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SWEDISH MATCH

Annual Report 2002

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Financial reports schedule

Interim report for Jan 1–Mar 31, 2003April 25, 2003
Interim report for Jan 1–Jun 30, 2003July 23, 2003
Interim report for Jan 1–Sep 30, 2003October 23, 2003
Year-end report on operations in 2003February 2004
Annual Report 2003March 2004
Form 20-F 2002June 2003

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

This is Swedish Match

Product Areas



snuff

Swedish Match is the only global producer of snuff and holds a leading position in the Nordic snuff market and in South Africa. In the US, the Group has the largest market share in the rapidly expanding value-priced segment. Of all the Group's product areas, snuff is the product that generates the greatest organic growth.



chewing tobacco

The market for chewing tobacco is concentrated to the US. Of the four players that are active in the chewing tobacco market, Swedish Match is the largest.



cigars

Swedish Match is one of the world's largest producers and distributors of cigars and cigarillos, and ranks second in terms of sales value. The cigars 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.



pipe tobacco & accessories

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



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.



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, particularly Russia, and Asia as the largest markets.

Brands

Ettan ■ General ■ Catch ■ Grovsnus

Göteborgs Rapé ■ Timber Wolf ■ Renegades ■ Taxi

Red Man ■ Southern Pride

Granger Select ■ JD's Blend

Macanudo ■ La Paz ■ Clubmaster ■ Willem II

Wings ■ de Heeren van Ruysdael

Justus van Maurik ■ Bellman ■ Garcia y Vega

Borkum Riff ■ Best Blend ■ Greve Gilbert Hamiltons

Blandning ■ Half&Half ■ Boxer ■ Mellow Breeze

Velvet ■ Paladin ■ Black & White

Solstickan ■ Swan Vestas ■ Three Stars

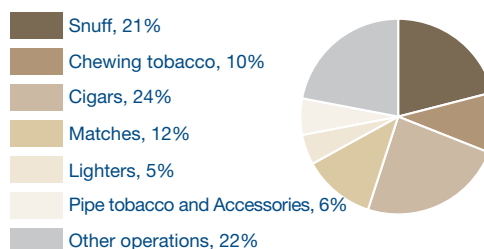
England's Glory ■ Redheads ■ Fiat Lux

Cricket ■ Feudor ■ Poppell

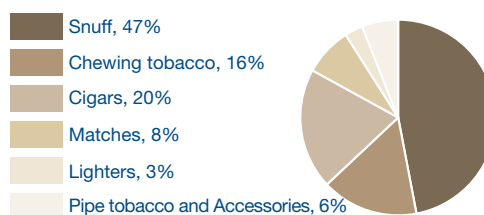
Swedish Match – a unique company

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 – tobacco's niche products – as well as matches and lighters. The Group's global operations generated sales of 13,643 MSEK in 140 countries in 2002. Its products are produced in 15 countries. The Group had 14,795 employees during 2002. Swedish Match shares are listed on the Stockholm Exchange (SWMA) and Nasdaq in the US (SWMAY).

Net sales by product area



Operating income by product area*



* Excluding Other operations

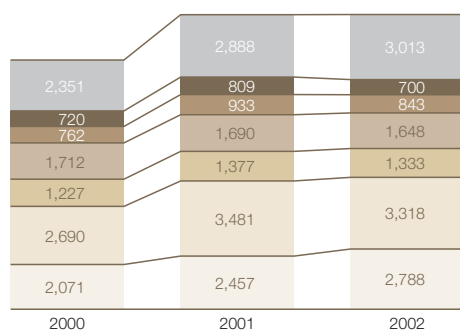
Swedish Match 2002

- Sales amounted to 13,643 MSEK (2001: 13,635)
- Sales in local currencies rose 4 percent
- Continued strong volume increases for snuff
- Operating income increased 12 percent to 2,371 MSEK (2,113)
- Earnings per share rose 21 percent to 4.10 SEK (3.40)
- The Board of Directors proposes an increased dividend of 1.60 SEK (1.45)

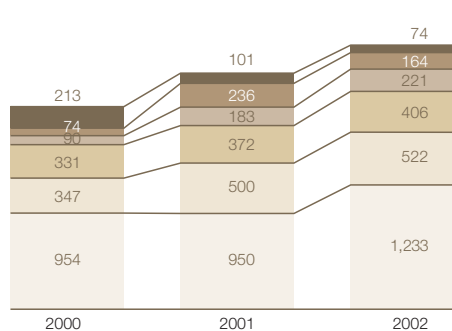
Key figures, MSEK	2002	2001
Net sales	13,643	13,635
Operating income	2,371	2,113
Operating income before depreciation and amortization	3,090	2,863
Net income for the year	1,429	1,228
Earnings per share, SEK	4.10	3.40
Dividend per share, SEK	1.60*	1.45
Return on shareholders' equity, %	35.2	28.3

* Board proposal

Net sales per product area, MSEK



Operating income per product area, MSEK*



*Excluding Other operations that, for the years 2000–2002, resulted in losses amounting to –123, –149 and –181 MSEK respectively.

President's statement

The past four years of development show that Swedish Match has built a stable platform for continued long-term growth. The company's unique expertise in the area of smokeless tobacco products gives shareholders the potential for a substantial increase in value in a world where it is becoming increasingly clear that alternative strategies and products are needed in order to reduce the health risks caused by smoking. The Swedish experience suggests that Swedish snus produced in accordance with Swedish Match's **GOTHIA TEK**® standard is not part of the global "tobacco problem" but rather part of the solution.

Swedish Match had another good year in 2002.

- Sales increased by 4 percent in local currencies, while sales in SEK were essentially unchanged, due to the high exchange rate for the Swedish currency in translations from foreign currencies. The strong trend of organic growth for our growth area, snuff, continued unbroken, with growth of 13 percent.
- Operating income rose 12 percent to 2,371 MSEK, with improved margins in most product areas. Operating income for snuff passed the billion mark and the operating margin in this product area improved to 44 percent.
- Earnings per share rose 21 percent to 4.10 SEK, reflecting the positive development of operations in the company, as well as the financial strategy of creating value for shareholders through share-repurchase programs. It is Swedish Match's policy that shareholders should benefit from a substantial portion of the company's strong cash flow that is not specifically required for business development.

During a period when the earnings trend in industry has generally worsened, Swedish Match has been able to continue to deliver increasing earnings and dividends. Earnings per share have been growing steadily for four years, increasing by 119 percent overall, and the same applies to the dividend, which has increased by 48 percent during the same period. Through the share redemption and repurchase programs, some 66 percent of net profit has been returned to shareholders during the past four years. The shareholders who acquired shares in Swedish Match when the company was first listed in 1996 have recouped far more than their investment.

The new strategic platform adopted in 1999 has thus proved its worth. It was established for two purposes – to further enhance Swedish Match's strong cash flows and to cre-



ate balanced and very long-term growth in phase with social developments regarding tobacco.

After divestment of its cigarette operations and substantial acquisitions in the cigar product area, the Group is today the world's leading player in niche tobacco products, with the emphasis on the smokeless alternatives. The Group's composition and balance create a meaningful unit. We combine areas with strong cash generation, growth areas, products that give us a globally strong distribution network, as well as products that point the way to the future. The special nature of the Group's composition, with its complementary product areas, gives us unparalleled access to a large percentage of adult consumers worldwide. We reach them via our well-known brands, which in some cases represent decades of continuous investments. And we reach them via our sales channels to thousands of retail outlets in many countries.

We have leading positions in chewing tobacco in the US and pipe tobacco in both Europe and the US. While demand for these products is declining, profitability and cash flows are excellent. By developing products and playing an active role in the structural changes within these niche areas, we will fully utilize future growth opportunities.

Thanks to our acquisitions of cigar companies, we have now, as the global number two in terms of sales value, achieved a leading position in one of the tobacco market's

growth areas. Cigars are a socially acceptable pleasure-focused product for special occasions, the potential of which is directly related to the rise in standards of living. Our focus on cigars gives us synergies with other products in distribution, marketing and sales, with good cash flows and prospects for continued profitable growth.

We hold world-leading positions that we are defending in the face of strong competition by applying rationalizing and efficiency-enhancing measures. The combined strength of our products is exemplified by matches and lighters, two of the global retail sector's most common products, which are found virtually everywhere. Swedish Match's international sales expertise, which will soon date back 100 years, is strongly linked to these products. No other tobacco company of our size has such global coverage, providing a backbone for marketing of all our products.

Swedish Match's substantial investments in Swedish snus have generated strong cash flows, strong growth, a bridgehead to the future, and a better alternative for the many smokers wishing to quit. With the focus on snus, our strategies are aimed at long-term expansion. Clear social trends confirm that attitudes to smoking are continuing to become even more negative in an increasing number of countries. Despite this being so, existing public-health initiatives aimed at reducing smoking have scarcely lived up to expectations. Sweden is the exception, however, being the only country to achieve the World Health Organization's target of less than 20 percent smokers among the adult population, although the level of tobacco use is the same in Sweden as in the rest of Western Europe.

This has come to be known as "The Swedish Experience," and is documented in a number of independent scientific studies, which show that the health risks associated with Swedish snus, produced in accordance with Swedish Match's GOTHIA TEK® standard, are considerably less than those caused by cigarette smoking.

Changing traditional consumption patterns is a process that takes a long time. But in a world with about a billion smokers, Swedish Match's Swedish snus ought to be able to play a significant and constructive role in international, national and individual initiatives to reduce the harmful effects of smoking. Our commercial interest thus goes hand in hand with society's best interests.

Against this background, Swedish Match is investing considerable resources in realizing the long-term market potential of snus as an alternative, both in economically advanced and health-conscious countries and in new markets where there is a tradition of oral tobacco use.

These investments require perseverance. This is clear from the US market, where it is now nearly ten years since Swedish Match began marketing its Timber Wolf brand, which is now among the leaders, with a 9-percent market share. It is also clear from developments in the EU, where Swedish snus is banned except in Sweden. However, we reached a milestone during 2002, when a German court decided to refer the question of the legality of the snus ban to the European Court of Justice. The legal process is expected to take two years.

It is unreasonable that Swedish snus is forbidden in the EU when cigarettes are permitted. Accordingly, we expect that the ban will be lifted in the not too distant future, which would further improve our future market potential.

Our long-term investments also cover new markets, such as India, Russia and southern Africa. We do not anticipate rapid success, but once again we see considerable long-term market potential.

Swedish Match's successful development during the past few years shows that the company has built a stable platform for continued long-term growth, strongly supported by international social trends. The company's unique expertise in the area of smokeless tobacco products gives shareholders considerable long-term growth potential in a world where it is becoming increasingly clear that alternative strategies and products are needed to reduce the health risks caused by cigarette smoking. The Swedish experience suggests that Swedish snus produced in accordance with Swedish Match's GOTHIA TEK® standard is not part of the "tobacco problem" but rather part of the solution.

Lennart Sundén
President and Chief Executive Officer

*Swedish Match
has built a stable
platform for continued
long-term growth...*

A long-term strategy in the tobacco area aimed at sustainable growth and profitability

Business concept

Swedish Match aims to be a unique tobacco company that uses its world-leading brands and niche products in growing markets to work in harmony with social and consumer trends.

Strategies

- Prioritize long-term growth – particularly organic growth but also through selected acquisitions.
- Strengthen positions in the European and North American markets.
- Work to broaden the product range in new markets by utilizing the Group's sales channels and extensive distribution network across product boundaries.

Swedish Match is uniquely positioned among the world's tobacco companies for continuing to build strong and sustainable operations in the tobacco area, aided by strategies that work in harmony with social trends – not against them.

Snuff – a growth product

The core of Swedish Match's strategic focus is smokeless products, particularly snuff, the only tobacco product showing stable and long-term growth. Based on its expertise and market position within the area of smokeless tobacco products, the Group has developed a niche strategy for those tobacco products that fall within the designation Other Tobacco Products (OTP), meaning those tobacco products that, in various situations, provide an alternative to cigarette smoking.

The success of this strategy is reflected in the trends for cigarette smoking and snuff consumption in the two most advanced markets – Sweden and the US. As cigarette smoking has declined, snuff use has increased. Today, Sweden is the only country that has achieved the World Health Organization's target of reducing the proportion of smokers in the adult population to under 20 percent. In the US, the corresponding figure is slightly below 25 percent, and heading downward. In Sweden, snuff consumption has increased continuously since the early 1970s, when communal measures against cigarette smoking began to assume more concrete forms. A similar trend against smoking is evident in the US.

During the past four years, Swedish Match has positioned itself in accordance with these market and industry conditions, thereby paving the way for continued profitable growth.

There are approximately one billion cigarette smokers in the world. As increased attention is focused on the health aspects of smoking and political intervention intensifies in more and more countries, the demand for alternative products can be expected to increase. The need for such products is supported by substantial international experience testifying to the limited results achieved by other measures aimed at reducing cigarette smoking. The phrase “cigarette replacement products” (CRP) has now come into use to refer to alternative products that involve considerably lower health risks.

Switching to snuff has proved to be an effective method for giving up smoking. A number of independent scientific studies have documented the fact that snuff use involves considerably lower health risks than cigarette smoking. With more than 20 percent snuff users among its adult population, Sweden shows the lowest incidence of tobacco-related illnesses in the entire western world, and this has come to be known as “The Swedish Experience.”

Critical mass

Growth for snuff is the core of Swedish Match’s strategy. The Group’s expertise and global market position in the snuff product area are unmatched. Swedish Match is the clear leader in Scandinavia and one of the leading players in the world’s largest snuff market, the US. Swedish Match is in the forefront in terms of product development – as the pioneer of portion-packed snuff, for example – and for its high standard of quality and products, based on the GOTHIA TEK® quality designation. Thanks to this critical mass and its many years of global operations in other product areas, the Group has also become the first player to begin building up positions in the snuff product area in new markets.

The large EU market is closed to Swedish Match until further notice due to the ban on sales of snuff, with Sweden as the sole exception. Swedish Match maintains that the ban lacks a correct legal basis and violates the principles of non-discrimination and proportionality. Nor does the ban lead to any improvement in public health; on the contrary, it is counterproductive in this regard. Swedish Match is working for the lifting of the ban through a legal or political process, and achieved some success during 2002 when an administrative court in Germany decided to refer the issue of the legality of the ban to the European Court of Justice in Luxembourg.

Swedish Match’s view is that the ban will be lifted in the not too distant future and that developments in an increasing number of advanced countries will resemble the trend

in Sweden and the US, as increasing attention is focused on the health problems associated with cigarette smoking, as more political initiatives are taken to reduce smoking, and as the demand for alternative products increases.

The Group has also built up a world-leading position in cigars since 1998, principally through acquisitions. As world number two in terms of sales value, Swedish Match has also achieved a critical mass in this area, and this is now providing the platform for ongoing international expansion, including, among other measures, expansion of market coverage for Caribbean handmade cigars in Europe and Asia, and investments in renewal of the range.

Market and industry conditions

The Group’s strategies are based on the following market and industry conditions:

- In the large and developed markets, consumption of cigarettes, by far the most dominant tobacco product, has been declining for many years, and growth is stagnating in other markets. The main reason for this is the increasing concern about the effects of cigarette smoking on health. Political intervention is reinforcing the decline through bans on smoking in many places, restrictions on advertising and higher taxes on consumption. Swedish Match’s two main markets, Sweden and North America, are at the forefront of these developments.
- During the 1990s, cigar consumption worldwide underwent a renaissance as an expression of a socially more acceptable form of tobacco consumption, mainly focusing on pleasure in association with food and drink. To some extent, this could be a result of the decline in cigarette smoking, but it probably also reflects increased prosperity, bring with it both the opportunity and the desire to indulge in consumer luxuries on social occasions.
- Other tobacco consumption, in the form of chewing tobacco and pipe-smoking, is declining in volume, mainly due to the fact that the age of consumers is increasing and they are no longer being replaced at the same rate by younger consumers.
- The trend of consumption has resulted in overcapacity in the tobacco industry and a global consolidation through acquisitions and mergers that is steadily reducing the number of players. However, the industry continues to show good profitability, due to the scope for rationalizing production and the strong brand loyalty among consumers.

Swedish Match is focusing on structural measures and constant cost-efficiency measures. The Group also continuously evaluates opportunities for complementary acquisitions and partnerships. Finally, the Group applies a financial strategy aimed directly at strengthening shareholder value. Reserves not directly needed for operations will be returned to shareholders through a share buy-back program and through dividends.

A key factor in Swedish Match's success is the Group's brand portfolio and its global distribution competence and capacity. The Group has strong local, regional and global brands in every product category, and these represent substantial value in terms of long-term consumer loyalty, investments and know-how in product and quality development, packaging, distribution, marketing and sales.

The brand portfolio is also strengthened by the increasing legal restrictions on marketing of tobacco products. These make it difficult to establish new brands, thereby increasing the value of the existing brands.

The brands and products reach their markets via a distribution network that extends over approximately 140 countries, making it unique in the OTP sector. Swedish Match's total product portfolio constitutes the basis, and a key source of support, for the Group's strong position in the retail sector. The acquisitions made during the past few years have further increased the critical mass in the distribution system, giving rise to competitive advantages and synergies in terms of revenues and costs. Swedish Match's brand and distribution expertise on a global scale gives the Group a strategic advantage in the focus on smokeless tobacco alternatives.

Group review

The company's focus in 2002 has been to:

- Increase our efforts in smokeless tobacco, through broader product range and investments on new markets, and investment in a new factory,
- reduce the Group's working capital to improve cash flow from operations, and
- further integrate acquisitions made over the past years.

Net sales

Net sales for the year amounted to 13,643 MSEK (13,635), with favorable growth for snuff, which offset decreases in sales in other product areas caused by exchange rate effects. Compared with the preceding year, the exchange-rate factor had an adverse effect on sales amounting to 4 percentage points.

Sales of snuff increased in the two most important markets. Volumes increased by 6 percent in Northern Europe and by 10 percent in the US, in terms of the number of cans sold. The company's market share in the growing US market improved during the year by nearly 1 percentage point to slightly more than 9 percent.

Sales for cigars declined by 5 percent. In local currency, sales were unchanged.

Sales of pipe tobacco declined by 10 percent. Compared with the preceding year, sales were affected adversely by the considerably weaker South African rand and by lower volumes in certain markets.

Lighter operations are exposed to increasing competition from producers in low-cost countries. Sales volumes declined during the year.

Operating income

Operating income increased by 12 percent to 2,371 MSEK (2,113). Lower exchange rates affected earnings negatively in an amount of 115 MSEK.

Operating income for snuff increased by 30 percent compared with the preceding year. The increase was mainly due to higher volumes, the positive effect of pricing and the product mix, and slightly lower marketing costs. During the year, Swedish Match intensified its efforts in new markets. In India, where Swedish snus was launched in Bombay in May 2001, the campaign was extended to other regions during 2002. At the beginning of the year, Swedish snus was launched in Moscow. Sales of Swedish snus continue in Slovenia and the Czech Republic.

Operating income in the cigar segment increased by 4 percent as a result of changes to the mix and lower overheads. Earnings were adversely affected by the restructuring of production in Belgium and lower sales volumes for machine-made cigars in the US.

Lower volumes for pipe tobacco in certain markets resulted in reduced earnings. The weakening of the South African rand also exerted a negative impact on earnings. Operating income for matches increased by 21 percent, primarily due to a strong sales trend in certain non-European markets.

Net sales and operating income by product area	2002	2001	2002	2001
MSEK	Net sales		Operating income	
Snuff	2,788	2,457	1,233	950
Chewing tobacco	1,333	1,377	406	372
Cigars	3,318	3,481	522	500
Pipe tobacco and Accessories	843	933	164	236
Matches	1,648	1,690	221	183
Lighters	700	809	74	101
Other operations	3,013	2,888	-181	-149
Subtotal	13,643	13,635	2,439	2,193
Items affecting comparability	—	—	-68	-80
Total	13,643	13,635	2,371	2,113

Other Operations

Other operations include, among other things, the distribution of tobacco products on the Swedish market, sales of advertising products, as well as corporate overheads and costs for business development. For the year, net expenses for other operations were -181 MSEK (-149). The second half of 2002 has been impacted by significant costs related to a legal process in the US.

Items affecting comparability

An expense of 68 MSEK for a rationalization program in Continental Europe, relating to sales and production of cigars and lighters, was charged against third-quarter earnings.

Net financial expense

Net interest expense for the year amounted to 229 MSEK (expense: 286). Other financial items, net, amounted to an expense of 16 MSEK (income: 13). An advantageous interest rate difference had a positive effect on net financial expense during the fourth quarter as a result of currency hedging of shareholders' equity relating to operations in North America.

Taxes

Total tax expense for the year amounted to 648 MSEK (589), equal to 30.5 (32.0) percent of profit before tax. The reduction in the tax rate compared with the preceding year is attributable to utilization of loss carryforwards.

Earnings per share

Earnings per share, including items affecting comparability, amounted to 4.10 SEK (3.40).

Distribution of surplus funds

The fact that companies listed on Stockholmsbörsen are now permitted to repurchase their own shares provides an alternative way, in addition to payment of dividends, to transfer profits to shareholders.

Dividend

Swedish Match's 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 1.60 SEK per share (1.45) be distributed to shareholders. This corresponds to a total of 547 MSEK (508), calculated according to the number of shares outstanding at year-end. The proposed dividend amounts to slightly more than 38 percent 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 buybacks 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 and the Group's interest and tax expenses.

Summary of income statement	2002	2001
MSEK		
Net sales	13,643	13,635
Operating income	2,371	2,113
Net financial expense	-245	-273
Taxes	-648	-589
Minority interest	-49	-23
Profit for year	1,429	1,228
Earnings per share, SEK	4.10	3.40

Repurchase of shares during the year

At the Annual General Meeting on April 23, 2002, approval was given for a reduction of the share capital in an amount of 24 MSEK by canceling 10 million shares through a transfer to unrestricted reserves. This reduction was registered in October. Following the reduction, the Company's share capital amounts to 868 MSEK, represented by 361,596,181 shares, each with a par value of SEK 2.40. During the year 7,995,000 shares were repurchased at an average price of SEK 69. As a result of the repurchase and after cancellations, Swedish Match held 19,591,000 shares at year-end, equal to 5.4 percent of the Company's shares. At December 31, 2002, the total number of shares outstanding, net after buybacks, amounted to 342,005,181, a decrease of 2.3 percent during the year.

As approved by the shareholders at the Annual General Meeting, the Company may hold 10 percent of the Company's shares at any given time. Repurchased shares may be used to acquire companies and to cover options issued within the framework of the Company's options program.

Liquid funds

At December 31, 2002, cash and bank deposits plus short-term investments amounted to 2,016 MSEK, compared with 1,606 MSEK at the beginning of the year.

In addition to liquid funds, Swedish Match has unutilized confirmed lines of credit amounting to 1,500 MSEK

Summary of balance sheet	2002	2001
MSEK		
Fixed assets	7,689	8,430
Inventories	3,154	3,753
Current receivables	2,588	2,834
Liquid funds	2,016	1,606
Total assets	15,447	16,623
Shareholders' equity	4,007	4,105
Minority interests	686	767
Provisions	2,201	2,311
Long-term liabilities	4,603	5,150
Current liabilities	3,950	4,290
Total shareholders' equity and liabilities	15,447	16,623
Operating capital	10,036	11,227
Net debt	3,492	4,410

pertaining to short-term credits, and a syndicated bank loan amounting to 225 MEUR. The credit facility is valid until April 2004.

Financing

Interest-bearing loans amounted to 5,508 MSEK at December 31, 2002. The Group's main financing is effected through an international corporate bond program (Global MTN Program), of which 3,204 MSEK had been utilized at December 31, 2002, and a Swedish bond program, of which 1,761 MSEK had been utilized at the same date.

Equity/assets ratio and net debt/equity ratio

At the end of the fiscal year, the Group's equity/assets ratio amounted to 30.4 percent, compared with 29.3 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 3,492 MSEK. The comparable amount at the end of the preceding year was 4,410 MSEK. The net debt/equity ratio that is – net debt as a

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

percentage of shareholders' equity and minority interest – thus amounted to 74.4 percent at December 31, 2002.

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 751 MSEK (633). Notable major investments included the investment in a new snus plant on the outskirts of Gothenburg in Sweden. In addition, 53 MSEK (962) was invested in acquisitions of subsidiaries. Total depreciation and amortization amounted to 651 MSEK (670), of which depreciation of tangible fixed assets amounted to 324 MSEK (329) and amortization of intangible assets amounted to 327 MSEK (341).

Tobacco tax

In Sweden during 2002, the Group paid tobacco taxes and value-added tax on tobacco tax of 10,352 MSEK (10,044).

Bonus and options program

In addition to their basic remuneration, senior executives within the Group have both a short-term incentive program (via bonuses) and a long-term incentive program (via options). 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. In addition, for division presidents, part of the bonus amount is based on increased 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 program for senior executives should be based on measurable increases in shareholder value.

The bonus program can give a maximum of 35 percent of the basic salary. For the maximum allocation to be paid, the criterion for those whose entire bonus is based on this is that earnings per share must increase by at least 20 percent. For division presidents to receive the maximum bonus, there is an additional requirement that operating income improves in their respective area of responsibility, compared with the preceding year. For 2002, the program gave the maximum yield in relation to earnings per share.

The long-term program comprises an options program, whereby the options allocated have a lifetime of three to five

years. During 2002, 56 executives were participating in the options program. Under the terms of the program, the requirements for the allocation of options in a given year are 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), and that the Company's earnings per share are increasing 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 value. 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 period close to the date of allocation following publication of the accounts for the year.

As part of the options program, 1,518,770 call options were issued during the first half of the year. They may be exercised during the period from March 15, 2005 to March 15, 2007. Each option entitles the holder to purchase one share at an exercise price per share of 77.50 SEK. Using the Black-Scholes model, the true value of these options was calculated to be 10.10 SEK per option, or a combined total of 15.3 MSEK. Since the options were issued by Swedish Match AB, the amount in question was not expensed. The preliminary income tax and social security expenses that are paid at the time of allocation if applicable are expensed within the Group. This sum amounted to 7 MSEK for 2002.

At December 31, 2002, including 4,659,417 options issued earlier, the total number of call options issued, on the Company's own holding, corresponded to 6,178,187 shares, as shown in the table below. No options were exercised or matured during 2002.

Number of shares	Exercise price	Exercise period
2,847,108	34.70	2003-03-13 – 2005-03-14
1,812,309	44.50	2004-03-13 – 2006-03-14
1,518,770	77.50	2005-03-15 – 2007-03-15

Risk management

Financial risk management

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 financial policy that was established by the Board of Directors. The Group’s financial 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 largely centered in the Parent Company’s Financial Department. The Swedish Match Group’s financial operations are centralized to take advantage of large-scale operations and to minimize operating risks.

Currency risks

Exchange-rate fluctuations affect Group earnings and shareholders’ equity in different 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

With the exception of its Swedish operations, Swedish Match has a large percentage of its production and sales in “Euroland” countries and in the US. As a result, there is a balance between receivables and payables in EUR and USD, which limits the Group’s transaction exposure. Swedish Match’s policy is to hedge transaction exposure within certain frameworks.

Translation exposure

The Group’s sensitivity to currency effects when converting the earnings of foreign subsidiaries relates mainly to the USD, EUR, BRL and ZAR. The single most important currency is the USD.

The financial policy stipulates that, whenever possible, subsidiaries should be financed in the local currency. In cases where, due to currency regulations or other reasons, it is

not possible to finance subsidiaries in the local currency, borrowing is effected in another currency, in which case the loan is usually currency-hedged.

Swedish Match does not, as a rule, hedge shareholders’ equity in foreign subsidiaries. Shareholders’ equity in one of the Group’s US units has previously been hedged via loans from the Parent Company. In addition, during the latter half of 2002, shareholders’ equity in another US subsidiary was hedged through forward contracts.

Interest-rate risk

Changes in interest rates have a direct impact on Swedish Match’s net interest income/expense. The speed with which a permanent change in interest rates has an impact on this item depends on the fixed-interest-rate periods of loans and investments. Swedish Match’s policy is that the average fixed-interest-rate period should not exceed 12 months. Management of the Group’s interest-rate exposure is centralized, with the result that the central treasury department is responsible for identifying and managing this exposure. As of December 31, 2002, the average fixed-interest-rate period was 2.5 months for Group loans and 2.0 months for investments.

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. In accordance with Swedish Match’s financial policy, cash funds and guaranteed credits amounting to at least 2,000 MSEK must always be available. At year-end 2002, this reserve amounted to 5,574 MSEK.

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. The greater part of Swedish Match’s medium-term financing consists of a Swedish medium-term note program and a global medium-term note program. As of December 31, 2002, a total of 1,761 MSEK of the Swedish program and 3,204 MSEK of the global program had been utilized.

Liquidity risks and credit risks

To limit liquidity and credit risks, investments may be made only in instruments with high liquidity and credit ratings. In addition to bank accounts, investments are made mainly in Government bills and Government bonds, as well as in

certain approved securities. Swedish Match uses a so-called ISDA Master Agreement, which, in certain countries, permits the netting of receivables and liabilities.

Cash management

A number of so-called cash pools have been established in Sweden, the United States and Europe to facilitate payment flows and concentrate the Group's liquidity. The structures of the pools make it possible to concentrate cross-border flows and to handle the Group's total liquidity in SEK, USD and EUR in an efficient manner.

Credit ratings

As of December 31, 2002, Swedish Match was rated as shown below by Standard & Poor's and Moody's Investor Service:

	Standard & Poor's	Moody's
Long-term borrowing:	A –	Baa 1
Short-term borrowing:	K-1/A-2	—
Outlook:	Stable	Positive

Risk Management and insurance

The objective of the risk-management program in Swedish Match is to be able to ensure delivery of the Group's products and services, and to protect the Group's assets. This is done both by continuously developing the loss-prevention and loss-limiting programs in Group operations, and by introducing and developing Groupwide insurance solutions. This makes it possible to achieve coordination gains and to reduce to a minimum the total cost of managing the Group's damage risks.

Litigation processes

In the US, thousands of product liability claims have been made against the US tobacco industry in the past 45 years. Some of these cases have been in the form of so-called class action suits where a number of consumers take legal action to represent themselves and others – for instance, all the smokers in a given state. In other cases, individual states have sued the industry to obtain damages to cover medical-care expenses for tobacco-related diseases. An agreement was reached in 1998 that covered all states and major cigarette producers in the US, and which finally settled all state litigation processes against the cigarette companies.

At present, about one hundred cases brought against the tobacco industry are pending before US courts, the vast majority of which involve cigarettes. Damages have been imposed by the court of first instance in a number of cases, but to date, all of the rulings appealed before higher courts have been reversed. Damages were paid in just one case, and in a modest sum, in this context, of 1.5 MUSD. However, a certain trend toward an increase in the number of cases lost by the cigarette industry, at least in courts of first instance, can be observed. This trend is most strongly evident on the west coast and in Florida.

Over the years, only two judgments have been delivered in litigation processes involving tobacco products other than cigarettes – one in 1977 concerning cigars and the other in 1986, involving snuff. In both cases, the juries decided unanimously in favor of the tobacco company involved.

Swedish Match's US subsidiaries have been named as defendants in a number of complaints through the years. In virtually all cases, however, these complaints have subsequently been either withdrawn or rejected by the courts, and to date, no Group company has had to contest a tobacco-related product-liability trial in the US. The only active, individual case that the subsidiary Pinkerton Tobacco has been involved in during recent years was dismissed by a court in Minnesota at the beginning of 2003.

In Florida in November 2002, a class action lawsuit was brought against the smokeless tobacco industry in the US, including Pinkerton Tobacco Company and Swedish Match North America Inc. The case is in the preliminary stage and no timetable has been set for hearing the case.

Otherwise, the company is involved in a number of legal processes of a routine nature for the Group's operations, but these are not considered to entail any significant risk for the Group's financial position or earnings.



- The positive sales trend continued in Northern Europe and the US, where market shares strengthened further.
- New products were launched in several markets.
- Expansion of operations in India.
- Test sales in Russia.
- Breakthrough in snuff issue in EU.

The year

Sales increased by 13 percent to 2,788 MSEK (2,457). Operating income increased by 30 percent to 1,233 MSEK (950), while the operating margin rose to 44 percent (39).

Sales volumes increased in both the main markets – Northern Europe and North America. In the North American market, Swedish Match's sales, in terms of volume, increased by 10 percent in a market that grew by a total of 2.5 percent. The Company's market share amounted to 9.1 percent (around 8.5 percent) according to Nielsen data. This success is primarily attributable to Timber Wolf's continued favorable sales figures.

In Northern Europe, 2002 was one of the best years ever, with 6-percent sales volume growth compared with 2001. There was a particularly noticeable increase in sales of portion-packed snus, which last autumn achieved larger sales volumes than loose-packed snus for the first time. The sales trend continued to be favorable in both Sweden and Norway.

There was a steady stream of new product launches during the year in different markets, while operations in India were expanded to additional cities.

At the end of the year, test sales of Swedish snus were initiated in Moscow.

Toward the end of 2002, a court in Minden, Germany, decided to refer the case concerning the EU's ban on sales of snuff to the European Court of Justice in Luxembourg. The Court's consideration of the case is expected to take approximately two years.

Market

Snuff consumption has strong roots, particularly in the Nordic countries and North America, but also in Africa and Asia. For Swedish Match, snuff (or "snus" as it is called in Sweden) is the main generator of organic growth. As increasingly rigorous restrictions on smoking are imposed

in various parts of the world, the market potential for smokeless alternatives, such as snuff, is growing.

Northern Europe

Snus consumption in Northern Europe has shown stable growth over the past decade and amounted to 209 million cans in 2002. The increase has occurred at the same time as cigarette consumption has decreased substantially. The background to this trend is an increase in health-awareness and the increased restrictions on smoking within society. In this situation, snus has achieved prominence as an effective aid for people who want to give up cigarette smoking or reduce the amount they smoke. In Sweden, the largest market for the product in Northern Europe, there are about one million snus consumers, roughly half of whom are former smokers. In addition to Swedish Match, a number of small players are active in the market.

The traditional image of snuff as an outdoor product is being challenged today by new consumer categories. Snuff is gaining acceptance in increasingly broad sections of society and large numbers of new consumers belong to the higher educational and income levels. Nearly 20 percent of consumers are women, according to a survey conducted at the end of 2002 by TEMO. A key factor behind the trend is Swedish Match's development of portion-packed snus, which overtook loose snuff in sales volumes for the first time in the latter part of 2002.

The trend toward reduced consumption of cigarettes and higher consumption of snus has attracted interest far beyond the company, in public-health circles and the media, and from politicians and other tobacco companies.

The launch of the new CatchDry Lychée snus, with a flavor of the Chinese lychée fruit, took place in September. The launch met with a positive reception, complementing the already existing flavors in the CatchDry family – licorice and eucalyptus.

The two main sales channels are convenience stores and service outlets.

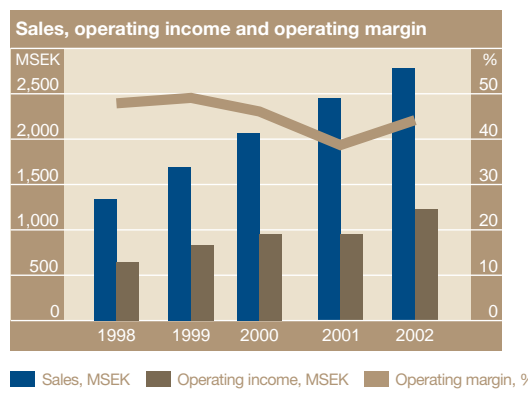
Key ratios, MSEK	2002	2001
Sales	2,788	2,457
Operating income	1,233	950
Operating margin, %	44	39
Investments in tangible fixed assets	424	238
Average number of employees	825	846

Production plants

Sweden, US and South Africa.

Main brands

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



Continental Europe

There is a market for dry snuff, used nasally, in Germany, Switzerland, Austria, France and Italy. Consumption has shown a declining trend in recent years.

Swedish Match is active in this product area under the brand names Singleton, Kensington and Rumney's, which are marketed in Germany, Switzerland and France. Rumney's and Kensington were relaunched in these countries and newly launched in Italy and Austria during the year.



snuff

North America

The North American market is the world's largest – about four times as large as the Nordic market in terms of numbers of cans sold. The market has increased by 2–3 percent per year during the past few years, and consumption in 2002 amounted to some 835 million cans.

Swedish Match is one of four major players in the market and has a rapidly growing market share, amounting to 9.1 percent during 2002, according to market survey company Nielsen data. Other players in the market include US Smokeless Tobacco, subsidiary to the exchange-listed company US Tobacco and the privately owned companies Conwood and Swisher.

Swedish Match's largest brand is Timber Wolf, which is one of the leaders in the value-priced segment. During the past few years, the value-priced segment has recorded a two-digit annual growth rate.

New flavor variants launched during the year were Timber Wolf Long-Cut Mint and Timber Wolf Long-Cut Natural.

Toward the end of the year, the Swedish-produced Catch and General brands were launched in New York and Washington, D.C. The main target group is among others the many Swedes resident in these cities.

During 2001, Sequoia was launched as a new high-quality snus in the premium market. At the end of 2002, Sequoia's market share amounted to 0.2 percent of the total market. During the year, Sequoia Long-Cut Arctic Wintergreen was launched.

The Exalt snus brand, marketed as a tobacco product for smokers who are seeking an alternative to cigarettes, is produced in accordance with the GothiaTek standard. Exalt will require continued information campaigns, aimed at both customers and consumers, in order to establish a market position.

Swedish Match's North American range also includes Renegades portion-packed snuff.

Convenience stores are the main distribution channel for snuff in the US. However, special mass merchandisers specializing in tobacco products are becoming increasingly important for distribution.

South Africa

In South Africa, nasal snuff is the dominant smokeless tobacco product. Swedish Match established itself in the South African market in 1999 through the purchase of Leonard Dingler, whose Taxi brand is among the market leaders. The acquisition of Leonard Dingler gave Swedish

Match a foothold in South Africa, which is an important market for smokeless tobacco products.

Sales volumes declined by 2 percent during the year, but the launch of a new flavor, Menthol, met with a positive reception.

The major part of Swedish Match's tobacco products in South Africa is supplied directly, via the company's own sales organization, to wholesalers, cash-and-carry stores and supermarkets. Swedish Match also has its own distribution company, Brasant, which sells the Group's other products, such as cigars and Cricket-brand lighters, via its own sales staff direct to the stores.

European Union

The sale of moist snuff/snus within the European Union was banned in 1992. Behind the decision, among other reasons, lay an assertion that snus can cause cancer. However, Sweden managed to obtain an exemption from the sales ban for the Swedish market when it joined the EU in 1995. Since then, a number of epidemiological studies carried out in Sweden have shown that suspicions about the cancer-causing effects of snus have no scientific basis. As a result, the authorities within the EU decided during 2001 to discontinue the requirement for cancer warnings on snus packaging. As far as Swedish Match is concerned, the logical consequence of this decision is that the sales ban should also be canceled. The company has always maintained that the ban is unlawful. At the end of 2002, a German court decided to refer the question of the legality of the ban to the European Court of Justice in Luxembourg. The legal process in Luxembourg is expected to take about two years.

The future

To meet the strongly increasing demand for Swedish snus, particularly portion-packed snus, a decision was made during 2000 to invest in a new production plant in addition to the existing snus plant in Gothenburg, Sweden.

The new plant, which will exclusively produce portion-packed snus, is under construction and will be placed in operation during the second half of 2003. The existing production facility in Gothenburg will continue operation in parallel with the new plant.

The market potential, in both established and new markets, is expected to continue to be very good, and a positive long-term trend for both sales and operating income is predicted for this product area.

GOTHIA TEK®

Swedish Match's **GOTHIA TEK®** standard, which is applied to the company's snus production in Sweden, was developed in order to reduce to a minimum any possible health risks from using snus. The **GOTHIA TEK®** quality standard has become a concept in its own right, and it has been suggested that it could serve as a model for future regulation of smokeless tobacco products.

In the past few years, what has come to be known as “the Swedish experience” has attracted increasing international attention in medical and healthcare circles. The background is Sweden's unique position in regard to tobacco-related illnesses, compared with other European countries. For example, Swedish men run a considerably lower risk of contracting lung cancer than men in other comparable countries, as a result of the far lower incidence of cigarette smoking in Sweden (according to British epidemiologist Richard Peto). At the same time as cigarette consumption has declined, snus consumption has risen. Research conducted in recent years has shown that, compared with smoking, snus consumption has a substantially smaller impact on health.

The **GOTHIA TEK®** standard is a concept developed within Swedish Match after several decades of research and development. The aim of the work is to eliminate the health risks that can be associated with tobacco consumption by keeping undesirable substances in the end product below specified limit values. Such substances can occur naturally in various crops, but may also develop during the refinement process and storage.

Swedish Match has established its own limit values for a number of undesirable substances, including those known as tobacco-specific nitrosamines, or TSNA, and benzopyrenes. Genetically modified crops are also not accepted in the **GOTHIA TEK®** standard.

To ensure that these limit values are met, it is essential that the **GOTHIA TEK®** standard be followed throughout the entire process, from seed to can of snus. Among the most important factors are the following:

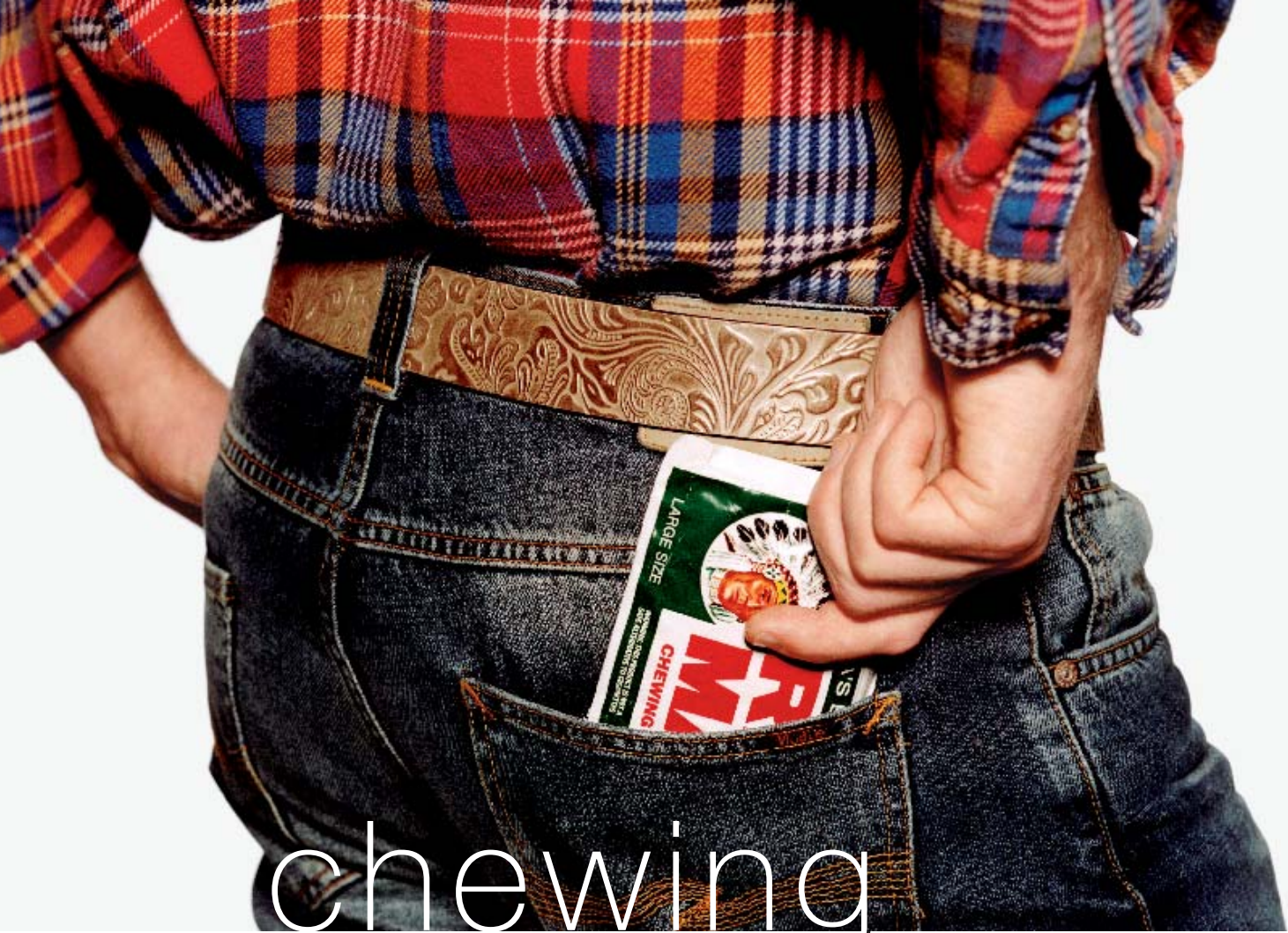
Raw material

Incorrect handling can lead to bacterial growth in the tobacco leaves, which in turn can cause the formation of nitrosamines. In order to ensure that the tobacco raw material fulfills the **GOTHIA TEK®** requirements, a special “early warning” system has been devised, whereby, as early as the cultivation stage, the grower is requested to take samples and send them to Sweden for analysis. Tobacco with a chemical composition that does not conform to the requirements is not purchased.

Production

The production process according to the **GOTHIA TEK®** standard is designed to ensure that no new formation of nitrosamines can occur. This is achieved by heat-treating the snus so that most of the natural bacterial flora in the tobacco is rendered harmless – a process that can best be likened to pasteurization. The heat treatment is carried out in a closed system, and all handling is subject to rigorous hygiene requirements. After packaging, the snus is transferred directly to a cold-storage room, which is also important for preserving the product's flavor characteristics.





chewing tobacco

- Swedish Match is the market leader, with a market share of 42 percent.
- Sales in local currency increased slightly.
- Profitability improved.

Sales in 2002 declined by 3 percent to 1,333 MSEK (1,377). Operating income increased by 9 percent to 406 MSEK (372).

The positive earnings trend was primarily attributable to the efficiency-enhancement measures effected in production and the selective price increases implemented during the year. A positive sales trend for the Red Man family of brands and Southern Pride helped Swedish Match to maintain its leading market position, with a 42.4-percent share of the market.

Market

The market for chewing tobacco is concentrated to the US, where consumption is largest in the country's southeastern states. Demand has declined by an average of 4 percent per year over the past few years, primarily for demographic reasons, such as the increase in the average age of the consumers and a diminishing labor market in agriculture and other outdoor sectors. Consumption of chewing tobacco is traditionally associated with outdoor work and leisure activities such as hunting and fishing. Many consumers use both snuff and chewing tobacco.

The total market for chewing tobacco is estimated to amount to about 3,500 MSEK.

Four players are active in the market. Swedish Match is the largest, with the market-leading Red Man family of brands, which are sold in 50 states in the US. The main competitor is Conwood, followed by National and Swisher.

Chewing tobacco is sold in two segments – a premium segment and a value-priced segment. The premium segment accounts for nearly 70 percent of the total market, while the value-priced segment has shown a slight increase during the past few years.

While convenience stores are the main distribution channel for chewing tobacco, mass merchandisers selling tobacco products are another rapidly growing channel.

The future

Profitability is expected to remain good. Swedish Match's objective is to maintain both its strong market position and a good level of profitability and to continue improving the cost situation by increasing capacity utilization.

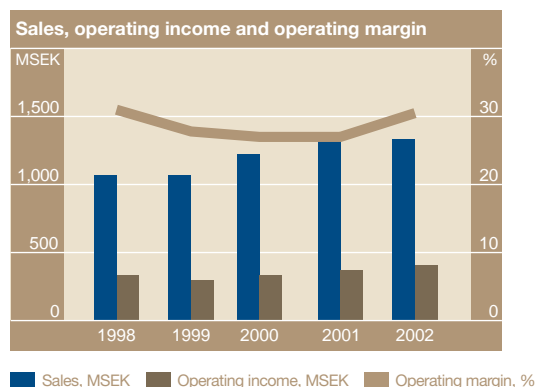
Key ratios, MSEK	2002	2001
Sales	1,333	1,377
Operating income	406	372
Operating margin, %	30	27
Investments in tangible fixed assets	42	36
Average number of employees	347	309

Production plants USA



Main brands

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





- The market for premium cigars in the US recovered somewhat during the year.
- Measures to enhance efficiency within cigar production continued.
- New product launches were implemented, in both the US and Europe.

The year

Sales in 2002 declined by 5 percent to 3,318 MSEK (3,481). Operating income increased by 4 percent to 522 MSEK (500) and the operating margin improved to 16 percent (14). The improvement in operating income was mainly due to changes in prices and the product mix, as well as somewhat lower overheads.

Swedish Match is the leading player in the Nordic region, where the market improved somewhat during the year. The market for premium cigars in the US improved slightly during the year and Swedish Match strengthened its market position. In the segment for machine-made cigars, Swedish Match's sales declined and its market position

weakened slightly. The European market remained relatively stable.

The program to enhance the efficiency of cigar production continued during 2002. Production in Belgium was concentrated to one of the Group's two plants and production capacity in Pandaan, Indonesia, was expanded.

As a result of the efficiency-enhancement program, the workforce in Europe was reduced by 120 persons. Personnel reductions in continental Europe are expected to continue during 2003. In conjunction with the merger of the production units, an extensive upgrade of the machine park is being undertaken in order to increase productivity.

Restructuring costs of 68 MSEK relating to the rationalizations and additional measures within the sales organization were charged against third-quarter earnings.

In Dothan, in Alabama, USA, an investment was made in increased automation.

Market

Cigar consumption is stable or increasing in many markets. During 2002, more than 15 billion cigars were sold world-

wide, generating a total sales value of about SEK 35 billion. Of this total, about 6.6 billion, or 44 percent, were sold in Europe, while some 6.2 billion, or 41 percent, were sold in North America.

Swedish Match is one of the largest producers of cigars and cigarillos in the world and globally is the second largest, in terms of sales value. Cigar operations are a high-priority product area for the company. Integration of acquired units continued during the year.

Swedish Match has an extensive and diversified portfolio of brands. Aside from a large number of local and regional brands, Swedish Match also owns a number of the few brands that are sold globally, such as Macanudo, La Paz and Willem II. Including the German company Arnold André, in which Swedish Match has a 40-percent holding, the Group produces more than one billion cigars annually, divided among more than 30 brands. Swedish Match products are marketed in 90 countries.

Europe

Sales in Europe are dominated by machine-made cigars. Premium cigars account for less than 5 percent of the market, with some light growth. The market for machine-made cigars was stable, or declined slightly, during the year. The strongest growth was shown by flavored cigars and cigarillos. Swedish Match's share of the European market increased somewhat, to slightly more than 15 percent, during 2002.

The competitive situation in Europe is still characterized by the large number of players involved, with many small producers alongside a few large ones. During 2002, no significant acquisitions or mergers were implemented.

Swedish Match's distribution in Europe is handled both by its own sales companies and by external importers/distributors.

Key ratios, MSEK	2002	2001
Sales	3,318	3,481
Operating income	522	500
Operating margin, %	16	14
Investments in tangible fixed assets	169	239
Average number of employees	6,504	5,922

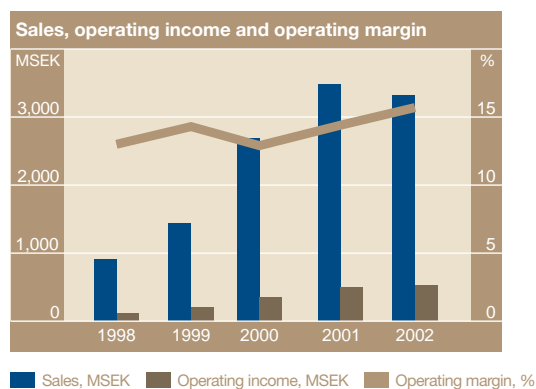
Production plants

Belgium, Honduras, Germany*, Indonesia, the US and the Dominican Republic.

* Through partly owned Arnold André.

Major brands

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



During the year, the following new products were launched: La Paz Mini Cigarillos, Gran Cigarillos, Willem II Primo and Willem II Black Line.



cigars

North America

Handmade cigars

General Cigar markets some of the most prestigious brands in the North American market, including Macanudo, Partagas, Punch, Excalibur, La Gloria Cubana and Hoyo de Monterrey. Macanudo is an international brand and the best-selling premium cigar in the US.

Swedish Match noted an increase in volumes and a slight increase in terms of sales in local currency. The trend of demand was toward smaller, somewhat less exclusive cigars.

Four product launches were made at the end of the year, namely: Macanudo Gold Label, Macanudo Vintage 1997, Hoyo de Monterrey Dark Sumatra and Sancho Panza Double Maduro.

Machine-made cigars

Swedish Match produces and markets a broad product range in most price segments of the North American cigar market. Other players in the market are the privately owned companies Swisher and Middleton and exchange-



Swedish Match grows tobacco on a contract basis and purchases tobacco from all the major tobacco-growing regions worldwide. In the US, General Cigar grows Connecticut Shade, generally regarded as the world's finest wrapper for cigars. The leaves of the annual plant are hand-picked in order to select the best-developed leaves for the Group's quality cigars.



The dried cigar leaves undergo a fermentation process and pressing, while selection and sorting continue. It is at this stage that the leaves develop their characteristic flavors, aromas and colors. The quality of the wrapper is particularly important, since it determines the final appearance of the cigar. The wrappers are sorted according to size and different color shades.

listed Altadis. According to Nielsen data, the Group's share of the market amounted to 6.5 percent.

Five new flavor varieties of White Owl were introduced during the year and additional launches will be made during 2003.

Other regions

Work continued in regard to launching General Cigar's products, particularly Macanudo, in the world market.

The future

Cigar operations are expected to show stable or slightly increasing volumes in certain markets.

After the restructuring measures implemented in Europe, the operating margin for the product area is expected to improve somewhat.



The continued curing of the tobacco leaves is a meticulous manual process at every stage, beginning with air-drying in specially constructed facilities. The Cullman family, founders of General Cigar, were at the forefront in developing Connecticut Shade into the world's finest wrapper. Swedish Match acquired a majority interest in General Cigar in 2000. The picture shows Edgar Cullman Sr., Chairman of the Board of Directors of General Cigar (to the right), and Edgar Cullman Jr., President of the company.



A quality cigar is handmade. First, the filler, the actual heart of the cigar, is formed and inserted in the binder, a leaf that holds the cigar together. Finally, the wrapper is wrapped around the outside, giving the cigar its distinctive external appearance. The wrapper also contributes in large measure to the final aroma of the cigar.



pipe tobacco & accessories

- Sales and operating income, expressed in SEK, declined compared with the preceding year.
- Selective price increases partly offset declining volumes.

The year

Sales declined by 10 percent to 843 MSEK (933). Operating income amounted to 164 MSEK (236). The factors behind the trend during the year were declining sales in most markets and currency movements, particularly the depreciation of the South African rand.

A two-year brand campaign for the global brand Borkum Riff was completed during 2002. Among other changes, the packaging was redesigned for all the Borkum Riff variants, all of which are to be relaunched during the first half of 2003.

During the year, subcontracted production of pipe tobacco for certain Swedish Match brands was initiated at the Danish company MacBaren.

Market

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

The market for pipe tobacco in Western Europe and North America is declining in volume by 8–10 percent annually, primarily for demographic reasons. The average age of consumers is rising, without this being offset by additional new users. Volumes in South Africa declined somewhat.

The players in the pipe tobacco market are mainly large companies that also have other tobacco products in their ranges. Nine producers account for 75 percent of the world market – a situation that has remained fairly constant over the past two decades. Most producers apply a defensive strategy involving limited marketing activities.

The largest single market is the US. Other major markets are Western Europe, South Africa, Australia, Japan and Canada.

The premium brands are taking an increasing share of the shrinking market, due to increased consumer interest in blends and flavor variants in recent years.

North America

The trend of pipe tobacco consumption in the US market shows a decline of 8–10 percent per year.

Swedish Match has a market share of about 20 percent and holds a leading position in the premium segment with Borkum Riff. The company also has a strong position in the value-priced segment with the brands Half & Half, Velvet and Paladin.

Major competitors include Lane, Altadis and Middleton.

The most important distribution channel for pipe tobacco in the US is drugstores.

Europe

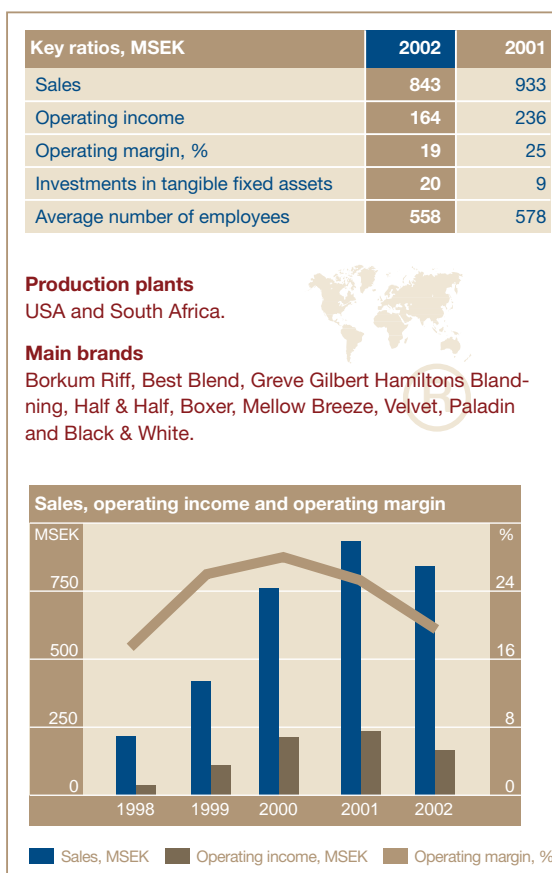
Consumption in Europe has been declining by about 8 percent per year for a number of years.

A few major producers are dominant, but the competition situation varies considerably between the national markets. Swedish Match has strong positions in Sweden and Finland, as well as Switzerland and Spain.

South Africa

Sales volumes in South Africa declined by 7 percent compared with the preceding year. The main reasons are the double-digit increase in tobacco taxes and a decline in purchasing power.

Through the acquisitions of Leonard Dingle, Brasant and BAT's South African pipe tobacco operations, Swedish Match has become the second-largest tobacco company in the country and established a platform for further expansion in South Africa and the neighboring countries. A number of strong brands provide a sound base for such an expansion – notably Boxer, which has been in the market for 60 years and is the largest brand in the country, but also other brands with solid market positions, such as 1904,



Black and White and Giraffe. During 2002, a number of new products aimed at the export market were launched under the 1904 brand name.

The future

Swedish Match aims to be a leading global player in the pipe tobacco market. Consolidation can be expected to increase in a market that remains fragmented, and Swedish Match intends to play an active role in this restructuring process.





- Sharp improvement in earnings.
- Completion of previously announced restructuring program.
- New products broaden range.
- Volumes continue to decrease in Western Europe.

The year

Sales in 2002 amounted to 1,648 MSEK (1,690). Operating income amounted to 221 MSEK (183).

The restructuring of match operations over the past years has involved production capacity adjustments through closures and cutbacks at production units in Europe, Brazil and India. The restructuring program has resulted in increased capacity utilization at the plants in Brazil and India and a reduction of the number of employees at the European plants by some 600 persons during the past four years. The restructuring program in Europe has brought about a strong improvement in productivity.

Market

Swedish Match is the largest match producer in the world, with sales under many brand names in a large number of countries. The Group's main markets are Western Europe, Brazil, Indonesia and India. Swedish Match is the market leader in both Western Europe and Brazil, where the match market is about the same size as the European market.

In terms of volume, Asia and the Pacific region account for the major portion of the world market. A country's match consumption is strongly linked to its level of economic development. The higher the standard of living, the lower the consumption of matches. Higher living standards, however, create greater demand for more exclusive matches.

Volumes for advertising matches had a slight declining trend during 2002.

During the year, Swedish Match introduced grillbags in a number of countries, including Denmark, Hungary, Sweden, Portugal, Slovenia, Croatia and Bulgaria.

Grillboxes were test-launched in Switzerland during 2002. Distribution is via supermarkets and service stations.

The launch met with a positive reception from consumers. A more extensive test launch will be conducted in Europe during 2003.

Market surveys on fire-lighters were conducted in four markets – the Netherlands, France, Sweden and the UK. The product is now sold in 18 markets.

Machine manufacturer Arenco and its wholly owned subsidiary in Shanghai showed a positive trend during the year. After a long history as a producer of match machines, Arenco has now developed a range of packaging machines. The range combines Arenco's own machines with modern packaging machines produced under license in Shanghai.

The future

The product area is expected to continue showing healthy profitability. Continued adjustments of production capacity will be needed to compensate for declining volumes in Western Europe.

Key ratios, MSEK	2002	2001
Sales	1,648	1,690
Operating income	221	183
Operating margin, %	13	11
Investments in tangible fixed assets	58	68
Average number of employees	5,743	5,893

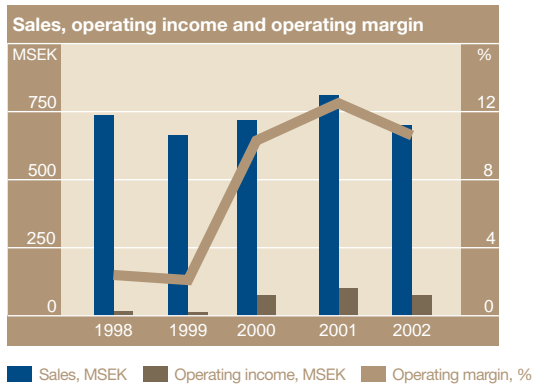
Production plants

Sweden, Brazil, Bulgaria, China, Spain, Hungary, Turkey, Indonesia* and India.

* Through partly owned company P.T. Jamafac.

Main brands

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





lighters

- Reduced sales and earnings due to lower volumes.
- Continued good volumes in Eastern European market.
- Market position in Western Europe maintained.

The year

Sales decreased by 13 percent to 700 MSEK (809). Operating income declined by 27 percent to 74 MSEK (101). These results reflect currency movements and lower sales volumes in several markets and for promotional lighters.

The major restructuring of lighter operations in recent years was followed by continued measures in 2002, including further automation of the production process.

During the year, Swedish Match secured the license to be exclusive supplier of lighters for the 2002 Soccer World Cup. Another successful marketing initiative was the sponsoring of Ferrari Challenge, whereby Swedish Match provided specially designed lighters in conjunction with

Ferrari's car racing competitions in Europe. Ferrari lighters were sold during the year in Western Europe, the US, Asia and Latin America.

Market

Swedish Match is one of the world's largest producers of disposable lighters. The company's largest markets are Western Europe, parts of Asia and Russia.

The world market for disposable lighters is growing in volume by 1–2 percent each year. However the growth rate is significantly higher in developing countries, where both income per capita and smoking are increasing. This is particularly the case in Asia, Eastern Europe and Russia. In the developed markets of Western Europe and North America, where cigarette smoking is declining, there is virtually no volume growth.

In most markets, competition is growing from producers in low-cost countries, particularly China and other parts of Asia. Consequently, cost-effective production and distribution are becoming increasingly important competitive factors.

The market for quality lighters is dominated by three major players: Bic, Tokai and Swedish Match. Combined, these three account for approximately half of the world market.

Western Europe

Viewed as a whole, the market in Western Europe was stable during 2002. Swedish Match's sales volume rose by about 2 percent and its market position was thus maintained during the year.

Eastern Europe

Swedish Match holds a strong position in Eastern Europe, with a market share of more than 20 percent, which is also continuing to grow. During the year, Swedish Match increased its volume of sales by 7 percent. Growth was mainly achieved in Russia, the most important market in this region. It is estimated that the Eastern European market as a whole still has major growth potential.

North America

In recent years, the North American market for lighters has shown an annual volume decrease of 1–2 percent. Swedish Match's market share increased somewhat, but from a low level.

Asia

Swedish Match has less than 10 percent of the Asian lighter market. During 2002, the Group's sales volume declined 33 percent in virtually all the region's markets in which it is active. A key reason is the increasingly tough competition from cheap Chinese lighters. The declining market for promotional lighters in Japan also had a significant impact on Swedish Match's earnings during 2002.

Key ratios, MSEK	2002	2001
Sales	700	809
Operating income	74	101
Operating margin, %	11	12
Investments in tangible fixed assets	21	27
Average number of employees	533	570

Production plants

The Netherlands, the Philippines and Brazil.

Main brands

Cricket, Feudor and Poppell.



The future

Swedish Match is focusing continuously on rationalization and product development to maintain profitability and defend its market positions in the lighter segment. Design and distribution channels are key factors for continued success in the market.



Work with personnel and the environment

Conscious of the Group's interaction with the rest of society and the impact of its activities on the environment, Swedish Match constantly strives to work in tune with the development. Swedish Match has a number of policies that focus on the working-life environment and social responsibility and has worked for a long time on measures to encourage compliance with these policies. There is also a policy and action program that will ensure environmental work proceeds and develops positively.

In 2002, the Group further developed its undertaking on the personnel front. Social awareness forms part of the basis for the Group's fundamental values, while there is also a need to specify the Group's position and ambition in this regard. As a modern company with a global reach, it is vital for Swedish Match to be an exemplary and attractive employer, in Sweden and abroad, and that the combined impact of the Group's production and its vendors on global surroundings develops in a positive manner.

Work is underway to devise and revise policies regarding social issues that comprehensively cover the operations of Swedish Match. There is an ongoing review of the operations' status on social issues, to ensure that the Group lives up to the expectations of the world, employees and shareholders on Swedish Match as a company.

A prerequisite here is that Swedish Match, as an international company, complies with the pertinent rules and regulations in countries where the Group operates, and in the same manner show respect for local cultures, traditions and values.

The Group supports a number of fundamental requirements aimed at ensuring health and safety in the workplace, opportunities for personal growth, job satisfaction and a ban on discrimination based on ethnic origin, religion, age and gender. Salaries and benefits of employees should always be based on objective criteria such as competence, qualifications and experience. In accordance with the UN Convention on the Rights of the Child, Swedish Match does not sanction child labor. The Group is also exerting efforts to persuade vendors into following the guidelines the Group has set, for example, by inserting demands in the contracts with suppliers.

Personnel

Swedish Match's personnel and competence development is designed to fulfill the Group's strategic need for competent managers and employees, so that it can achieve its overall goals. An important task is to support a results-oriented culture based on Swedish Match's six fundamental values: Communication, Teamwork, Trust, Innovation, Recognition and Growth.

As in previous years, work in 2002 was focused on further developing professional leadership to ensure a high future level of availability of internal leadership resources. Several different programs were conducted involving continuous and long-term training programs for management personnel and employees at different levels in the Group.

For several years, efforts have been under way to strengthen Swedish Match's common, global corporate culture, to develop synergies and integrate the many company acquisitions made since 1999. During 2002, high priority was again assigned to measures that included the continued integration of recently acquired operations.

International Managers Program

For several years, Swedish Match has carried out annual international management programs. The program usually gathers 15 to 20 managers with many years of professional experience and at least 3 years of employment in the Group. The purpose of the International Managers Program is to cultivate entrepreneurial and management skills and strengthen teambuilding.

The participants work on projects proposed by the Group management team at a number of seminars. Proposed solutions by the work group have yielded concrete results, such as in the ongoing group-wide World Class Purchasing project aimed at lowering purchasing prices for certain types of material. Another result is that new functions have been developed for the Group's website. A new International Managers Program for 2003 was planned and prepared during 2002.

Trainee program

The Group completed its trainee program in early 2003. The program was focused on younger employees, with one or more years of professional experience. The training consisted of systematically supervised projects in various inter-

national Group environments during three six-month periods. In addition, four seminars were held on the subject of teambuilding, advanced Group knowledge and basic management. The program gathered participants from the Netherlands, Sweden, South Africa and the US. The next trainee program is being prepared in 2003 for implementation in 2004.

Mentor program

A decision to start a mentor program was reached in 2002. The program aims to create a base of support for employees who have yet to gain enough experience to develop their respective careers. With the help of experienced managers in the Group acting as mentors, the grounds for experience can be broadened and strengthened and pave way for better career opportunities. The program is focused on leadership and entrepreneurial skills.

Management Reviews and Performance Management

Management reviews are conducted annually within the Group. These reviews are intended for follow up on successor planning, development and planning of the Group's key executive functions. A review of the Group's performance management routines was initiated during the year with the purpose of expanding and intensifying the future development of efficient leadership and competent employees. This involves measures such as further systematizing and structuring the processes for the development- and successor planning to cover more employees than today. Work is expected to continue during the whole of 2003.

Management conference

At more or less regular intervals, about 100 of the Group's managers meet for a two-day conference designed to clarify the short-term and long-term strategies of the Group and its various divisions. A management conference planned and prepared in 2002 was held in January 2003.

Human Resources Council

Since 1998, human resources managers have been meeting twice a year to exchange experiences, coordinate policies, and plan and design future activities in the field of human resources. The participants, around 10 people, represent all divisions and some larger work place.

Profit-sharing system for employees in Sweden

In 2000, a profit-sharing system for the Group's employees in Sweden was introduced. The system is based on a profit-sharing foundation with annualized funds to which the Swedish companies make provisions in relation to increases in the Group's earnings per share. The money from the funds is mainly invested in Swedish Match shares. Payments of profit shares cannot be made until the provisions made to each fund have been held for three calendar years. In 2002, 14 MSEK was allocated to this foundation based on earnings for the year 2001.

Union cooperation

Since 1996, Swedish Match has had an agreement on cooperation with the union organizations in the Swedish part of the Group.

In accordance with this agreement, a group including representatives of Group management and the personnel representatives on the Board of Directors, meets prior to each Board meeting. The group prepares issues that are on the Board's agenda, particularly matters that may result in negotiations in accordance with the Swedish Employment (Codetermination in the workplace) Act.

A reference group, consisting of local union representatives from the Swedish Confederation of Trade Unions and the Negotiation Cartel for Salaried Employees in the Private Business Sector for the operational areas in Sweden, also meets prior to each Board meeting.

European Works Council

In 1998, an agreement was signed between the Group and its personnel representatives in the EU countries regarding a European Works Council.

The European Works Council is a forum for information and consultation regarding matters of a Group-wide nature within Europe. Examples of matters that may be discussed are structural changes and production planning which affects operations in several countries.

The Group comprises employees from countries in the EU where the Group has more than 50 employees. In 2002, representatives from Belgium, the Netherlands, Spain, UK and Sweden took part, as well as an observer from the Group's Hungarian operations. The group meets twice a year and when required by special circumstances.



The environment

Purpose

The purpose of Swedish Match's environmental policy is to establish a consistent management approach to environmental aspects of operations.

Policy

To achieve its vision, Swedish Match management has adopted the following environmental policy, which applies to all Group operations:

- Wherever Swedish Match has operations, the Group shall comply with all relevant legislation, regulations and other requirements that affect it.
- At all sites of Group operations, Swedish Match shall apply appropriate environmental management systems designed to prevent contamination and reduce the risk of negative environmental consequences.
- In addition to customary financial and marketing criteria, Swedish Match shall also consider environmental aspects in all commercial undertakings.
- Swedish Match shall identify and progressively implement changes in every phase of the life cycle of its products, processes and services with the aim of reducing negative environmental aspects that may violate the conditions necessary for a sustainable society.

Environmental management systems

Swedish Match is gradually implementing environmental management systems at the Group's different production

plants. During 2000–2001, six production sites were certified in accordance with ISO 14001. Work to obtain certification for the production plants in Indonesia (Pandaan) and Brazil (Manaus) and Sweden (Gothenburg) continued in 2002. The three production plants are expected to receive certification during 2003.

Permits and compulsory reporting

The following is a presentation of the permits and compulsory reporting requirements that apply to the Group's various production plants in Sweden. All plants complied with the specifications of their permits in year 2002. All permits are valid until further notice, unless otherwise stated.

Tobacco products

The snus plant in Gothenburg is required to submit specific reports in compliance with stipulations of the Swedish Environmental Code. Construction of a new production plant in Kungälv in Sweden is under way. The new plant will be subject to the same compulsory reporting requirements as the Gothenburg plant.

Matches

The plant in Vetlanda produces matchsticks and outer box substances such as the striking surface materials used in match production in other parts of the world. The operations are subject to permit, which is valid until further notice, under the Environmental Protection Act. The permit regulates noise levels, timber storage facilities and emissions of solvents.

Matches, firelighters and sulfur-coated match tips for proprietary production and export are manufactured at the Tidaholm plant. The operations are subject to permit in accordance with the Environmental Protection Act.

The permit allows Swedish Match to expand its match production operations at the plant, provided that total annual volumes do not exceed 90 billion matches or 2,000 tons of striking tips. The permit also limits amounts of wastewater from the plant, dust concentration levels in exhaust ventilation air, and noise levels.

Match production machines are manufactured in Kalmar. The operations are subject to compulsory reporting under the Environmental Protection Act.

Swedish Match has secured permits for Group production plants in countries other than Sweden in compliance with legislation in the respective countries.

Developments in the environmental field

In the US, the UK and Scandinavian markets, Swedish Match encounters increased interest in environmental issues among wholesalers and consumers. This applies primarily to markets in the US, UK and Scandinavia, but also in other areas of the world. This is natural, since the products are sold through food supply chains and other retail outlets characterized by a relatively strong demand for environmentally compatible products.

There is also a global trend toward increased demands from public authorities for environmental adaptations in production plants and processes. As mentioned above, Swedish Match is adapting its operations through implementation of measures to clean and reduce emissions and introduce environmental management systems in a growing number of Group production plants.

In 2002, for example, the match production plant in Brazil nearly eliminated its need for oil by shifting energy source to renewable waste products from its own manufacturing. At the company's poplar cultivation in Brazil, Swedish Match participates in a project to replace pesticides with biologically natural biocides. Furthermore, a pool for gathering rainwater in the Belgian factory has contributed to improving the groundwater level in the area.

Swedish Match and tobacco in society

Tobacco policy

The tobacco policy of Swedish Match reflects a global commitment to provide the highest quality tobacco products to adults consumers while recognizing the societal demands and expectations placed on a worldwide marketer of tobacco products.

- We believe that no one under the age of 18 should be sold tobacco.
- We will market and promote tobacco products only to adult consumers.
- We believe that adult consumers have the right to enjoy tobacco products with the common knowledge of the health risks associated with certain tobacco products.
- We will direct our marketing efforts to maintain and expand our markets share among adult consumers who use tobacco and not to adults who have chosen not to use tobacco products or have quit.
- We will continue to provide our adult consumers with the highest quality tobacco products, produced to meet the wide variety of adult consumer preferences.
- We are committed to preventing the underage sale and use of tobacco products in markets where Swedish Match is present or will be present. Swedish Match believes that responsible tobacco retail education and information are the most effective means of preventing the underage sale of tobacco. Swedish Match will strive to continue to provide global support and leadership to our retail partners in any efforts they make to demonstrate their endorsement of the "Under 18 No Tobacco" policy.
- We continue to operate with retailers, distributors and public officials throughout the world to prevent underage use of tobacco while protecting the rights of adult consumers to make an informed decision about whether they chose or not chose to use tobacco.

All personnel will adhere to this corporate Tobacco Policy which – if at all legally permitted – allows sampling to only adult consumers and prohibit marketing advertising, promotions of tobacco products directed to anyone under the age of 18.

Corporate Governance

Management and control of the Swedish Match Group is apportioned between the shareholders at the Annual General Meeting, Board of Directors and 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 2002 elected the Board of Directors proposed by the Nomination Committee. Board members Bernt Magnusson (Chairman), Jan Blomberg, Lennart Sundén, Meg Tivéus and Klaus Unger were reelected while Tuve Johannesson and Arne Jurbrant were elected as new members by the Annual General Meeting.

Nomination Committee

The Annual General Meeting annually also elects members of the Nomination 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 Nomination Committee also participates in the evaluation of the Board's work as approved by the Board. The committee meets as often as necessary, but at least once each year.

Bernt Magnusson (Chairman of the Board), Björn Franzon (Executive Vice President of the National Pension Insurance Fund, Fourth Fund Board), Anders Ek (President of Robur) and Lars Otterbeck (President of Alecta) were reelected to the Nomination Committee in 2002.

Board of Directors

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 publication dates for the company's full-year and interim reports. The fifth ordinary meeting is held in December, and 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 budget and the year end financial report for the company and the Group, and monitors the development of operations. The Board of Directors makes decisions on major investments and divestments.

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

The Board of Directors held its statutory meeting on the same day as the Annual General Meeting. The statutory meeting passed its ordinary resolutions concerning election of the Chairman (Bernt Magnusson), 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 2002 was 8, including one meeting held via remote connections (per capsulam). In addition to monitoring business operations in relation to budget and strategic plans, and strengthening of the company's systems, management and controls, the Board has also devoted a significant amount of time to monitoring the company's strategic course, social and market issues, acquisitions and follow-up of acquisitions and the distribution of surplus funds.

Chairman

The Chairman leads the work of the Board and ensures that other Board members receive all information required to maintain the quality of their work and exercise their 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 discusses and resolves questions concerning salaries and other terms of employment, pension benefits and bonus systems for the President and management personnel who report directly to the President. The Committee also discusses and resolves other remuneration issues that involve matters of principle or carry considerable importance in other respects, for example option programs and profit-sharing systems. The Committee



meets as often as required, but at least twice a year. Meetings are held both within the committee and between the committee and external consultants. The Chairman of the Remuneration Committee is Chairman of the Board Bernt Magnusson. Other members are Jan Blomberg, Klaus Unger and Lennart Sundén. Lennart Sundén does 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 decisions taken. The Committee carried out its tasks with the support of external expertise on the issue of salary rates and structures.

Control and audit

The Board of Directors has overall responsibility for the company's internal control system that aims to secure shareholders' investments and Group assets, ensure that proper accounting methods are applied and that financial information used for internal purposes and for publication are credible. 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 deviations or losses.

The company has several methods to regularly supervise and control risks associated with the company's fulfillment of its goals. The Board of Directors assists the executive management by identifying and evaluating in a coordinated manner the major risks faced by the Group's operations. Furthermore, the Board shall assess and ensure 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 Price-waterhouse Coopers have been elected external auditors until the Annual General Meeting in 2004.

Audit Committee

In 2002, the Board of Directors decided to set up an internal audit committee whose duty is to supervise the routines for accounting, financial reporting and audit. The Audit Committee scrutinizes the quality and authenticity of the Group's financial accounts and other related reports and procedures of internal financial control within the Group. The Committee also reviews the work, qualifications and independence of the auditors and checks 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 shall also discuss other relevant issues related to the company's financial reporting and then submit its observations to the Board of Directors. The Committee meets at least six times a year. Elected as members to the Audit Committee are Jan Blomberg (Chairman), Arne Jurbrant and Meg Tivéus.

President

The President manages the company's operations under guidelines 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 with information required on a monthly basis 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 ongoing 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 staff officers, 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 of the five divisions, in accordance with a rolling scheme.

Disclosure Committee (reporting committee)

Pursuant to the requirements set by the U.S. Sarbanes-Oxley Act, the President has appointed a Disclosure Committee whose primary task is to secure and inspect all external reports, including year-end financial statements and annual reports, both Swedish and English versions, as stipulated in Form 20F. Corporate press releases will also be scrutinized. Elected members to this committee are the directors of Investor Relations, Corporate Control, Corporate Communication and Group Corporate Affairs (Bo Aulin), with the latter designated as chairman.



The Board
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Consolidated Income Statement

MSEK	Note	2002	2001
Net sales, including tobacco tax		22,599	22,428
Less tobacco tax		-8,956	-8,793
Net sales		13,643	13,635
Cost of goods sold		-7,451	-7,627
Gross profit		6,192	6,008
Selling expenses	2	-2,362	-2,475
Administrative expenses	2	-1,125	-1,027
Other operating income	3	52	19
Other operating expenses	3	-13	-19
Share of earnings in associated companies		22	28
Amortization of intangible assets	2	-327	-341
Items affecting comparability	4	-68	-80
Operating income		2,371	2,113
Interest income		108	121
Interest expenses		-337	-407
Exchange rate differences and other financial items	5	-16	13
Income after financial items		2,126	1,840
Taxes	6	-648	-589
Minority interests		-49	-23
Net income		1,429	1,228
Average number of shares, basic		348,295,163	361,506,184
Average number of shares, diluted*		350,894,438	363,016,335
Earnings per share, basic, SEK		4.10	3.40
Earnings per share, diluted, SEK		4.07	3.38

* Dilution attributable to the effect of options issued.

Consolidated Balance Sheet

MSEK	Note	December 31, 2002		December 31, 2001	
Assets					
Fixed assets					
Intangible fixed assets	7	4,145		4,769	
Tangible fixed assets	8	2,938		2,970	
Financial fixed assets	9	606		691	
Total fixed assets		7,689		8,430	
Current assets					
Inventories	10	3,154		3,753	
Current operating receivables					
Trade receivables	11	1,931		2,143	
Other receivables		492		513	
Prepaid expenses and accrued income		165	2,588	178	2,834
Liquid funds					
Short-term investments	12	1,027		760	
Cash and bank	12	989	2,016	846	1,606
Total current assets		7,758		8,193	
Total assets		15,447		16,623	
Equity and liabilities					
Shareholders' equity	13				
Restricted equity					
Share capital		868		892	
Restricted reserves		1,575		1,625	
Unrestricted equity					
Unrestricted reserves		135		360	
Net income for the year		1,429	4,007	1,228	4,105
Minority interests		686		767	
Provisions					
Provisions for pensions and similar commitments	14	362		457	
Provisions for taxation	6	1,031		891	
Other provisions	15	808	2,201	963	2,311
Long-term liabilities					
Bond loans	16	4,485		4,984	
Liabilities to credit institutions	16	33		88	
Other long-term liabilities		85	4,603	78	5,150
Current liabilities					
Liabilities to credit institutions	16	990		944	
Accounts payable		715		775	
Other current liabilities	17	1,392		1,584	
Accrued expenses and deferred income	18	853	3,950	987	4,290
Total equity and liabilities		15,447		16,623	
Commitments and contingent liabilities					
Pledged assets	19	92		144	
Contingent liabilities	20	429		530	

Consolidated Cash-Flow Statement

MSEK	Note	2002	2001
Operations			
Income after financial items		2,126	1,840
Depreciation and amortization		651	670
Other		-53	78
		2,724	2,588
Taxes paid		-241	-634
Cash flow from operations before changes in operating capital		2,483	1,954
Cash flow from changes in operating capital			
Trade receivables		56	-182
Inventories		86	-127
Other assets		1	75
Accounts payable		0	-28
Accrued expenses and other current liabilities		-41	-83
Cash flow from operations		2,585	1,609
Investment activities			
Investments in property, plant and equipment		-751	-633
Sales of property, plant and equipment		106	72
Acquisitions of subsidiaries and associated companies	21	-53	-962
Acquisitions of intangible assets		-18	-12
Change in financial receivables		-1	15
Cash flow from investment activities		-717	-1,520
Financing activities			
Change in short-term loans		-339	58
Long-term loans		670	1,407
Amortization of long-term loans		-832	-1,181
Dividends paid		-508	-490
Re-purchase of shares		-499	-1,169
Other		142	-78
Cash flow from financing activities		-1,366	-1,453
Cash flow for the year		502	-1,364
Liquid funds at the beginning of the year		1,606	2,960
Translation differences in liquid funds		-92	10
Liquid funds at the end of the year	12	2,016	1,606

Supplementary information, see Note 21.

Notes

(All amounts in MSEK unless otherwise stated.)

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. The accounting principles are unchanged from the preceding year.

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 has long-term holdings equivalent to at least 20 percent but not more than 50 percent of total votes. 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 Currency

Translation of the accounts of foreign subsidiaries

The accounts of foreign subsidiaries, with the exception of subsidiaries in countries with hyper inflation, 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 accounts of subsidiaries in countries with hyper inflation are translated first into the functional currency (normally USD) in accordance with the monetary method. Non-monetary assets, accordingly, are reported in the functional currency at historical exchange rates and eventual exchange rate differences are reported in the income statement. The accounts are then translated into Swedish kronor in accordance with the current method.

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 con-

tract. 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.

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 recognition

Revenue is recognized when ownership of goods is 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 tax, and shares in the taxes of associated companies.

note 1 cont.

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 assets are amortized on a straight-line basis over 5–20 years. Goodwill in major subsidiaries that have been in business for more than 20 years, and have strong brands and good market positions is amortized over 20 years. Acquired brands are amortized over 20 years if similar conditions prevail.

Tangible fixed assets

Depreciation of property, machinery and equipment is based on the acquisition cost of the asset and its estimated economic life. Buildings and land improvements are generally depreciated over periods of 20–50 years. The estimated economic life for vehicles is normally 5 years and 5–10 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 as income.

Inventories

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

Use of estimates

The preparation of annual reports in accordance with generally accepted accounting principles requires company management 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 99 (100) MSEK.

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

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

3 Other operating income and other operating expenses

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

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

4 Items affecting comparability

During the third quarter of 2002, a cost of 68 MSEK was charged to a rationalization program in Continental Europe, 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 is entered as an item affecting comparability for 2001.

5 Exchange-rate differences and other financial items

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

6 Taxes

Income taxes in 2002 and 2001 were distributed as follows:

	2002	2001
Current income taxes	–453	–399
Deferred income taxes	–190	–181
Other taxes	–5	–9
Total	–648	–589

note 6 cont.

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

	2002	2001
Loss carryforwards	255	342
Restructuring reserve	36	35
Pension and healthcare benefits	95	102
Tax allocation reserve	-378	-344
Depreciation in excess of plan	-358	-317
Inventory reserve	-63	-63
Other	-218	-229
Valuation reserve	-194	-187
Net deferred income tax liabilities	-825	-661
<i>Classified per balance sheet category</i>		
Financial fixed assets	206	230
Less tax provisions	-1,031	-891
Net deferred income tax liabilities	-825	-661

The valuation reserve amounting to 194 MSEK pertains to loss carryforwards not assigned value in the amount of 85 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 80 MSEK.

At December 31, 2002, the Group had deductible loss carryforwards corresponding to 779 MSEK. The Group's deductible tax-loss carryforwards expire as follows:

Year	Amount
2003	11
2004	30
2005	46
2006	15
2007	10
2008	9
Thereafter	658
Total deductible tax loss carryforwards	779

In 2002 and 2001, the Group's net income was charged with tax of 30.5 percent 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:

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

7 Intangible assets

Intangible fixed assets at December 31 are as follows:

	Goodwill		Trademarks		Other intangible assets		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
Acquisition value brought forward	4,375	3,712	1,964	1,708	76	62	6,415	5,482
Purchases/investments	—	—	—	0	18	12	18	12
Companies acquired	14	749	—	118	—	—	14	867
Reclassifications	-125	-204	125	225	—	—	0	21
Exchange differences, etc.	-481	118	-36	-87	-15	2	-532	33
Accumulated acquisition value carried forward	3,783	4,375	2,053	1,964	79	76	5,915	6,415
Amortization brought forward	-1,298	-1,015	-313	-181	-35	-18	-1,646	-1,194
Amortization for the year	-208	-227	-115	-111	-4	-3	-327	-341
Write-downs	—	—	—	—	—	-14	—	-14
Reclassifications	5	24	-5	-45	—	—	0	-21
Exchange differences	163	-80	28	4	12	0	203	-76
Accumulated amortization carried forward	-1,338	-1,298	-405	-313	-27	-35	-1,770	-1,646
Book value carried forward	2,445	3,077	1,648	1,651	52	41	4,145	4,769

8 Tangible fixed assets

Tangible assets as of December 31 included the following:

	Buildings and land*		Machines and other technical facilities		Equipment, tools and fixtures		New construction		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Acquisition value brought forward	2,192	2,054	3,117	3,004	380	301	381	212	6,070	5,571
Purchases/Investments	33	104	169	135	77	69	472	325	751	633
Companies acquired	17	2	2	6	—	—	—	—	19	8
Sales/scraping	-96	-78	-39	-87	-12	-25	-3	1	-150	-189
Reclassifications	36	-19	195	192	7	8	-210	-181	28	0
Exchange differences	-367	129	-433	-133	-13	27	-41	24	-854	47
Accumulated acquisition value carried forward	1,815	2,192	3,011	3,117	439	380	599	381	5,864	6,070
Depreciation brought forward	-787	-721	-2,064	-2,082	-225	-190	-24	-2	-3,100	-2,995
Depreciation for the year	-43	-64	-233	-220	-48	-44	—	-1	-324	-329
Companies acquired	-2	—	-2	—	—	—	—	—	-4	—
Sales/scraping	26	24	32	66	10	22	—	—	68	112
Write-downs	-13	-17	-7	-27	—	—	—	-23	-20	-67
Reclassifications	-6	—	10	-2	-6	2	2	—	0	0
Exchange differences	122	-9	297	201	16	-15	19	2	454	179
Accumulated depreciation carried forward	-703	-787	-1,967	-2,064	-253	-225	-3	-24	-2,926	-3,100
Book value carried forward	1,112	1,405	1,044	1,053	186	155	596	357	2,938	2,970

* Buildings and land includes land at a book value of 387 (502) MSEK

At fiscal year-end, the Company has commitments to acquire tangible fixed assets at a value of 193 MSEK.

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

	2002	2001
Buildings	124	65
Land	16	11
Total assessed tax value for property in Sweden	140	76

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

	2002	2001
Cost of goods sold	-208	-220
Selling expenses	-32	-19
Administrative expenses	-84	-90
Total	-324	-329

9 Financial fixed assets

Financial fixed assets consist of the following items and were changed in 2002 and 2001, respectively, as shown below:

	2002	2001
Participations in associated companies	135	130
Participations in other companies	13	14
Deferred tax receivables	206	230
Long-term receivables	252	317
Total	606	691

	2002	2001
Amount brought forward from preceding year	691	727
Change in deferred tax receivables	22	-72
Change in long-term receivables	-22	-5
Acquisition of shares in other companies	—	-9
Share in earnings of associated companies, net after tax	16	9
Dividends from associated companies	-8	-11
Exchange differences	-93	52
Value carried forward	606	691

note 9 cont.

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

	2002		2001	
	Owner-ship %	Book value	Owner-ship %	Book value
Arnold André GmbH & Co. KG	40	84	40	77
P.T. Jamafac	40	43	40	44
Other associated companies		8		9
Total shares in associated companies		135		130
Other shares and participations		13		14
Total shares and participations		148		144

Within the framework of normal business, Swedish Match conducts various transactions with associated companies. Receivables from these companies totaled 54 MSEK at December 31, 2002, and 36 MSEK at December 31, 2001. Total sales to associated companies amounted to 133 MSEK and 121 MSEK in 2002 and 2001, respectively.

10 Inventories

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

	2002	2001
Finished goods inventories	787	868
Work in progress	141	212
Leaf tobacco	2,086	2,523
Other input and consumable materials	248	293
Reserve for obsolescence	-108	-143
Total inventories	3,154	3,753
Reserve for obsolescence		
Balance brought forward	-143	
Provision during the year	-22	
Withdrawal during the year	39	
Write-off and other	18	
Closing balance	-108	

11 Reserve for bad debts

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

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

12 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:

	2002	2001
Short-term investments		
Government bonds and treasury bills	492	—
Corporate bonds/commercial paper	518	—
Other financial investments	17	760
	1,027	760
Cash and bank		
Bank accounts and cash	959	772
Investment loans in banks	30	74
	989	846
Total liquid funds	2,016	1,606

Liquid funds in accordance with the above include instruments with maturity dates of more than three months.

13 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 19,591,000 shares, and the net total of shares outstanding, accordingly, amounts to 342,005,181.

	2002	2001
Share capital, opening balance	892	969
Redemption of shares	-24	-77
Total share capital	868	892
Restricted reserves, opening balance	1,625	1,291
Transfers between unrestricted and restricted shareholders' equity	-50	334
Total restricted reserves	1,575	1,625
Unrestricted reserves, opening balance	1,588	2,324
Allocation to unrestricted reserves through the cancellation of shares	24	77
Dividend	-508	-490
Buyback of own shares	-552	-1,169
Transfers between unrestricted and restricted shareholders' equity	50	-334
Translation differences*	-467	-48
Net income for the year	1,429	1,228
Total unrestricted shareholders' equity	1,564	1,588
Total shareholders' equity	4,007	4,105
Accumulated translation difference		
Opening balance	-278	-230
Translation differences	-467	-48
Closing balance	-745	-278

* The translation difference was reduced by currency hedging of shareholders' equity amounting to -280 (238) MSEK.

14 Pensions and similar commitments

The Group applies various pension plans for its employees all over the world. 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 super-annuation funds. These funds also provide pension benefits for the employees of a former subsidiary. At December 31, 2002, 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, 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 Great Britain.

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 88 (74) 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 319 (383) MSEK.

15 Other provisions

Other provisions at December 31, consist of the following:

	2002			
	Total provisions	Restructuring provisions	Tax provisions	Other provisions
Opening balance	963	165	698	100
Provisions	152	62	26	64
Utilization	-157	-91	-10	-56
Translation differences	-150	-15	-118	-17
Closing balance	808	121	596	91

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 three years.

The tax-related provisions arise mainly due to reserves for taxes in foreign subsidiaries in regard to previous income years.

16 Bond loans/ Liabilities to credit institutions

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

Year	Amount
2004	596
2005	919
2006	2,532
2007	299
2008 and later	172
Total	4,518

	2002	2001
<i>Current interest-bearing liabilities</i>		
Next year's amortization of long-term loans	730	360
Bank overdraft facility utilized	35	51
Other current liabilities	225	533
Total	990	944

17 Other current liabilities

Other current liabilities at December 31 consist of the following:

	2002	2001
Tobacco taxes	798	753
Value Added Tax liability	231	231
Income tax liability	69	97
Other	294	503
Total	1,392	1,584

18 Accrued expenses and deferred income

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

	2002	2001
Accrued wage/salary-related expenses	155	216
Accrued vacation pay	67	55
Accrued social security charges	61	55
Other	570	661
Total	853	987

19 Guarantees provided

For the Group's own long-term liabilities

	2002	2001
Inventories	36	49
Receivables	18	15
Liquid funds	30	73
Total long-term liabilities	84	137

Other collateral pledged.

	2002	2001
Liquid funds	8	7
Total other collateral pledged	8	7

Of the above 30 MSEK (73) was provided for the benefit of subsidiaries.

20 Commitments and contingent liabilities

Operational leasing agreements

Future annual minimum charges under the terms of irrevocable operative leasing agreements with initial or remaining terms of one year or more consisted of the following at December 31, 2002:

2003	116
2004	106
2005	90
2006	86
2007 and thereafter	187
Total minimum lease charges	585

The Group's leasing expenses for operational leasing agreements during 2002 amounted to 118 (108) MSEK.

Future irrevocable minimum lease income is distributed in accordance with expiration dates as follows:

Within one year	64
More than one year but less than five years	88
More than five years	39
Total minimum lease income	191

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	496
Accumulated depreciation, closing balance	-148
Book value, carried forward	348

Depreciation for the year amounts to 14 MSEK.

note 20 cont.

Future irrevocable minimum leasing income is distributed in accordance with expiration dates as follows:

Within one year	46
More than one year but less than five years	121
More than five years	199
Total minimum leasing income	366

The Group's rental revenues from own properties in 2002 amounted to 37 MSEK.

Contingent liabilities

	2002	2001
Guarantees to subsidiaries	194	176
Guarantees to external companies	6	6
Other guarantees and contingent liabilities	229	348
Total contingent liabilities	429	530

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 guarantees and contingent liabilities pertain in part to guarantees placed vis-à-vis state authorities for Group companies' proper fulfillment of undertakings in connection with import and payment of tobacco taxes.

Swap agreements for certain bond loans in euros

Contingent liabilities include an amount of 130 (206) MSEK that constitutes the difference between certain bond loans in euros valued at year-end in the swapped currency and the same loans valued at closing day rate in euros in accordance with the recommendations of the Swedish Institute of Authorized Public Accountants concerning currency and interest swaps. The counterparties in interest swaps are banks.

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 49 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 Cubatobaco is claiming that General Cigar

does not have the right to use the Cohiba brand. Subsidiaries of Swedish Match in Brazil and France are subject to claims concerning alleged unfair dismissal of employees. In Brazil there are six such cases, while in France 120 employees have instigated proceedings as a result of the closure of the factory in Lyon. 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.

Claims for damages against subsidiaries of Swedish Match for injuries that allegedly were caused by Swedish Match lighter products have been filed in Brazil and the US. In addition, 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 is affirming that use of chewing tobacco caused her husband's death. However, the court dismissed the case from any further proceedings on March 3, 2003. 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 associations. It is unclear whether the state court or federal court will hear the case and no schedule has been announced to date. 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. With regard to the claims related to the lighter products, Swedish Match has insurance protection to cover the claims made.

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 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 ruling was appealed to the Securities Appellate Tribunal, which decided, however, not to change the ruling. Swedish Match has appealed this decision to the Supreme Court in India.

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 denying the allegations. The main proceedings is scheduled for September 2004.

The administrative court in Minden, Westfahlen, 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 discriminating, disproportionate, and that the EU has exceeded its legislative competence when the prohibition was enacted. Swedish Match has made similar claims in a case before the High Court of Justice in the UK and expects that this case will also be referred to the European Court of Justice in Luxemburg. The process in Luxemburg is expected to take two years.

21 Supplementary information to Cash-Flow Statement

Acquisitions of subsidiaries in 2002

In 2002, companies were acquired for a total of 53 MSEK. 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	-15
Intangible fixed assets	-46
Other assets/liabilities, net	8
Purchase price paid	-53
Cash and bank balances in acquired companies	0
Effect on the Group's liquid funds	-53

Interest paid and dividends

Interest payments during the year amounted to 330 (399) MSEK. Dividends received from associated companies during the year amounted to 8 (11) MSEK.

22 Derivative instruments

The Group is active internationally, which gives rise to risk exposure caused by exchange rate fluctuations. The Group employs forward contracts to reduce the effects of changes in exchange rates.

At December 31, the Group had outstanding currency forward contracts in the following nominal values, net:

	2002	2001
Forward contracts	96	68

The book values and market values of all Group derivative instruments at December 31, amounted to the following amounts:

	2002		2001	
	Book value	Estimated market value	Book value	Estimated market value
Currency forwards	35	35	-1	0
Currency swaps	86	94	-8	-7
Interest swaps	253	386	303	319
Total	374	515	294	312

23 Geographic information

Certain information by geographic area is summarized in the tables below

	2002	2001
<i>Sales outside the Group</i>		
Sweden	4,814	4,405
Europe excluding Sweden	2,472	2,426
North America	4,671	4,935
Latin America	461	452
Other areas	1,225	1,417
Total sales outside the Group	13,643	13,635
<i>Assets</i>		
Sweden	4,755	4,180
Europe excluding Sweden	2,308	2,381
North America	5,671	7,129
Latin America	371	558
Other areas	2,342	2,375
Total assets	15,447	16,623

24 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 from applications of US GAAP is presented in the tables below:

	Note	2002	2001
<i>Reconciliation of net income</i>			
Income for the year in accordance with Swedish accounting principles		1,429	1,228
<i>Items that increase or reduce income</i>			
Reversal, changed accounting principles		—	-51
Reporting of goodwill, etc.	a	191	-146
Restructuring expenses	b	-29	-47
Sale-leaseback properties	c	-24	4
Derivative instruments	d	126	-29
Pensions	e	-9	17
Other	f	21	3
Tax effects of US GAAP adjustments above		-38	2
Net income in accordance with US GAAP before cumulative effect of revised accounting principle		1,667	981

note 24 cont.

	Note	2002	2001
Cumulative effect of revised accounting principle	a	-206	—
Net income in accordance with US GAAP		1,461	981
<i>Income per share in acc. with US GAAP before cumulative effect of revised accounting principle</i>			
– Income per share, basic		4.79	2.71
– Income per share, diluted		4.75	2.70
<i>Cumulative effect per share of revised accounting principle</i>			
– basic		0.60	—
– diluted		0.59	—
Income per share, in accordance with US GAAP, basic		4.19	2.71
Income per share, in accordance with US GAAP, diluted		4.16	2.70
<i>Reconciliation of shareholders' equity</i>			
Reported equity in accordance with Swedish accounting principles		4,007	4,105
<i>Items that increase/reduce shareholders' equity</i>			
Reporting of goodwill, etc.	a	1,587	1,608
Restructuring expenses	b	-41	-20
Sale-leaseback of properties	c	-290	-266
Derivative instruments	d	126	—
Pensions	e	-81	123
Other	f	43	19
Tax effects of US GAAP adjustments above		40	18
Equity in accordance with US GAAP		5,391	5,587

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.

note 24 cont.

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 a fixed 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 during 2002 in accordance with Swedish accounting principles, 208 MSEK, were reversed for US GAAP purposes. According to FAS 142, write-down requirements arise if the book value of a "reporting unit" exceeds its estimated actual 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 has been calculated as the present value of the estimated future payments which the operations can be expected to give rise to. This write-down has, in accordance with US GAAP, been reported as the cumulative effect of revised accounting principles, and thus is charged to income for the year. 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 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
<i>Earnings per share, basic</i>	2001
Reported income in accordance with US GAAP	2.71
Goodwill amortization	0.92
Adjusted income in accordance with US GAAP	3.63
<i>Earnings per share, diluted</i>	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 16 MSEK (17) was expensed during the period.

b. Restructuring costs

Prior to 2002, Swedish accounting practice was less restrictive, permitting in certain cases an earlier reporting than that allowed in accordance with US GAAP. According to US GAAP, restructuring costs are reported only with the provision that a sufficiently detailed plan for action implementation be submitted at fiscal closing, and that these be publicly announced and the conditions made known to affected employees prior to fiscal year-end. Beginning in 2002, Swedish accounting principles are in substantial agreement with US GAAP.

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.

Consolidated balance sheet, point g.	Reported in accordance with Swedish GAAP		Reported in accordance with US GAAP	
	2002	2001	2002	2001
Fixed assets	7,689	8,430	9,989	10,585
Current assets	7,758	8,193	6,132	6,071
Total assets	15,447	16,623	16,121	16,656
Shareholders' equity	4,007	4,105	5,391	5,587
Minority interests	686	767	41	37
Provisions	2,201	2,311	1,733	1,475
Long-term liabilities	4,603	5,150	5,153	5,692
Current liabilities	3,950	4,290	3,803	3,865
Total liabilities and shareholders' equity	15,447	16,623	16,121	16,656

note 24 cont.

c. Sale-leaseback of property

In 1998 and 2002, the Group sold a property and is now leasing the same property in accordance with a leasing agreement, which according to Swedish accounting principles is classified as operational leasing. As Swedish Match has an option to repurchase this property, the sale in 1998, in accordance with US GAAP, is considered a financing arrangement, 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, with the capital gain in 1998 amounting to 266 MSEK. The property's value is recovered and depreciation according to plan is applied.

d. Derivative instruments

In connection with valuation of derivatives, the Company has applied hedge accounting. Since January 1, 2001, FAS 133, "Accounting for derivative instruments and hedging instruments" has been in effect. Inasmuch as the Company does not meet the requirements set by FAS 133 for qualifying to apply FAS 133 hedge accounting, changes in the actual value of derivatives are reported in the income statement. In accordance with the transition regulations, a positive effect stemming from the revised accounting principles of 19 MSEK after tax was 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 2002, 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 above 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.

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 12) 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.

25 Personnel

The average number of employees in the Parent Company during 2002 was 40, and in the Group was 14,795. The corresponding numbers in 2001 were 42 and 14,343, respectively.

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

	2002			2001		
	Salaries and other compensation	Social costs (of which pension costs)		Salaries and other compensation	Social costs (of which pension costs)	
Parent Company	42	23	(8)	38	16	(4)
Subsidiaries	1,774	592	(124)	1,744	600	(85)
Group	1,816	615	(132)	1,782	616	(89)

note 25 cont.

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

	2002		2001	
	Board and CEO (of which bonuses, etc)	Other employees	Board and CEO (of which bonuses, etc)	Other employees
Parent Company				
Sweden	14 (3)	28	11 (2)	27
<i>Subsidiaries</i>				
Australia	2 (0)	16	1	13
Belgium	2	103	1	112
Brazil	4 (1)	38	4 (0)	42
Bulgaria	(0)	2	(0) (1)	2
Dominican Republic	—	146	—	133
Philippines	1 (0)	11	1 (0)	11
France	—	24	—	20
Honduras	—	37	—	21
Hong Kong	1	2	1	2
India	1 (0)	65	2	74
Indonesia	—	1	—	1
Ireland	1 (0)	13	1 (0)	14
China	(0)	13	(0)	10
Netherlands	4 (1)	151	11 (2)	130
Portugal	—	4	—	4
Switzerland	(0)	10	(0)	11
South Africa	1	42	1 (0)	52
Spain	4	44	—	44
United Kingdom	4 (1)	52	6 (1)	52
Sweden	4 (0)	303	4 (0)	288
Turkey	2	21	2 (0)	19
Germany	1	22	2 (0)	17
Hungary	(0)	15	(0)	15
United States	13 (2)	582	14 (5)	599
Other countries	2 (0)	10	1 (0)	6
Total in subsidiaries	47 (5)	1,727	52 (9)	1,692
Group total	61 (8)	1,755	63 (11)	1,719

During year 2002, 13.7 MSEK (7.5) was paid into the profit-sharing fund for Group employees in Sweden.

note 25 cont.

Employees by country are detailed below:

	Average number of employees of whom men, %	
	2002	2001
Parent Company		
Sweden	40	45
<i>Other</i>		
Australia	54	59
Belgium	475	30
Brazil	802	72
Bulgaria	120	43
Dominican Republic	2,886	39
Philippines	175	55
France	73	55
Honduras	1,018	45
Hong Kong	11	64
India	3,632	99
Indonesia	1,166	10
Ireland	46	74
China	285	67
Netherlands	445	82
Portugal	24	71
Switzerland	8	50
Spain	173	83
United Kingdom	87	62
Sweden	929	53
South Africa	553	93
Turkey	236	83
Germany	58	45
Hungary	209	39
United States	1,250	59
Other countries	40	60
Group total	14,795	62

Compensation to senior executives

Compensation to Board

To the Chairman of the Board and Board members are paid fees in accordance with Annual General Meeting decision. No particular fee is paid for committee work.

The Chairman of the Board received a Board fee of 550,000 SEK during 2002. Other Annual General Meeting-elected members received 225,000 SEK each.

Principles

Compensation to the President and other senior executives is comprised of base salary, variable compensation (bonus), share-related instruments (options) and other benefits. By senior executives is meant the nine persons who, together with the President, comprise the Group management staff. For the composition of the Group management staff, see page 62-63.

note 25 cont.

The break-down between base salary, bonus and options is weighted with respect to the executive's responsibility and authority. For the President and Executive Vice President the bonus is maximized to 35 percent of base salary, and for other senior executives, 30 to 35 percent of base salary.

Compensation and other benefits during the year (SEK 000s)

	Base salary	Bonus	Options	Other compensation	Other benefits	Pension cost	Total
President	4,600	1,400	1,300	183	188	398	8,069
Other senior executives	20,730	6,842	5,850	0	1,564	5,844	40,830
Total	25,330	8,242	7,150	183	1,752	6,242	48,899

Comments to the table

- Bonus pertains, during the year, to bonus paid based on 2001 income. The expensed bonus for fiscal 2002, which is paid during 2003, amounts to 1,610,000 SEK for the president and a combined 6,454,000 SEK for the rest of the management staff.
- Other benefits pertain to automobile benefit, housing benefit and other taxable benefits.
- The Group has both benefit- and fee-determined-pensions plans. Pension cost pertains to the cost which affects income for the year. A certain part of the President's and Group management's Swedish members' pensions are secured in a pension foundation. The foundation's debt increase in 2002 for these commitments on behalf of the President was 4,085,000 SEK, and for the others, 5,436,000 SEK. No provision was made to the foundation. For additional pension information, see below.
- 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 decreased in the amount of the calculated income tax, and the allocation is based on the net amount. For information on options, see also page 9.
- Other compensation to the President pertains to bonuses derived from associated companies.

Bonus

For the President and staff managers, the bonus is based on the income per share trend, and for the division managers, on the operating income trend within the division and income per share.

Options

Number of shares corresponding received or acquired options.

	Programs from previous years		Program of 2001	
	Options Received	Own acquisitions	Options Received	Own acquisitions
President	216,432	140,256	55,347	24,752
Other senior executives	1,461,501	63 658	429,360	—
Total	1,677,933	203,914	484,707	24,752

Comments to the table

- Programs from previous years refer to the 1998, 1999 and 2000 option programs.
- Regulations for allocation and calculation of market value, see page 9.
- Own acquisitions refer to such options as may have acquired by the employee in connection with the allocation of options in one of the respective years. The acquisitions took place at market value.
- The allocation in this year's program is based on income for 2001. The duration of the options is 2002–2007.

Pensions

The President is entitled to a pension from age 60. From age 60 to 65, a pension is paid at 70 percent of pensionable salary. From age 65, a pension is paid at 45 percent of pensionable salary. Other members of Group Management are entitled to pensions at the normal pension ages of 60–65.

Between 60 and 65 years of age, pensions are paid at 50–70 percent of pensionable salary. From age 65, pensions are paid at 32.5–70 percent of pensionable salary. Pensionable salary (which can vary depending on country of service) is defined as cash salary plus the average of bonus payments received during the three years immediately prior to retirement, which may in no case amount to more than 35 percent of the cash salary.

All pension benefits are irrevocable.

Severance pay, etc.

For the president, a six-month mutual notice of intent to terminate employment applies, and 12 months if 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. However, 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 members of the Group Management. If the Company terminates employment, severance pay is payable in an amount equivalent to 18 months of cash salary.

Parent Company Income Statement

(SEK M)	Note	2002	2001
Net sales		18	18
Cost of goods sold		-10	-11
Gross profit		8	7
Selling expenses	1	-12	-7
Administrative expenses	1	-194	-218
Other operating income	1	67	89
Other operating expense		-3	-3
Operating income		-134	-132
Income from participations in Group companies	2	1,007	810
Interest income, Group companies		336	410
Other interest income		64	67
Interest expenses, Group companies		-86	-101
Other interest expenses		-243	-289
Exchange differences and other financial items	3	-389	286
Income after financial items		555	1,051
Appropriations			
Accelerated amortization, trademarks		-12	-30
Appropriations to tax equalization reserve		-110	-240
Income before tax		433	781
Taxes	4	-116	-224
Net income for the year		317	557

Parent Company Balance Sheet

(SEK M)	Note	December 31, 2002		December 31, 2001	
ASSETS					
Fixed assets					
Intangible fixed assets	5	98		110	
Tangible fixed assets	6	1		2	
Financial fixed assets	7				
Shares and participations in Group companies		6,821		6,842	
Other long-term securities		10		10	
Other long-term receivables in Group companies		3,478		4,357	
Other long-term receivables		2	10,311	—	11,209
Total fixed assets		10,410		11,321	
Current assets					
Inventories		—		1	
Trade receivables		3		3	
Receivables in Group companies		2,197		1,878	
Other receivables		18		150	
Prepaid expenses and accrued income		164	2,382	32	2,063
Liquid funds					
Current investments	8	1,010		743	
Cash and bank	8	492	1,502	395	1,138
Total current assets		3,884		3,202	
Total assets		14,294		14,523	
Shareholders' equity and liabilities					
Shareholders' equity		9			
Restricted equity					
Share capital		868		892	
Statutory reserve		194		194	
Unrestricted equity					
Profit brought forward		2,830		3,367	
Net income for the year		317	4,209	557	5,010
Untaxed reserves		10		1,352	
Long-term liabilities					
Debenture loan		4,485		4,984	
Liabilities to Group companies		65	4,550	10	4,994
Current liabilities					
Liabilities to credit institutions		872		698	
Liabilities to Group companies		3,242		2,518	
Accounts payable		12		24	
Accounts payable, Group companies		24		16	
Other current liabilities		15		14	
Accrued expenses and prepaid income		18	4,183	19	3,289
Total shareholders' equity and liabilities		14,294		14,523	
Pledged assets	11	38		80	
Contingent liabilities for subsidiaries	11	555		480	

Parent Company Cash-Flow Statement

(SEK M)	Note	2002	2001
Operations			
Income after financial items		555	1,051
Depreciation/amortization according to plan		12	5
Other items not affecting cash flow		459	-330
		1,026	726
Income tax paid		38	-374
Cash flow from operations before changes in operating capital		1,064	352
Cash flow from changes in operating capital			
Accounts receivable		—	-2
Inventories		1	—
Other assets		-4	-2
Accounts payable		-12	12
Accrued expenses and other current liabilities		4	—
Cash flow from operations		1,053	360
Investment activities			
Investments in machinery and equipment		—	-1
Acquisition of subsidiaries and associated companies		—	-114
Change in financial receivables		-15	17
Cash flow from investment activities		-15	-98
Financing activities			
Change in short-term loans		-250	58
Long-term loans		250	1,407
Amortization of long-term loans		-360	-827
Changes in corporate transactions		693	-451
Dividends paid		-508	-490
Re-purchase of own shares		-499	-1,169
Cash flow from financing activities		-674	-1,472
Cash flow for the year		364	-1,210
Liquid funds at the beginning of the year		1,138	2,348
Liquid funds at the end of the year	8	1,502	1,138

Supplementary information, see Note 12

Notes, Parent Company

(All amounts in MSEK unless stated otherwise.)

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

1 Sales and administrative expenses and other operating revenue

In addition to management functions, Parent Company operations comprise sales of nasal snuff in Germany, Switzerland and France. In 2002, sales to Group companies amounted to 18 M SEK (10). Purchases from Group companies amounted to 0 M SEK (3). Other operating revenue consists mainly of Group administration expenses billed to subsidiaries.

Administrative expenses include costs for auditing fees as shown below:

	2002	2001
Auditing assignments	3	1
Other assignments	2	4
PricewaterhouseCoopers	5	5

2 Results from participations in Group companies

	2002	2001
Dividends	—	2
Group contributions	1,020	808
Liquidation of Group companies	6	—
Writedown of shares in subsidiaries	-19	—
Total	1,007	810

3 Exchange-rate differences and other financial items

Exchange differences amounted to -383 MSEK in fiscal 2002 and 301 MSEK in fiscal 2001.

4 Taxes

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

	2002	2001
Reported income before tax	433	781
Tax based on current tax rate of 28%	-121	-219
Tax effect of nondeductible expense	-7	-8
Tax effect of non-taxable revenues	2	3
Tax pertaining to earlier fiscal years	10	—
Tax on income for the year in accordance with the Income Statement	-116	-224

5 Intangible fixed assets

	2002	2001
Trademarks		
Acquisition value, brought forward	114	—
Investments	—	114
Closing balance, accumulated acquisition value	114	114
Amortization brought forward	-4	—
Amortization for the year	-12	-4
Closing accumulated amortization	-16	-4
Closing balance, book value	98	110

6 Tangible fixed assets

Tangible fixed assets at December 31 include equipment as follows:

	2002	2001
Acquisition value brought forward	9	8
Investments	—	1
Sales/scrapping	-2	—
Closing accumulated acquisition value	7	9
Depreciation brought forward	-7	-6
Depreciation for the year	-1	-1
Sales/scrapping	2	—
Closing balance, accumulated depreciation	-6	-7
Closing balance, book value	1	2

7 Financial fixed assets

Change in financial fixed assets:

	2002	2001
Opening amount brought forward from preceding year	11,209	10,716
Liquidation of Group companies	-2	—
Write-down of Group companies	-19	—
Change in other long-term receivables due from Group companies	-879	493
Change in other long-term receivables	2	—
Total	10,311	11,209

Note 7, cont.

Shares and participations in subsidiary companies at December 31, 2002:

	Number of shares or participations	Currency	Par value*	Book value MSEK	Parent Company holding, %	Corp. Reg No.	Domicile
Swedish Match Arengo 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
Svenska Tändsticks Philippine Company	20,000	PHP	20,000	0	100		
Swedish Match North America Inc	100	USD	100	849	100		
Swedish Match Group BV	20,900,000	NLG	2,090	5,331	100		
Nitedals Tændstikker A/S	500	NOK	500	1	100		
SA Allumettiére Caussemille ¹⁾	10,000	FRF	1,000	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 Allumettiére Marocaine S.A.

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

Other shares at December 31, 2002

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

8 Liquid funds

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

Short-term investments	2002	2001
Government bonds/treasury bills	492	—
Corporate bonds/commercial paper	518	—
Other financial investments	—	743
	1,010	743
Cash and bank balances		
Bank accounts and cash	462	321
Certificates of deposit in banks	30	74
	492	395
Total liquid funds	1,502	1,138

9 Shareholders' equity

The Parent Company's share capital at December 31, 2002 consisted of 361,596,181 shares with a par value of SEK 2.40 per share. All shares carry one vote each. Through buybacks and after redemption, the Company has 19,591,000 shares, and the total number of shares outstanding, accordingly, is 342,005,181.

	2002	2001
Share capital brought forward from preceding year	892	969
Cancellation of shares	-24	-77
Total share capital	868	892
Statutory reserve brought forward from preceding year	194	169
Provision to statutory reserve	—	25
Total statutory reserve	194	194
Unrestricted equity brought forward from preceding year	3,924	5,040
Dividend	-508	-490
Provision to statutory reserve	—	-25
Buybacks of own shares	-552	-1,169
Provision to non-restricted reserves through cancellation of shares	24	77
Group contributions paid	-81	-92
Tax effect of Group contributions	23	26
Income for the year	317	557
Total unrestricted equity	3,147	3,924
Total shareholders' equity	4,209	5,010

10 Untaxed reserves

	2002	2001
Accumulated difference between booked depreciation and accelerated depreciation	42	30
Tax allocation reserve	1,310	1,200
Total	1,352	1,230

11 Pledged assets and contingent liabilities

Pledged assets

	2002	2001
Liquid assets	38	80
Total	38	80

Of the above, 30 (73) were pledged for the benefit of subsidiaries. Contingent liabilities

	2002	2001
Guarantees for subsidiaries	425	274
Other guarantees and contingent liabilities	130	206
Total	555	480

In other guarantees, an amount of 130 MSEK (206) is reported corresponding to the difference between certain bond loans in EUR valued in the year-end accounts in the swap currency and the same loan valued at the year-end EUR exchange rate in accordance with the recommendation of the Institute for the Accountancy Profession in Sweden (FAR). The swap agreement counterparties are banks.

12 Supplementary information to Cash-Flow Statement

Taxes paid, interest paid, etc.

Net, taxes refunded in 2002 amounted to 38 MSEK (in 2001 taxes paid amounted to 374). Interest payments amounted to MSEK 236 (282). Dividends received during the year amounted to MSEK 0 (2).

Proposed distribution of earnings

According to the Consolidated Balance Sheet, the Company's unrestricted shareholders' equity amounts to 1,564 MSEK, of which 1,429 MSEK is the net income for the fiscal year. It is proposed that no allocations be made to restricted reserves.

As shown in the Parent Company's Balance Sheet, 3,147 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 317 MSEK comprises net income for the year.

The Board of Directors and the President propose that the 3,147 MSEK at the disposal of the Annual General

Meeting be distributed so that shareholders receive a dividend of 1.60 SEK per share, a total of 547 SEKM, 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 Board of Directors also proposes April 30, 2003 as the record date for shareholders listed in the Swedish Securities Register Center (VPC).

Stockholm, February 11, 2003

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, 2003

Åke Danielsson
Authorized Public Accountant

Göran Tidström
Authorized Public Accountant

Auditors' Report

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

Corporate Identity Number: 556015-0756

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 2002. 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 exam-

ined 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, 2003

Åke Danielsson
Authorized Public Accountant

Göran Tidström
Authorized Public Accountant

Five-year summary

Consolidated income statements in summary (MSEK)	1998	1999	2000	2001	2002
Net sales	8,194	9,420	11,533	13,635	13,643
Gross profit	4,098	4,282	4,886	6,008	6,192
Items affecting comparability	-108	3,707	—	-80	-68
Operating income	1,381	5,396	1,886	2,113	2,371
Items affecting comparability	-60	—	—	—	—
Net financial items	-183	-116	-176	-273	-245
Income after financial items	1,198	5,280	1,710	1,840	2,126
Net income	726	4,656	1,144	1,228	1,429
Operating income before depreciation/amortization	1,713	5,777	2,429	2,863	3,090

Consolidated balance sheets in summary (MSEK)	1998	1999	2000	2001	2002
Assets					
Intangible fixed assets	895	3,268	4,288	4,769	4,145
Tangible fixed assets	2,239	1,866	2,576	2,970	2,938
Financial fixed assets	549	543	727	691	606
Inventories	1,902	1,732	3,270	3,753	3,154
Current receivables	2,101	1,965	2,460	2,834	2,588
Liquid funds	2,876	7,296	2,960	1,606	2,016
Total assets	10,562	16,670	16,281	16,623	15,447
Equity and liabilities					
Equity	2,160	5,940	4,584	4,105	4,007
Minority interests	148	162	620	767	686
Provisions	1,165	1,195	1,918	2,311	2,201
Long-term liabilities	2,124	5,303	4,845	5,150	4,603
Current liabilities	4,965	4,070	4,314	4,290	3,950
Total equity and liabilities	10,562	16,670	16,281	16,623	15,447

Cash flow (MSEK)	1998	1999	2000	2001	2002
Cash flow from operations	794	1,329	945	1,609	2,585
Cash flow from investment activities	82	2,005	-1,967	-1,520	-717
Cash flow from financing activities	1,427	1,181	-3,273	-1,453	-1,366
Cash flow for the year	2,303	4,515	-4,295	-1,364	502
Liquid funds at beginning of the year	563	2,876	7,296	2,960	1,606
Translation difference in liquid funds	10	-95	-41	10	-92
Liquid funds at the end of the year	2,876	7,296	2,960	1,606	2,016

Key Data	1998	1999	2000	2001	2002
Operating capital at year end, MSEK	4,700	6,352	9,821	11,227	10,036
Net debt, MSEK	1,455	-1,267	2,739	4,410	3,492
Investments in tangible fixed assets, MSEK	393	452	331	633	751
Operating margin, %	18.2	17.9	16.4	16.1	17.9
Return on operating capital, %	33.2	30.6	23.3	20.8	22.9
Return on shareholders equity, %	28.3	115.0	21.8	28.3	35.2
Net debt/equity ratio, %	63.0	pos	52.6	90.5	74.4
Equity/assets ratio, %	21.9	36.6	32.0	29.3	30.4
Share capital, MSEK	949	949	969	892	868
Dividend per share, MSEK	1.08	1.22	1.35	1.45	1.60*
Earnings per share basic, SEK					
Excluding items affecting comparability	1.92	2.26	2.76	3.54	4.23
Including items affecting comparability	1.56	10.56	2.76	3.40	4.10

* Board proposal

Key figures by product area (MSEK)	1998	1999	2000	2001	2002
Net sales					
Snuff	1,337	1,688	2,071	2,457	2,788
Chewing Tobacco	1,068	1,068	1,227	1,377	1,333
Cigars	902	1,438	2,690	3,481	3,318
Pipe Tobacco and Accessories	218	420	762	933	843
Matches	1,573	1,673	1,712	1,690	1,648
Lighters	735	662	720	809	700
Other operations	893	1,742	2,351	2,888	3,013
Sub total	6,726	8,691	11,533	13,635	13,643
Divested operations	1,468	729	—	—	—
Total	8,194	9,420	11,533	13,635	13,643
Operating income					
Snuff	641	828	954	950	1,233
Chewing Tobacco	331	297	331	372	406
Cigars	117	206	347	500	522
Pipe Tobacco and Accessories	38	109	213	236	164
Matches	134	107	90	183	221
Lighters	18	14	74	101	74
Other operations	-228	-127	-123	-149	-181
Sub total	1,051	1,434	1,886	2,193	2,439
Divested operations	438	255	—	—	—
Items affecting comparability	-108	3,707	—	-80	-68
Total	1,381	5,396	1,886	2,113	2,371
Operating margin, %					
Snuff	47.9	49.1	46.1	38.7	44.2
Chewing Tobacco	31.0	27.8	27.0	27.0	30.5
Cigars	13.0	14.3	12.9	14.4	15.7
Pipe Tobacco and Accessories	17.4	26.0	28.0	25.3	19.5
Matches	8.5	6.4	5.3	10.8	13.4
Lighters	2.4	2.1	10.3	12.5	10.6

Quarterly data

Income statements in summary		2001				2002			
MSEK		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
Gross profit		1,331	1,554	1,584	1,539	1,552	1,612	1,528	1,500
Items affecting comparability		—	—	– 80	—	—	—	–68	—
Operating income		491	555	482	585	605	640	552	574
Net financial items		–46	–70	–81	–76	–71	–71	–60	–43
Income after financial items		445	485	401	509	534	569	492	531
Net income		297	324	265	342	361	369	320	379
Operating income excluding depreciation/amortization		647	710	658	768	776	814	712	720
Operating income excluding items affecting comparability and depreciation/amortization		647	710	738	768	776	814	780	720

Key Data		2001				2002			
		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
Net debt/equity ratio, %		72.4	88.5	82.6	90.5	80.4	100.0	78.0	74.4
Equity/assets ratio, %		31.8	30.3	29.8	29.3	30.6	27.9	29.4	30.4
Investments in tangible fixed assets, MSEK		132	127	163	211	167	231	178	175
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
Including items affecting comparability		0.80	0.89	0.74	0.97	1.03	1.06	0.92	1.09

Net sales by product area	2001				2002			
MSEK	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Snuff	528	642	629	658	672	711	707	698
Chewing Tobacco	314	365	349	349	344	367	312	310
Cigars	750	892	944	895	778	871	864	805
Pipe Tobacco and Accessories	205	245	247	236	190	211	217	225
Matches	425	408	421	436	460	421	387	380
Lighters	220	203	190	196	186	184	165	165
Other operations	627	740	761	760	687	768	815	743
Total	3,069	3,495	3,541	3,530	3,317	3,533	3,467	3,326

Operating income by product area	2001				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Snuff	214	235	242	259	290	313	320	310
Chewing Tobacco	89	99	90	94	106	105	100	95
Cigars	101	124	137	138	122	149	140	111
Pipe Tobacco and Accessories	59	64	62	51	42	36	41	45
Matches	44	44	46	49	65	59	53	44
Lighters	25	26	23	27	20	23	17	14
Other operations	-41	-37	-38	-33	-40	-45	-51	-45
Sub total	491	555	562	585	605	640	620	574
Items affecting comparability	—	—	-80	—	—	—	-68	—
Total	491	555	482	585	605	640	552	574

Operating margin by product area	2001				2002			
Percent	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
Chewing tobacco	28.3	27.1	25.8	26.9	30.8	28.6	32.1	30.6
Cigars	13.5	13.9	14.5	15.4	15.7	17.1	16.2	13.8
Pipe tobacco and accessories	28.8	26.1	25.1	21.6	22.1	17.1	18.9	20.0
Matches	10.4	10.8	10.9	11.2	14.1	14.0	13.7	11.6
Lighters	11.4	12.8	12.1	13.8	10.8	12.5	10.3	8.5
Group	16.0	15.9	15.9	16.6	18.2	18.1	17.9	17.3

Group Management



Lennart Sundén

President and CEO
Joined Swedish Match AB in 1998.
Born 1952, MSc. Engineering, MBA.
Previously employed by AB Electrolux 1977-1998. Manager of Electrolux industrial operations for appliances in Europe 1991-1993. Manager of Electrolux' global vacuum cleaner and small appliance operations 1993-1998.
Board assignments: Board member of FöreningsSparbanken AB, JM AB and Arnold André GmbH & Co KG.
Shareholding in Swedish Match: 60,000
Call options: 436,787



Sven Hindrikes

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, India.
Shareholding in Swedish Match: 5,000
Call options: 128,388

René den Admirant

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



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: 148,388



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.
Shareholding in Swedish Match: 300
Call options: 156,105



Peter Nilsson

President, Continental Europe Division through year-end 2002.
From January 1, 2003, Senior Vice President Business Development.
Joined Swedish Match in 1987.
Member of Group management since 1999.
Born 1962, MBA.
Shareholding: 6,086
Call options: 305,467



Share and option holdings as of Dec 31 2002.



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: 138,388



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, Duni AB, Stenqvist AB and Stiftelsen Solstickan.
Shareholding in Swedish Match: 101,400
Call options: 318,579

Share and option holdings as of Dec 31 2002.



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: 5,000
Call options: 148,388



Ingemar Olsson

President, Overseas Division.
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: 298,579



Graham Jones

President, Match Division.
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: 308,579



Board of Directors



Arne Jurbrant

Born 1942. Board member since 2002.
Other Board assignments: Chairman of
EAN Sweden AB.
Member of IFL/MTC AB
Shares: 1,500



Lennart Sundén

Born 1952. Board member since 1999.
President and CEO of Swedish Match
AB since November 1998.
Other Board assignments: Board mem-
ber of FöreningsSparbanken, JM AB and
Arnold André GmbH & Co KG.
Shares: 60,000.
Call options 436,787.

Bernt Magnusson
Born 1941. Chairman. Board member
since 1993.
Chairman of Dyno Nobel ASA.
Other Board assignments: Vice Chair-
man of Net Insight AB. Board member of
Volvo Car Corp, Höganas AB, Nordea
AB, Pharmadule AB. Advisor to the
European Bank for Reconstruction and
Development.
Shares: 15,858



Tuve Johannesson

Born 1943. Board member since 2002.
Other Board assignments: Chairman of
EcoLean AB and Gorthon Lines AB.
Member of SEB, IFS and Cardo.
Shares: 6,000



Jan Blomberg

Born 1939. Board member since 1996.
Other Board assignments: Chairman of
Handelsbanken Regionbank City, Stock-
holm. Vice Chairman of Drott AB. Board
member of Skandia Investment and
Skandia Liv, Haldex AB, Capio AB and
Svenska Spel AB.
Shares: 3,638



Klaus Unger

Born 1934. Board member since 1984.
Other Board assignments: Board mem-
ber of Arnold André GmbH & Co KG.
Shares: 6,614

Meg Tivéus

Born 1943. Board member since 1999.
President of Svenska Spel AB.
Other Board assignments: Board mem-
ber of Operan AB, ARK Resebyrå AB,
Billerud AB and Danderyds Sjukhus AB.
Shares: 500



Share and option holdings as of Dec 31 2002.

Employee representatives (regular members)



Kenneth Ek

Born 1953. Board member since 1999. Appointed by the Federation of Salaried Employees in Industry and Services (PTK). Board member of the Swedish Association of Management and Professional Staff (Ledarna) at the snus factory in Gothenburg, Sweden. Shares: 0

Eva Larsson

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



Joakim Lindström

Born 1965. Deputy 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

Share and option holdings as of Dec 31 2002.

Employee representatives (deputies)



Lennart Johansson

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



Christer Hylén

Born 1965. Deputy member since 2001. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match AB. 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. Shop Steward for the Swedish Industrial Salaried Employees Association (SIF) at Swedish Match Arenco AB in Kalmar, Sweden. Shares: 249



Auditors

Åke Danielsson
Authorized Public Accountant
Örlings PricewaterhouseCoopers AB
Born 1947
Swedish Match Auditor since 1998

Göran Tidström
Authorized Public Accountant
Örlings PricewaterhouseCoopers AB
Born 1946
Swedish Match Auditor since 1986

Deputy Auditor

Claes Dahlén
Authorized Public Accountant
Örlings PricewaterhouseCoopers AB
Born 1950
Swedish Match Deputy Auditor since 1998

The Swedish Match share

The Swedish Match share is listed on the Stockholm Exchange in Sweden and the NASDAQ Exchange in the US. Total share capital amounts to 867.8 MSEK, distributed among 361.6 million shares with a par value of SEK 2.40 each. Every share carries one vote. A round lot is 500 shares.

Turnover

Total turnover in 2002 was approximately 307 million (268) Swedish Match shares on the Stockholm Exchange, with a daily average turnover of about 1.2 million shares (1.1). The turnover rate, or the liquidity of the share on the Stockholm Exchange, was 84 percent during the year, compared with the market average of 122 percent. The volume of trading on NASDAQ decreased during the year, and the number of outstanding American Depositary Receipts (with each ADR corresponding to 10 shares) decreased to 262,510 (509,049). The depositary bank is the Bank of New York (symbol SWMAY).

Price performance

The company's market capitalization at year-end 2002 amounted to 23.4 SEK billion. The share price increased 23.4 percent during the year. The Affärsvärlden General Index declined by 37 percent.

The lowest price paid during the year was 55 SEK on January 8, and the highest price paid was 85 SEK on April 24.

Ownership structure

Foreign ownership interests corresponded to 63.8 percent of total share capital, a decrease of 4.7 percentage points compared with 2001. Swedish ownership interests were divided among institutions, with 20.3 percent of total shares outstanding, mutual funds 5.9 percent and private persons 10.0 percent of the share capital. The ten largest shareholders account for 42.3 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 buyback. The dividend share is judged to be in the 30 to 50 percent range.

The Board of Directors has proposed a dividend for 2002 to the Annual General Meeting of 1.60 SEK (1.45) per share, for a total of 547 MSEK (508) calculated on the number of outstanding shares at year-end. The dividend corresponds to 38 percent of net income for the year.

Repurchase of shares

Repurchase of shares in principle are new share issues in reverse, and provide the possibility of continuously working with optimization of the balance sheet capital structure. Against the background of Swedish Match's stable and strong cash flow, the Board takes a favorable view of share buybacks.

The size and scope of the share buybacks, exactly in common with the dividend, are dependent on Swedish Match's financial position, net income, anticipated future profitability, cash flow, investments and expansion plans. Other factors which influence buybacks are share prices and the Group's interest and tax expenses.

Largest shareholders, December 31, 2002*

Owner	No. of shares	% of voting rights and capital
Fidelity Funds	52,480,819	15.3
Alecta	16,102,876	4.7
Robur fonder	14,536,961	4.3
Harbor Funds Inc	12,436,474	3.6
Govt of Singapore Inv Corp	9,602,685	2.8
Fourth AP-Fund	9,290,400	2.7
Capital Group	9,189,349	2.7
SEB	6,054,492	1.8
First AP-Fund	5,195,777	1.5
Third AP-Fund	4,700,600	1.4
Others	202,414,748	59.2
Total	342,005,181	100.0

* Registered direct ownership according to VPC (Securities Register Center). In addition, the company owns 19,591,000 acquired through buyback.

Transfers of capital to Swedish Match shareholders (1998–2002)						
	1998	1999	2000	2001	2002	Total
Dividends	510	474	490	508	547	2,529
Redemptions, net	1,147	—	996	—	—	2,143
Buyback	—	—	905	1,169	552	2,626
Total	1,657	474	2,391	1,677	1,099	7,298

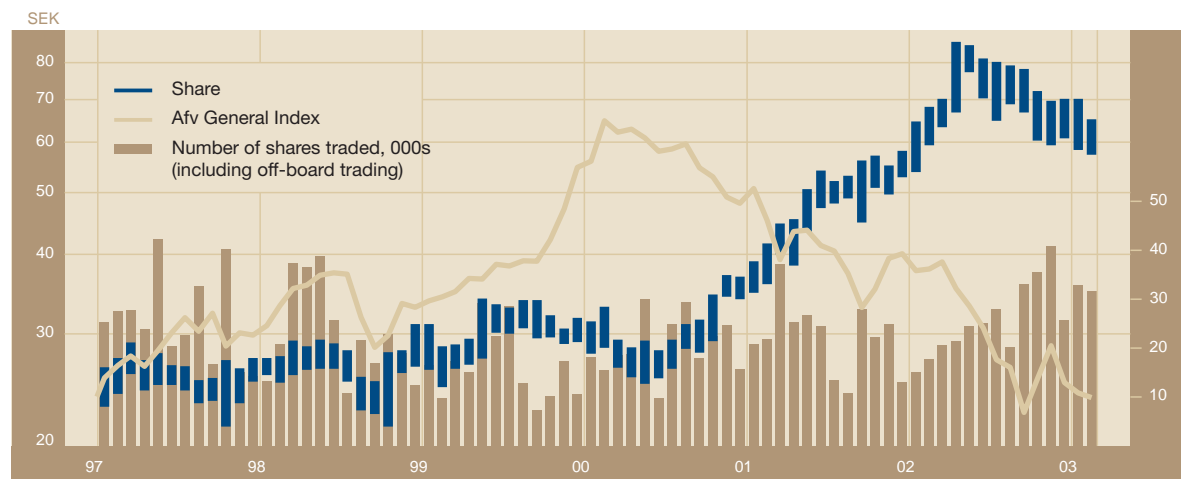
Share distribution, December 31 2002

Size of holding	No. of owners	%	No. of shares	% of capital and votes
1 – 1 000	92,660	92.4	16,863,931	4.9
1,001 – 5,000	6,319	6.3	12,956,795	3.8
5,001 – 20,000	812	0.8	7,756,447	2.3
20,001 – 50,000	156	0.2	4,879,782	1.4
50,001 –	313	0.3	299,548,226	87.6
Total	100,260	100,0	342,005,181	100.0

Per-share data*	1998	1999	2000	2001	2002
Earnings per share basic, SEK					
Excluding items affecting comparability	1.92	2.26	2.76	3.54	4.23
Including items affecting comparability	1.56	10.56	2.76	3.40	4.10
Earnings per share diluted, SEK					
Excluding items affecting comparability	1.92	2.26	2.76	3.52	4.20
Including items affecting comparability	1.56	10.56	2.76	3.38	4.07
Dividend, SEK	1.08	1.22	1.35	1.45	1.60**
Market price at year-end, SEK	28.86	29.06	36.50	55.50	68.50
Shareholders' equity, SEK	4.89	13.47	12.22	11.73	11.72
P/E ratio after tax	18.7	2.8	13.2	16.4	16.8
EBIT multiple	10.4	6.9	9.0	11.2	11.3
Price/equity	5.9	2.2	3.0	4.7	5.8
Direct return, %	3.7	4.2	3.7	2.6	2.3
Total return, %	18.6	4.3	32.,0	55.6	25.5
Average number of shares basic	450,133,840	431,339,663	410,177,322	361,506,184	348,295,163
Average number of shares diluted	450,133,840	431,339,663	410,196,494	363,016,335	350,894,438
Number of shareholders	127,710	115,019	105,950	101,200	100,260

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

** Board proposal.



(c) SIX

Information to our shareholders

Annual General Meeting

The Annual General Meeting will be held at 4.30 p.m. on Friday, April 25, 2003 in Hall K1, Stockholm International Fairs (Stockholmsmässan), Älvsjö in Stockholm. Shareholders who are listed in a printout of the Shareholders' Register compiled on April 15, 2003 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 Värdepapperscentralen 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 15, 2003.

Notification of intention to attend Annual General Meeting

Notification of intention to participate in the Annual General Meeting will be accepted as from Friday, March 21, 2003.

Applications may be submitted by:

- Telephone +46 20-61 00 10 (1.00 p.m. to 4.00 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 Wednesday, April 16, 2003, which is the expiration date for receipt of notification by Swedish Match. The Board of Directors has proposed April 30, 2003 as the record date for dividend entitlement. Dividends are expected to be paid by VPC on May 6, 2003.

Nominating committee

The Nominating Committee prepares and submits proposals to the Annual General Meeting for the election of the Board of Directors and auditors and fees paid to members of the Board and the auditors. The Committee, which is appointed by the Annual General Meeting to serve until the Annual General Meeting 2003, comprises Anders Ek, Björn Franzon, Bernt Magnusson and Lars Otterbeck.

Address: Swedish Match AB
Nominating Committee
SE-118 85 Stockholm
Sweden

Financial reports may be ordered via the Internet:

www.swedishmatch.com

Or from:

Swedish Match AB
Investor Relations
SE-118 85 Stockholm
Sweden
Telephone: +46 8-658 0145
Fax: +46 8-658 0262
E-mail: investorrelations@swedishmatch.com

Production

Group Staff Corporate Affairs and Group Finance Swedish Match AB in cooperation with Hallvarsson & Halvarsson and Solberg (design and production).
Photography: Peter Bartholdsson, Victor Brott, Richard Lee and Stig-Göran Nilsson. Printing: Falkenbergs Tryckeri.

Definitions

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

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

North Europe Division

SE-118 85 Stockholm, Sweden

Visiting address:

Rosenlundsgatan 36
Tel. +46 8-658 02 00
Fax +46 8-84 06 07

Continental Europe Division

P O Box 1, NL-5550 AA
Valkenswaard, Holland

Visiting address:

John F. Kennedylaan 3
NL-5555 XC Valkenswaard
Tel. +31 40 208 5555
Fax +31 40 208 5501

North America Division

P.O. Box 13297, Richmond,
Virginia 23225, USA

Visiting address:

Beaufont Springs Drive,
Suite 400
Tel. +1 804 302 1700
Fax +1 804 302 1760

Overseas Division

P.O. Box 70052,
22422-900 Rio de Janeiro,
Brasilien

Visiting address:

Rua Visconde de Piraja, 250
5th fl
Ipanema
BR-22422-900 Rio de Janeiro,
RJ, Brasilien
Tel. +55 21 2227 9600
Fax +55 21 2522 1904
RJ Fax +55 21 2522 1980

Match Division

Sword House, Totteridge Road,
High Wycombe
GB-Bucks HP13 6EJ, England
Tel. +44 1494 89 5900
Fax +44 1494 89 5911