1934. Board member since 1984. Member of the Remuneration Committee. Other Board assignments: Chairman of Arnold André GmbH & Co KG.

Shares: 6,614

Shareholdings and option holdings refer to the situation at December 31, 2003.



Kenneth Ek



Eva Larsson



Joakim Lindström



Christer Hylén



Lennart Johansson



Stig Karlsson

**Employee representatives
(regular members)**

Kenneth Ek

Born 1953. Board member since 1999. Appointed by the Federation of Salaried Employees in Industry and Services (PTK) within Swedish Match. Board member of the Swedish Association of Management and Professional Staff (Ledarna) at the snus plant in Gothenburg, Sweden.
Shares: 210

Eva Larsson

Born 1958. Board member since 1999. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match Industries AB. Shop steward at the match plant in Tidaholm, Sweden.
Shares: 0

Joakim Lindström

Born 1965. Board member since 1999. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match AB. Vice President of the Swedish Food Workers' Association (Livs) in Solna, Stockholm, Sweden.
Shares: 0

Employee representatives (deputies)

Christer Hylén

Born 1965. Deputy member since 2001. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match AB.
Shares: 0

Lennart Johansson

Born 1951. Deputy member since 1999. Appointed by the Federation of Salaried Employees in Industry and Services (PTK) within Swedish Match. Chairman of the Association of Graduate Engineers at Swedish Match.
Shares: 0

Stig Karlsson

Born 1941. Deputy member since 1999. Appointed by the Federation of Salaried Employees in Industry and Service (PTK) within Swedish Match Industries AB. Shop Steward for the Swedish Industrial Salaried Employees Association (SIF) at Swedish Match Arenco AB in Kalmar, Sweden.
Shares: 249

Auditors

Göran Tidström

Authorized Public Accountant Öhrlings PricewaterhouseCoopers AB. Born 1946. Swedish Match Auditor since 1986.

Åke Danielsson

Authorized Public Accountant Öhrlings PricewaterhouseCoopers AB. Born 1947. Swedish Match Auditor since 1998.

Deputy Auditor

Claes Dahlén

Authorized Public Accountant Öhrlings PricewaterhouseCoopers AB. Born 1950. Swedish Match Deputy Auditor since 1998.



Åke Danielsson, Göran Tidström and Claes Dahlén

Group Management



Bo Aulin, Lennart Sundén and Sven Hindrikes



Massimo Rossi, Graham Jones and Ingemar Olsson

Lennart Sundén¹

President and CEO

Joined Swedish Match AB in 1998.

Born 1952, MSc. Engineering, MBA.

Previously employed by AB Electrolux 1977-1998. Manager of Electrolux's industrial operations for appliances in Europe 1991-1993. Manager of Electrolux's global vacuum cleaner and small appliance operations 1993-1998. Board assignments: Board member of FöreningsSparbanken AB, JM AB, Arnold André GmbH & Co KG and General Cigar.

Shareholding in Swedish Match: 60,000

Call options: 379,387

Massimo Rossi

Senior Advisor.

Joined Swedish Match in 1975.

Member of Group management since 1992.

Born 1942, MSc.

Board assignments: Chairman of International Health Insurance, Denmark.

Board member of EQT Scandinavia B.V., EQT Northern Europe, Finnpower Oy and the Solstickan Foundation.

Shareholding in Swedish Match: 101,400

Call options: 192,527

Sven Hindrikes²

Executive Vice President,
Chief Financial Officer.

Joined Swedish Match in 1998.

Born 1950, MBA.

Previously employed within ABB in Mexico and served as Executive Vice President of ABB Canada. Executive Vice President of Linjebuss AB.

Board assignments: Chairman of PT Jamafac, Indonesia, Board member of Wimco Ltd. and General Cigar.

Shareholding in Swedish Match: 5,000

Call options: 82,786

Bo Aulin

Senior Vice President, Corporate Affairs

Joined Swedish Match in 1990.

Member of Group management since 1996.

Born 1948, Graduate of Uppsala University, Law School.

Previously employed as corporate lawyer for Swedish National Forest Enterprise and chief legal counsel for the Swedish Association of Commerce and Trade.

Shareholding in Swedish Match: 4,700

Call options: 82,786

Graham Jones

President, Match Division up to December 31, 2003.

Effective January 1, 2004, Senior Vice President Mergers and Acquisitions.

Joined Swedish Match in 1987.

Member of Group management since 1999.

Born 1949, MBA.

Previously employed by De Beers Prospecting Ltd, Arthur Anderson & Co, Mars Ltd, Scot Bowyers Ltd and Bryant & May Ltd.

Shareholding in Swedish Match: 6,000

Call options: 353,579

Ingemar Olsson

President, Overseas Division, which also includes the former Match Division effective January 1, 2004.

Joined Swedish Match in 1983.

Member of Group management since 1999.

Born 1953, MSc. Engineering.

Previously employed by Sandvik Coromant.

Shareholding in Swedish Match: 19,500

Call options: 192,527

¹ Lennart Sundén served as President and CEO of Swedish Match until March 19, 2004, when he left the Swedish Match Group. On the same date, he resigned from the Swedish Match Board of Directors.

² Sven Hindrikes was appointed Acting President and CEO of Swedish Match, effective March 19, 2004.



Göran Streiffert, Peter Nilsson and Lennart Freeman



René den Admirant and Stefan Gelkner

Göran Streiffert

Senior Vice President, Group Human Resources and IS/IT.
 Joined Swedish Match and Group management staff in 1997.
 Born 1946, MSc.
 Previously employed by Gullspång, PLM and Scancem.
 Shareholding in Swedish Match: 20,400
 Call options: 82,786

Stefan Gelkner

President, North Europe Division.
 Joined Swedish Match in 1977.
 Member of Group management since 1999.
 Born 1944, MSc. Engineering.
 Previously employed by Ericsson.
 Shareholding in Swedish Match: 1,000
 Call options: 114,096

René den Admirant

President, Continental Europe Division.
 Employed by Swedish Match and a member of Group management since January 1, 2003. Born 1956, MBA.
 Previously employed by Reynolds International, Sara Lee and Japan Tobacco International.
 Shareholding in Swedish Match: 10,000
 Call options: 0

Lennart Freeman

President, North America Division.
 Joined Swedish Match in 1975.
 Member of Group management since 1999.
 Born 1951, MBA.
 Previously employed by SAAB Cars and Exxon.
 Board assignments: Board member of General Cigar
 Shareholding in Swedish Match: 300
 Call options: 192,527

Peter Nilsson

Senior Vice President, Group Business Development.
 Joined Swedish Match in 1987.
 Member of Group management since 1999.
 Born 1962, MBA.
 Shareholding: 6,086
 Call options: 158,065

Shareholdings and option holdings refer to the situation at December 31, 2003.

The Swedish Match share

The Swedish Match share is listed on Stockholmsbörsen in Sweden and the NASDAQ Exchange in the US. Total share capital amounts to 843.8 MSEK, distributed among 351.6 million shares with a par value of SEK 2.40 each. Each share carries one vote. A round lot is 500 shares.

Turnover

Total turnover in 2003 amounted to approximately 469 million (307) Swedish Match shares on Stockholmsbörsen, with a daily average turnover of approximately 1.9 million shares (1.2). The turnover rate, or the liquidity of the share on Stockholmsbörsen, was 131 percent during the year, compared with the market average of 124 percent. The volume of trading on NASDAQ declined during the year, and the number of outstanding American Depositary Receipts (with each ADR corresponding to 10 shares) decreased to 217,185 (262,510). The depositary bank is the Bank of New York (symbol SWMAY).

Price trend

The company's market capitalization at year-end 2003 amounted to 24.8 billion SEK. The share price increased 7.3 percent during the year. The Affärsvärlden General Index rose 30 percent.

The lowest price paid during the year was 54 SEK on August 6, and the highest price paid was 76 SEK on December 30.

Ownership structure

Foreign ownership interests corresponded to 60.7 percent of total share capital, a decrease of 3.1 percentage points com-

pared with 2002. Swedish ownership interests were distributed among institutions, with 20.8 percent of total shares outstanding, mutual funds, 8.2 percent, and private persons, 10.2 percent of the share capital. The ten largest shareholders account for 30.4 percent of share capital.

Dividend

The Swedish Match policy is that dividends shall mainly follow the trend of Group net income. When determining the dividend, due consideration is also given to the size of the planned share repurchase. The dividend portion is judged to be in the 30-50-percent range.

The Board of Directors intends to propose to the Annual General Meeting a dividend for 2003 of 1.70 SEK (1.60) per share, for a total of 558 MSEK (535) calculated according to the number of shares outstanding at year-end. The dividend corresponds to 36 percent (37) of net income for the year.

Repurchase of shares

A repurchase of shares is in principle a reverse new share issue, and provides the opportunity to continuously work to optimize the capital structure in the balance sheet. Against the background of Swedish Match's stable and strong cash flow, the Board takes a favorable view of share repurchase.

The size and scope of the share repurchase, exactly as with the dividend, depend on Swedish Match's financial position, net income, anticipated future profitability, cash flow, investments and expansion plans. Other factors that influence repurchase are the share price, the Group's interest and tax expenses and the availability of distributable profits.

Largest shareholders at December 31, 2003*

Owner	No. of shares	% of voting rights and capital
Alecta	16,523,876	5.0
Fidelity Funds	15,515,385	4.7
Robur funds	13,011,805	4.0
Capital Group	12,189,349	3.7
Janus Funds	11,801,678	3.6
Fourth AP Fund	11,150,400	3.4
Govt. of Singapore Inv. Corp.	6,405,604	2.0
Third AP Fund	5,261,942	1.6
First AP Fund	4,187,937	1.3
SEB funds	3,747,100	1.1
Total of 10 largest shareholders	99,795,076	30.4
Others	228,538,105	69.6
TOTAL	328,333,181	100.0

* Registered direct ownership according to VPC (Securities Register Center). In addition, the company owns 23,263,000 shares acquired through repurchases.

Transfers of capital to Swedish Match shareholders

	1999	2000	2001	2002	2003	Total
Dividends	539	490	508	535	558*	2,630
Redemptions, net	–	996	–	–	–	996
Repurchase and sale of own shares, net	–	905	1,169	552	904	3,530
Total	539	2,391	1,677	1,087	1,462	7,156

* Proposed dividend for 2003.

Share distribution at December 31, 2003

Size of holding	No. of owners	%	No. of shares	% of capital and votes
1 – 1,000	91,044	92.5	16,688,964	5.1
1,001 – 5,000	6,170	6.3	12,658,070	3.9
5,001 – 20,000	753	0.8	7,260,677	2.2
20,001 – 50,000	170	0.2	5,454,555	1.6
50,001 –	288	0.2	286,270,915	87.2
Total	98,425	100.0	328,333,181	100.0

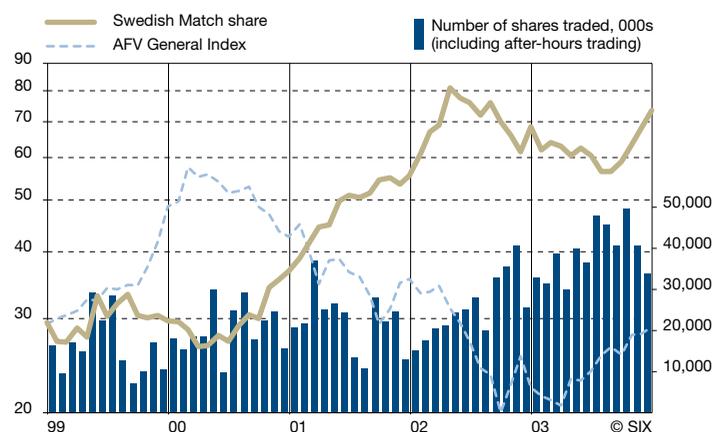
Per-share data*

	1999	2000	2001	2002	2003
Earnings per share, basic, SEK					
Excluding items affecting comparability	2.26	2.76	3.54	4.23	4.68
Including items affecting comparability	10.56	2.76	3.40	4.10	4.68
Earnings per share, diluted, SEK					
Excluding items affecting comparability	2.26	2.76	3.52	4.20	4.66
Including items affecting comparability	10.56	2.76	3.38	4.07	4.66
Dividend, SEK	1.22	1.35	1.45	1.60	1.70**
Share price at year-end, SEK	29.06	36.50	55.50	68.50	73.50
Shareholders' equity, SEK	13.47	12.22	11.73	11.72	12.21
P/E ratio after tax	2.8	13.2	16.4	16.8	15.7
EBIT multiple	6.9	9.0	11.2	11.3	12.3
Share price/equity	2.2	3.0	4.7	5.8	6.0
Direct return, %	4.2	3.7	2.6	2.3	2.3
Total return, %	4.3	32.0	55.6	25.5	10.1
Average number of shares, basic	431,339,663	410,177,322	361,506,184	348,295,163	332,679,210
Average number of shares, diluted	431,339,663	410,196,494	363,016,335	350,894,438	334,162,492
Number of shareholders	115,019	105,950	101,200	100,260	98,425

* Where appropriate, adjusted for bonus issue element at redemption. As of 2001, Swedish Match follows the Swedish Financial Accounting Standards Council's Recommendation RR 9 in regard to income tax. Comparative figures for 2000 have been adjusted in accordance with the new accounting principles.

** Board proposal.

Share price trend



Definitions

<i>Return on shareholders' equity (%)</i>	100 x	$\frac{\text{Net income for the year}}{\text{Average shareholders' equity}}$
<i>Return on operating capital (%)</i>	100 x	$\frac{\text{Operating income before items affecting comparability}}{\text{Average operating capital}}$
<i>Direct return (%)</i>	100 x	$\frac{\text{Dividend}}{\text{Share price at year-end}}$
<i>EBIT multiple</i>		$\frac{\text{Market value + net debt + minority interests}}{\text{Operating income before items affecting comparability}}$
<i>Equity per share</i>		$\frac{\text{Shareholders' equity}}{\text{Number of shares outstanding at year-end}}$
<i>Average shareholders' equity</i>		$\frac{\text{Opening + closing Shareholders' equity}}{2}$
<i>Average operating capital</i>		$\frac{\text{Opening + closing operating capital}}{2}$
<i>Net debt</i>		Interest-bearing liabilities – liquid funds
<i>Debt/equity ratio</i>	100 x	$\frac{\text{Net debt}}{\text{Shareholders' equity + minority interests}}$
<i>Operating capital</i>		Current operating assets + intangible assets, property, plant and equipment + other long-term operating assets – current operating liabilities
<i>P/E ratio after tax</i>		$\frac{\text{Share price at year-end}}{\text{Earnings per share after items affecting comparability}}$
<i>Operating margin (%)</i>	100 x	$\frac{\text{Operating income before items affecting comparability}}{\text{Net sales}}$
<i>Equity/assets</i>	100 x	$\frac{\text{Shareholders' equity + minority interests}}{\text{Total assets}}$
<i>Total return (%)</i>	100 x	$\frac{(\text{Share price at year-end} - \text{share price at preceding year-end} + \text{dividend paid} + \text{return on reinvested dividend})}{\text{Share price at preceding year-end}}$
<i>Earnings per share after tax</i>		Income for the year (where appropriate, adjusted for items affecting comparability, net after tax) Average number of shares

Information to our shareholders

Annual General Meeting

The Annual General Meeting will be held at 4.30 p.m. on Monday, April 26, 2004 in Hall K1, Stockholm International Fairs (Stockholmsmässan), Älvsjö in Stockholm. Registration for the Meeting will open at 3.00 p.m. Shareholders who are listed in a printout of the Shareholders' Register compiled on April 16, 2004 and have notified Swedish Match of their intention to attend are entitled to participate in the Annual General Meeting.

Listing in shareholders' register

The Swedish Match Shareholders' Register is maintained by VPC AB (the Swedish Securities Register Center). Listings are restricted to shares registered in the owner's name. Shareholders whose shares are held in trust must ensure that their shares are re-registered in their own names not later than April 16, 2004.

Notification of intention to attend

Annual General Meeting

Notification of intention to participate in the Annual General Meeting will be accepted as from Monday, March 22, 2004.

Applications may be submitted by:

- Telephone +46 20-61 00 10 (1.30 p.m. to 4.30 p.m.)
- Fax +46 8-720 76 56
- www.swedishmatch.se/stamman
- Mail:
Swedish Match AB
Legal Affairs
SE-118 85 Stockholm
Sweden

When notifying the company, please state your: name, personal identification number (registration number), address and telephone number (daytime).

Shareholders who wish to participate in the Annual General Meeting must notify the Company not later than 4.00 p.m. on Monday, April 19, 2004, which is the expiration date for receipt of notification by Swedish Match. The Board of Directors has proposed April 29, 2004 as the record date for dividend entitlement. Dividends are expected to be paid by VPC on May 4, 2004.

Financial reports schedule

Interim report for Jan 1–Mar 31, 2004	April 26, 2004
Interim report for Jan 1–Jun 30, 2004	July 21, 2004
Interim report for Jan 1–Sep 30, 2004	October 26, 2004
Year-end report on operations in 2004	February 2005
Annual Report 2004	March 2005
Form 20-F 2003	June 2004

The financial reports may be ordered from:
Swedish Match AB
Investor Relations
SE-118 85 Stockholm
Telephone: +46 8-658 01 45
Fax: +46 8-658 02 62
E-mail: investorrelations@swedishmatch.com

The financial information is also accessible at www.swedishmatch.com

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Swedish Match AB
SE-118 85 Stockholm, Sweden

Visiting address:
Rosenlundsgatan 36
Tel. +46 8-658 02 00
Fax +46 8-658 62 63
www.swedishmatch.com

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