

SWEDISH MATCH CORP
Form 20-F
June 23, 2005
Table of Contents

As filed with the Securities and Exchange Commission on June 23, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the period from _____ to _____

Commission file number 0-28038

Swedish Match AB (publ)

(Exact name of Registrant as specified in its charter)

Swedish Match Corporation

(Translation of Registrant's name into English)

Kingdom of Sweden

(Jurisdiction of incorporation or organization)

Rosenlundsgatan 36

S-118 85 Stockholm, Sweden

(Address of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Shares, nominal value SEK 2.40 per share

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

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Shares, nominal value SEK 2.40 per share 336,596,181

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

Table of Contents**TABLE OF CONTENTS****Page**

<u>INTRODUCTION AND USE OF CERTAIN TERMS</u>	i
<u>FORWARD-LOOKING STATEMENTS</u>	i
<u>PART I</u>	1
ITEM 1. <u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	1
ITEM 2. <u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>	1
ITEM 3. <u>KEY INFORMATION</u>	1
3.A <u>Selected Financial Data</u>	1
3.B <u>Capitalization and Indebtedness</u>	3
3.C <u>Reasons for the Offer and Use of Proceeds</u>	3
3.D <u>Risk Factors</u>	4
ITEM 4. <u>INFORMATION ON THE COMPANY</u>	7
4.A <u>History and Development</u>	7
4.B <u>Business Overview</u>	8
4.C <u>Organizational Structure</u>	25
4.D <u>Property, Plants and Equipment</u>	25
ITEM 5. <u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	26
5.A <u>Operating Results</u>	26
5.B <u>Liquidity and Capital Resources</u>	39
5.C <u>Research and Development, Patents and Licenses, etc.</u>	40
5.D <u>Trend Information</u>	41
5.E <u>Off-Balance Sheet Arrangements</u>	42
5.F <u>Tabular Disclosure of Contractual Obligations</u>	42
ITEM 6. <u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	42
6.A <u>Directors and Senior Management</u>	42
6.B <u>Compensation</u>	44
6.C <u>Board Practices</u>	47
6.D <u>Employees</u>	49
6.E <u>Share Ownership</u>	50
ITEM 7. <u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	51
7.A <u>Major shareholders</u>	51
7.B <u>Related Party Transactions</u>	51
7.C <u>Interests of Experts and Counsel</u>	52
ITEM 8. <u>FINANCIAL INFORMATION</u>	52
8.A <u>Consolidated Statements and Other Financial Information</u>	52
8.B <u>Significant Changes</u>	53
ITEM 9. <u>THE OFFER AND LISTING</u>	53
9.A <u>Offer and Listing Details</u>	53
9.B <u>Plan of Distribution</u>	55
9.C <u>Market</u>	55
9.D <u>Selling Shareholders</u>	55
9.E <u>Dilution</u>	55
9.F <u>Expenses of the issue</u>	55
ITEM 10. <u>ADDITIONAL INFORMATION</u>	55

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10.A	<u>Share Capital</u>	55
10.B	<u>Memorandum and Articles of Association</u>	55
10.C	<u>Material contracts</u>	58
10.D	<u>Exchange controls</u>	58
10.E	<u>Taxation</u>	58
10.F	<u>Dividends and Paying Agents</u>	61
10.G	<u>Statements by Experts</u>	61
10.H	<u>Documents on Display</u>	61
10.I	<u>Subsidiary Information</u>	61

Table of Contents

ITEM 11.	<u>QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISK ON DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS</u>	61
ITEM 12.	<u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	63
<u>PART II</u>		63
ITEM 13.	<u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	63
ITEM 14.	<u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	63
ITEM 15.	<u>DISCLOSURE CONTROL AND PROCEDURES</u>	63
ITEM 16A.	<u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	64
ITEM 16B.	<u>CODE OF BUSINESS CONDUCT AND ETHICS</u>	64
ITEM 16C.	<u>ACCOUNTANTS FEES AND SERVICES</u>	64
ITEM 16D.	<u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	65
ITEM 16E.	<u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	66
ITEM 16E.	PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS	66
<u>PART III</u>		67
ITEM 17.	<u>FINANCIAL STATEMENTS</u>	67
ITEM 18.	<u>FINANCIAL STATEMENTS</u>	67
ITEM 19.	<u>EXHIBITS</u>	67
<u>SIGNATURES</u>		68

Table of Contents

INTRODUCTION AND USE OF CERTAIN TERMS

Swedish Match AB (publ) is a public limited liability company incorporated under the laws of the Kingdom of Sweden (Sweden). References in this Annual Report on Form 20-F (this Annual Report) to Swedish Match AB are to Swedish Match AB and its predecessors, and references to Swedish Match , the Group , the Registrant or the Company are to Swedish Match AB and its subsidiaries, unless the context requires otherwise. Swedish Match publishes its consolidated financial statements in Swedish kronor. In this Annual Report, references to SEK or Swedish kronor are to the currency of Sweden, references to EUR or euro are to the currency of the European Monetary Union, references to INR or Indian rupees are to the currency of India and references to U.S. dollars , USD or US\$ are to the currency of the United States (U.S.). On December 31, 2004, the exchange rate between Swedish kronor and U.S. dollars based on the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) was USD 1.00 = SEK 6.6687. The Noon Buying Rate on June 17, 2005, was USD 1.00 = SEK 7.5270.

The Company s consolidated financial statements are prepared in accordance with generally accepted accounting principles in Sweden (Swedish GAAP), which differ in certain respects from generally accepted accounting principles in the U.S. (U.S. GAAP). For a narrative discussion of the principal differences between Swedish GAAP as currently in effect and U.S. GAAP, see Note 26 of the Notes to the Consolidated Financial Statements. In 2005, Swedish Match will be required to prepare its financial statements in accordance with International Financial Reporting Standards (IFRS).

In 2004, the Company delisted its American Depository Shares (ADS) from the Nasdaq National Market and cancelled its ADS facility program.

Except where otherwise indicated, all references to tobacco, matches and lighters market sizes and market shares are based on Swedish Match management estimates.

The Company is incorporated in Sweden. Its principal executive offices are located at Rosenlundsgatan 36, S-118 85 Stockholm, Sweden, telephone +46-8-658-0200.

FORWARD-LOOKING STATEMENTS

Some of the statements in this document that are not historical facts are forward-looking statements, including, without limitation those regarding:

the timing of product deliveries;

the Company s ability to develop new products and technologies;

expectations regarding market growth and developments;

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expectations for growth and profitability; and

statements preceded by believes , expects , anticipates , foresees , hold the view or similar expressions.

Because these statements involve risks and uncertainties, actual results may differ materially from the results that the Company currently expects. Factors that could cause these differences include, but are not limited to:

general economic conditions, such as the rate of economic growth in the Company's principal geographic markets or fluctuation in exchange rates;

industry conditions, such as the strength of product demand, the intensity of competition, pricing pressures, the acceptability of new product introductions;

the availability and pricing of raw materials, and of tobacco in particular;

currency fluctuations;

the commencement or unfavorable outcome of litigation against the Company;

political and economic instability, especially in emerging and developing markets;

Table of Contents

changes in the regulatory environment for tobacco products, including changes in taxes imposed on tobacco products; and

the transition from Swedish GAAP to IFRS

as well as the risk factors specified in this document, including under Item 3.D. Risk Factors .

Table of Contents**PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION**3.A Selected Financial Data**

The financial data set forth below for each of the years in the five-year period ended December 31, 2004 have been derived from the Consolidated Financial Statements of Swedish Match that have been audited by Öhrlings PricewaterhouseCoopers for the four years ended December 31, 2003 and by KPMG Bohlins for the year ended December 31, 2004. Consolidated balance sheets at December 31, 2004 and 2003 and the related consolidated statements of income and of cash flows for the three years ended December 31, 2004 and notes thereto appear elsewhere in this annual report. The Consolidated Financial Statements from which the financial data below were derived were prepared in accordance with Swedish GAAP, which differ in certain respects from U.S. GAAP. See Note 26 of the Notes to Consolidated Financial Statements.

Millions unless otherwise stated	2000	2001	2002	2003	2004	2004
	SEK	SEK	SEK	SEK	SEK	USD ⁽¹⁾
<i>Amounts in accordance with Swedish GAAP</i>						
Income statement data						
Net sales	11,533	13,635	13,643	13,036	13,007	1,950
Operating income	1,886	2,113	2,371	2,224	3,370	505
Net income	1,144	1,228	1,429	1,558	1,828	274
Balance sheet data						
Total assets	16,281	16,623	15,447	15,102	14,621	2,192
Share capital	969	892	868	844	808	121
Shareholders' equity	4,584	4,105	4,007	4,010	4,358	654
Bond loans, long - and short-term liabilities to credit institutions	5,699	6,016	5,508	5,381	3,529	529
Per share data						
Basic net income per share, SEK	2.76	3.40	4.10	4.68	5.61	0.84
Diluted net income per share, SEK	2.76	3.38	4.07	4.66	5.59	0.84

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Basic weighted average shares, in thousands	410,177	361,506	348,295	332,679	325,709	
Diluted weighted average shares, in thousands	410,177	363,016	350,894	334,162	327,014	
Cash dividend declared per share, SEK	1.35	1.45	1.60	1.70	1.90	0.28

Table of Contents

Millions unless otherwise stated	2000	2001	2002	2003	2004	2004
	SEK	SEK	SEK	SEK	SEK	USD ⁽¹⁾
<i>Amounts in accordance with U.S. GAAP⁽²⁾</i>						
Net income	915	981	1,461	1,680	1,965	295
Shareholders' equity	6,319	5,587	5,391	5,521	6,231	934
Basic net income per share, SEK	2.21	2.71	4.19	5.05	6.03	0.90
Diluted net income per share, SEK	2.21	2.70	4.16	5.03	6.01	0.90

Notes to Selected Consolidated Financial Data

- (1) Translated, solely for the convenience of the reader, at the Noon Buying Rate on December 31, 2004 of USD 1.00 = SEK 6.6687.
- (2) See Note 26 of the Notes to Consolidated Financial Statements for a reconciliation of net income and shareholders' equity reported under Swedish GAAP to the corresponding amounts under U.S. GAAP and for a discussion of certain differences between U.S. GAAP and Swedish GAAP.

Dividends

The Company considers it desirable that funds not vital for the expansion and consolidation of the Group be transferred to the shareholders in the form of dividends and other forms, such as a share buybacks. Swedish Match policy is that the amount of a dividend should largely follow the trend of the Company'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. A buyback of shares is, in principle, a reverse new share issue and makes it possible to work continuously to manage the capital structure in the balance sheet. In view of Swedish Match's stable and positive cash flow, the Board of Directors' position with regard to buyback of shares is positive. The size and scope of share buybacks depends on the same factors as the size and the scope of the dividend, namely on Swedish Match's financial position, net profit, anticipated future cash flow, as well as investments and expansion plans and also availability of non-restricted equity. Other factors that affect a repurchase are the price of the shares and the Company's interest and tax expenses.

Dividends are expected to be paid following the end of the relevant financial year, if proposed by the Board and approved by the Company's shareholders at the relevant Annual General Meeting. Subject to the foregoing, and consistent with Swedish practice, the Board would expect to propose only one dividend per year. The Annual General Meeting in April 2005 resolved that shareholders shall receive a dividend of SEK 1.90 per share, for a total amount of approximately SEK 612 million (compared with net income for the year of SEK 1,828 million), and the balance shall be retained in the business.

At the level of dividends proposed in the Board's policy, the Company believes it will have adequate cash flow to fund future anticipated capital expenditures.

The table below shows the amount of dividends paid on each share in respect of each fiscal year indicated, translated into U.S. dollars per ADS on the basis of one ADS for every ten shares and at the Noon Buying Rate on each of the respective payment dates and, in the case of ADSs, after deduction of withholding taxes referred to below and under Item 10.E. Taxation - Taxation of Dividends. No information per ADS is given for dividends for the year 2004 as the ADS program was cancelled prior to the date of payment of dividends.

Table of Contents

	<u>SEK per Share</u>	<u>U.S. dollars per ADS</u>
2000	1.35	1.3
2001	1.45	1.4
2002	1.60	1.4
2003	1.70	1.9
2004 ¹⁾	1.90	

1) The ADS program was cancelled in 2004

Certain holders of shares may be subject to U.S. federal income tax consequences on dividends paid in respect of shares See Item 10.E. Taxation .

Exchange Rate Data

The following table sets forth, for the years and dates indicated, certain information concerning the rate of exchange of the Swedish kronor to the U.S. dollar based on the Noon Buying Rate. The Noon Buying Rate on June 17, 2005, was USD 1.00 = SEK 7.5270.

<u>Year ended December 31,</u>	<u>Period End</u>	<u>Average ⁽¹⁾</u>	<u>High</u>	<u>Low</u>
2000	9.4440	9.2251	10.3600	8.3530
2001	10.4571	10.4328	11.0270	9.3250
2002	8.6950	9.6570	10.7290	8.6950
2003	7.1950	8.0351	8.7920	7.1950
2004	6.6687	7.3320	7.7725	6.5935
December 2004			6.8043	6.5939
January 2005			7.0069	6.6855
February 2005			7.1114	6.8275
March 2005			7.0716	6.7312
April 2005			7.1627	7.0118
May 2005			7.4108	7.0850
June 2005 (through June 17)			7.7112	7.4373

(1) Represents the average of the exchange rates on the last day of each full month during the year.

3.B Capitalization and Indebtedness

Not applicable.

3.C Reasons for the Offer and Use of Proceeds

Not applicable.

Table of Contents

3.D Risk Factors

Set forth below is a description of certain risks that may effect the Company's business, financial condition and results of operations from time to time.

See Item 4.B. Business Overview-Regulation .

The Company is affected by legislation relating to tobacco, package labeling, marketing and advertising, smoking bans and trade barriers

Increasing health concerns related to tobacco smoking followed by increasingly severe restrictions on smoking in public places and in the workplace is evident in most countries where the Group sells its products. For example, countries such as Ireland, Norway, Sweden, Italy and several major U.S. cities and towns have passed laws banning smoking in bars, restaurants and other premises where food or drinks are served. Such bans could have a negative impact on consumption of products that the Company manufactures or distributes and on the Company's results of operations. Furthermore, there is a trend towards increasingly severe regulations related to marketing and advertising of tobacco products, permissible ingredients in tobacco products and the reporting on such ingredients. These restrictions could also have a negative impact on consumption of the Company's products and on its results of operations.

Changes in excise taxes and rules on collection of tobacco tax may reduce the Company's sales and cash flow

Tobacco products are subject to substantial taxes in most countries where Swedish Match has significant sales. In many of those countries, the taxes on tobacco are generally increasing but the rate of increase varies between different types of tobacco products. Increased excise taxes or changes in relative tax rates for different tobacco products may result in decline in overall sales volume for the Company's products that in turn could adversely affect Swedish Match's results of operations. Changes in rules on the collection of tobacco taxes could negatively affect the Company's cash flow.

The markets for the Company's products are highly competitive

Swedish Match faces intense competition in each of its geographical markets and for each of its products. In order to be successful it must promote brand equity successfully and anticipate and respond to new customer trends. Restrictions on advertising and promotion may, however, make it more difficult to counteract loss of consumer loyalty to any particular brand or product. There can be no assurance that branding or new product launches by the Company's competitors will not be successful in persuading consumers of the Company's products to switch to competitors' products, which could have a material adverse effect on the Company's results of operations. See Item 4.B Business Overview-Competition .

Some of the Company's businesses are subject to volume decline and price pressure

Developed markets for many tobacco products, have been generally declining in the past decades. This adverse trend is a result of consistent and substantial increases in the excise duty on tobacco products, increasing governmental regulation, government-funded anti-smoking campaigns and heightened public awareness of smoking-related health concerns. Any future substantial decline in demand could have a materially adverse effect on the Company's operating profits.

The Company is faced with lower volumes and downward pricing pressure in many of its businesses. The lighters and matches businesses in particular are characterized by volume declines, excess production capacity and fierce price competition in many markets. The Company may have to adjust its production capacity to meet declining sales volumes. There can be no assurance that the Company will be able to partly offset volume declines in the future through price increases if at all.

The Company is distributing tobacco products in Sweden for a number of other companies, primarily manufacturers of cigarettes. Three companies account for over 97 percent of tobacco products distributed for third parties. The Company may face downward price pressure for its distribution services or loss of volumes to competing distributors in the future. In addition, the potential decrease in consumption of cigarettes due to laws enacted in certain countries banning smoking in public places and in the workplace may also result in reduction in the volume of products distributed, which could have an adverse impact on the Company's revenues.

Table of Contents

Changes in import restrictions could effect the Company's sales negatively

The Company is selling products in countries where potential competition is barred from entering through import restrictions or import bans. Changes in import or export regulations can negatively affect the Company's sales volumes and prices for its products.

Retailer consolidation could cause a decline in the Company's sales and operating results

In many markets the grocery trade continues to consolidate and as retailers grow larger and become more sophisticated, they demand lower pricing and increased promotional programs. Furthermore, these customers are reducing their inventories and increasing their emphasis on private label products in many product categories. These trends can have an adverse effect on the Company's results of operations.

The Company faces litigation in the course of its business

The Company is involved in a number of legal and regulatory proceedings including pending lawsuits related to intellectual property rights and alleged injuries caused by tobacco products. There can be no assurance that the Company's defenses will be successful in trial and substantial costs may be incurred in defending lawsuits. Although management cannot in any meaningful way estimate the damages that might be awarded, if any, in any ongoing or anticipated disputes these lawsuits individually or in the aggregate, could have an adverse effect on the Company's results of operations.

Swedish Match is not a party to the Master Settlement Agreement or the Smokeless Tobacco Master Settlement Agreement between various U.S. states and certain tobacco companies. To date, neither these settlements nor the legislation enacted as a result of them has had any material effect upon the business activities of Swedish Match in the U.S. The business is being conducted as it has been in the past but there can be no assurance that Swedish Match will not in the future enter into similar agreements that could have material adverse impact on the Company's business.

The Company's operations in certain developing countries are susceptible to such countries' political and economic stability

Swedish Match has substantial operations in emerging or developing markets such as Brazil, the Dominican Republic, India, Indonesia, the Philippines and South Africa. Swedish Match's results of operations and financial condition are influenced by the economic, regulatory and political situations in the countries in which it have operations, which are generally unpredictable and outside the control of the Group. There can be no assurance that political, legal, economic or other developments such as social unrest or terrorism will not have an adverse impact on the Company's investments and businesses or on the Company's consolidated results of operations.

The Company may not have adequate insurance

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Each of Swedish Match's insurance programs have limitations in coverage and there can be no assurance that any insurable damage caused is covered by insurance. Swedish Match has substantial operations in geographic areas where full insurance coverage against property damage resulting from storm and certain other natural disasters may not be obtainable. Swedish Match may not be able to obtain certain types of insurance or extend its existing insurance programs in the in the future.

Loss of production capacity could cause a decline in the Company's sales and results of operations

For product categories where the Company does not have over capacity or where substitution between different production plants is not possible, it may lose market shares and profit in the event of loss of production capacity needed to supply its products.

Environmental cost and liabilities could adversely effect the Company's financial condition

The Company cannot guarantee that it can meet all local environmental controls and regulations or that all such controls and regulations have been met in the past. In the event of changes to local regulations or of the legal environment or in case of accidental environmental pollution, the Company may have to incur additional costs for compliance.

Table of Contents

The Company is subject to commodity risks

The raw materials used in the Group's business, primarily tobacco, splintwood and raw material in various packaging material are commodities that experience price volatility caused by factors including weather conditions, growing conditions, local planting decisions, market fluctuations and changes in agricultural regulations. Commodity price changes beyond the Company's control may result in unexpected increases in raw materials and packaging costs and the Company may be unable to increase its prices to offset these increased costs without suffering reduced volume and revenues.

With respect to the Company's cigar business, unanticipated fluctuations in demand and changes between different years in the quality of tobacco grown require relatively high levels of raw tobacco leaf inventory. In some cases inventory for specific grades or types may be several years supply. In the event of a drop in final demand for finished goods, this inventory may be substantially higher than appropriate levels and lower income due to higher capital costs may result. In some circumstances, some of this inventory may need to be sold at prices below purchase prices or may have to be destroyed which would have a negative impact on the Company's results of operations and cash flows.

The Company is exposed to market rate, exchange rate and interest risks

In the normal course of its business, Swedish Match is exposed to market risk, primarily in the forms of risk associated with changes in foreign exchange rates and interest risk but also in the form of financing, liquidity and credit risk. Swedish Match enters into a variety of financial instruments to the extent judged necessary by management to achieve a desired level of exposure, although the Company cannot assure that these exposures will be reduced to a desired level, if at all.

The Company manages its exposure to changes in interest rates through a mix of fixed rate debt and variable rate debt in its total debt portfolio. To manage this mix, the Company may enter into interest rate swap agreements. There can be no assurance, however, that existing or future swap agreements will manage the interest rate risk successfully, if at all.

Swedish Match has a substantial part of its production and sales in EU member countries, South Africa, Brazil, India and the U.S. Consequently, changes in exchange rates of EUR, South African Rand, Brazilian real, Indian rupees and the U.S. dollar in particular may adversely affect the Company's results of operations, cash flow, financial condition or relative price competitiveness in the future. Such effects may occur both in local currencies and when such local currencies are translated into Swedish currency for purposes of reporting. The financing risk comprises risk arising from large borrowing requirements under austere credit market conditions where the Company may be refused to take up new loans or prolong its loans.

Liquidity and credit risks expose the Company to shortages of cash when such cash is needed in the Company's operations. The Company aims to limit these risks by the Company's policy of investing in instruments with high liquidity and credit worthiness. In addition to bank deposits, investments are mainly concentrated in government treasury bills and bonds with counter parties who have high credit ratings. However, the Company cannot assure that it will successfully invest in such instruments in the future, or that the failure to invest successfully will not have a material adverse effect on the Company's liquidity and credit position.

Furthermore, Swedish Match may show variability in cash flows, due to among others, a changing product portfolio and differing needs for leaf-tobacco, work-in process inventories and finished goods as well as changes in rules on tobacco tax collection.

The Company could face impairment of goodwill and other fixed assets.

The value of goodwill and other intangible assets as well as other fixed assets is evaluated regularly to determine whether events or circumstances indicate that the value of the fixed assets are impaired. These evaluations include significant judgments made by management. Future events could cause the Company to conclude that impairment indicators exist and that a fixed asset is impaired. Any resulting impairment loss could have a material adverse impact on the Company's financial condition and results of operations.

Table of Contents

Loss of key personnel could have a negative impact on the Company's performance

The Company relies on a number of highly experienced and/or long standing employees with a detailed knowledge of tobacco and other business related issues. Unanticipated losses of key employees could result in a substantial loss of expertise, which would negatively affect activities and operating performance.

There are risks inherent in calculating the Company's provision for pensions and similar obligations

As of December 31, 2004 the Company had provision for pensions and similar obligations of SEK 739 million. Calculating pension and similar obligations require management to make assumptions on discount rate, expected return on plan assets and rate of compensation increase. Actual results could differ from the assumptions made. The Company may be required to contribute additional amounts to its pension schemes which would have a negative effect on the Company's results of operations. See Item 5.A. Operating Results Critical Accounting Policies Accounting for pensions.

The existence of counterfeit products in the marketplace could adversely effect the Company's sales

Counterfeit products of Swedish Match branded products may be difficult to curb. Sales by others of counterfeit products could have a negative effect on the Company's sales, volumes and brand goodwill.

ITEM 4. INFORMATION ON THE COMPANY

4.A History and Development

Swedish Match AB (publ) was incorporated in 1917 as a limited liability company. In 1995 the Company changed to a public limited liability company with an indefinite duration under the laws of the Kingdom of Sweden. The Company's principal executive office is located at Rosenlundsgatan 36, S-118 85 Stockholm, Sweden and its telephone number is +46-8-658-0200. The agent for the Company in the U.S. is Swedish Match North America, Inc. and its telephone number is +1-804-302-1700.

Swedish Match's two main businesses, tobacco products and lights in the form of matches and disposable lighters, were separately established at the beginning of the century. After a number of transactions the business was acquired by Volvo and since 1994 Swedish Match operated as an independent company within the Volvo Group. In 1996, in line with a new strategic plan at Volvo to concentrate on automotive and transport equipment, Volvo divested the Swedish Match operation by way of a dividend to the Volvo shareholders and in May 1996, after the dividend, Swedish Match's shares were listed on the OMX Stockholmsbörsen, Sweden (the Stockholm Exchange) and its American Depository Shares (ADS) on the Nasdaq National Market (NASDAQ). In 2004 due to the low liquidity of the ADSs these were delisted from NASDAQ. The last day of trading of the ADSs was on October 15, 2004. The Company also cancelled its American Depository Receipts program.

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Swedish Match is a company producing and selling a broad range of market leading brands in the product areas snuff, chewing tobacco, cigars and pipe tobacco niche tobacco products as well as matches and lighters. The Group's global operations generated sales of SEK 13,007 million in more than 150 countries in 2004. Production facilities are located in 15 countries. The average number of employees during 2004 was 15,039.

In January 2004 Swedish Match sold all its advertising textiles business.

In March 2004 Swedish Match settled its claim in *Swedish Match North America, Inc. v. UST* in which the Company was seeking injunction against UST to stop methods aimed at suppressing competition in the American snuff market and compensation for damages. In accordance with the settlement, UST has paid US\$ 200 million to Swedish Match. Furthermore, UST agreed to cause the transfer of its cigar business to Swedish Match, including but not limited to brands, other intellectual property and inventory. Annual sales of the cigar business that was transferred amount to an average of approximately US\$ 11 million.

On March 19, 2004 Lennart Sundén left his position as President and CEO. The Company's Executive Vice President Sven Hindrikes was appointed acting President and CEO and on June 1, 2004 he was appointed President and CEO. Lennart Sundén also resigned from the Board of Directors of Swedish Match as well as all Group companies. Lennart Sundén is entitled to a termination period of 12 months, since the employment was terminated by the Company. Furthermore, Lennart Sundén is entitled to a severance payment corresponding to 24 months salary. The severance pay may be partly reduced by other employment income.

Table of Contents

In April 2005 Swedish Match acquired all of the remaining shares in General Cigars Holdings Inc. General Cigar is the market leader in premium cigars in USA, with well known brands such as Macanudo, Partagas and Punch.

Capital Expenditures

Swedish Match operates primarily in mature markets with limited capital expenditure requirements. Swedish Match's capital expenditures amounted to SEK 486 million in 2004 and were equal to approximately 4 percent of sales. Capital expenditures amounted to SEK 551 million in 2003 and SEK 751 million in 2002. Depreciation of fixed assets amounted to SEK 332 million compared with 346 million in 2003 and SEK 324 million in 2002. Total capital expenditures over the period 2000-2004 were equal to 4.2 percent of total sales during the period.

Apart from necessary investments for replacement purposes, most of the Company's investments involved rationalization measures, such as moving production among the Company's facilities in order to maximize efficiencies and create economies of scale. As a result of increases in snuff sales, particularly sales of portion-packed snuff in Sweden, a new production plant was built in Kungälv, Sweden, near to Gothenburg. The total investment in the plant amounted to SEK 604 million. The plant started production in mid 2003.

Capital expenditure for 2005 is expected to be on the same level or somewhat below 2004. Capital expenditure is expected to be funded primarily through internally generated cash flow. Acquisitions, if any, may be financed through internally generated cash flow or debt financing.

Since Swedish Match manufactures high-turnover consumer products, the Company maintains relatively small inventories of finished products for many of its products.

For more discussion of the Company's principal capital expenditure and divestitures, see Item 5.A. Operating Results .

4.B Business Overview

General

Swedish Match is a Swedish-based international group that produces a broad range of other tobacco products including snuff, chewing tobacco, cigars, and pipe tobacco as well as matches and disposable lighters. Swedish Match products are sold in more than 150 countries. Within the Company's product offering, there are products characterized by strong brand loyalty among consumers (for example, snuff and cigars), as well as products whose trademarks are of lesser importance to the consumer (for example lighters).

By tradition, Swedish Match has its greatest strengths in the Nordic region (primarily Sweden) and the U.S. The Company also has significant cigar and lights (i.e. matches and lighters) operations in Europe, pipe and snuff operations in South Africa and significant lights operations in parts of Asia and Latin America (Brazil).

Sales by Region

A breakdown of total revenues by principal geographic market is as follows:

North America. Most of the revenues in this region arise from smokeless tobacco and cigar sales in the U.S.

2002: SEK 4,688 million

2003: SEK 4,135 million

2004: SEK 4,036 million

Nordic region. Most of the revenues in this region arise from smokeless tobacco sales in Sweden, as well as distribution activities for all tobacco products on the Swedish Market.

Table of Contents

2002: SEK 4,683 million

2003: SEK 4,874 million

2004: SEK 5,087 million

Europe, excluding Nordic region. Revenues in this region arise primarily from the sales of cigars, matches, lighters, and pipe tobacco.

2002: SEK 2,214 million

2003: SEK 2,076 million

2004: SEK 1,912 million

Latin America and Other Geographies. The single largest source of revenues in this region comes from sales of lighters and matches in Brazil and snuff and pipe tobacco in South Africa.

2002: SEK 2,058 million

2003: SEK 1,951 million

2004: SEK 1,972 million

Raw Materials

Raw materials consist primarily of tobacco leaf, which is sourced worldwide with purchase cycle times ranging from several months to several years. Although prices and availability for individual grades of tobacco from individual markets may vary considerably, the volatility is substantially mitigated by the nature of tobacco purchases and the wide geographic availability.

Marketing Channels

Swedish Match products are largely intended for individual consumers and are therefore distributed in marketing channels that cater to the local needs of tobacco consumers. The primary classes of trade include but are not limited to (as applicable and allowed by law): food stores, gas stations and convenience stores, mass merchandisers, discount retailers, drug stores, tobacconists, kiosks, hotels and restaurants. Sales methods are standard for the industry and conform to local market norms in the countries where the products are sold.

General

During 2004, the Swedish Match business structure was composed of four divisions having defined operating responsibility: North Europe, Continental Europe, North America, and Overseas Divisions. General Cigar has been operated as an independent division with its own production and sale of premium cigars. From April 2005, when Swedish Match acquired the remaining 36 percent of General Cigar that it did not own, steps have been taken to further integrate the administration of this business into Swedish Match North America. In 1999 the Company divested its cigarette operations.

Marketing, sales and production of tobacco and lights products are organized in the North Europe, Continental Europe, North America and Overseas Divisions. Lighter sales are coordinated through the Continental Europe Division, while match sales are coordinated through the Overseas Division. General Cigar sells its premium cigars primarily in the U.S. market.

Swedish Match's financial reporting structure follows the six different product areas, Snuff, Chewing Tobacco, Cigars, Pipe Tobacco and Accessories, Matches, Lighters and Other operations.

Table of Contents**Business - Snuff****Key data**

(SEK millions unless otherwise stated)	2002	2003	2004
Sales	2,788	2,995	3,081
Operating income	1,233	1,386	1,373
Operating margin, %	44.2	46.3	44.6

Capital expenditures and personnel

(SEK millions unless otherwise stated)	2002	2003	2004
Capital expenditures in tangible fixed assets	424	219	242
Average number of employees	825	908	924

With restrictions on tobacco smoking and growing health concerns relating to cigarettes, smokeless alternatives have been gaining a greater market potential. Swedish Match is the leading manufacturer of snuff in the Swedish and Norwegian markets and the third largest player in terms of market share in the U.S. Sales in 2004 amounted to SEK 3,081 million (2003: 2,995). Operating income for the year was SEK 1,373 million (2003: 1,386), corresponding to an operating margin of 44.6 percent (2003: 46.3).

Production for the Nordic market takes place at two factories in Sweden, in Gothenburg and in Kungälv (opened in 2003). The production for the American market takes place in Owensboro, Kentucky. Products for the South African market are primarily produced in Johannesburg, South Africa.

Volume in the U.S. grew by approximately 3 percent in 2004, while volume in the Nordic countries grew by slightly more than 1 percent. Overall sales of the Group's snuff business grew by 3 percent during 2004 compared to 2003.

Snuff market*Sweden and other Nordic countries*

Snuff is a traditional product that has become increasingly socially acceptable. Since snuff can be consumed discreetly in portioned packs, it has become an increasingly popular alternative to cigarettes for both men and women. Approximately 225 million cans of moist snuff are sold annually in the Nordic countries. In Sweden, the largest market, there are more than one million snuff consumers, corresponding to just over 10 percent of the population. Women account for some 20 percent of snuff consumers. Swedish Match has established its own quality standard

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called **GOTHIA TEK**[®] for all of its snuff brands in the Nordic region. Well-known brands in the Swedish and Norwegian markets are Generalsnus, Ettan, Grovsnus, and Catch, which together account for approximately 80 percent of all snuff sales in Sweden and Norway.

Swedish Match has approximately 95 percent of the Swedish snuff market, with a number of smaller competitors, some competing in local or limited markets. The largest competitors are Gallaher, and Fiedler&Lundgren, both with production in Sweden.

Consumption of snuff has been rising most rapidly in metropolitan areas, where population growth is highest and restrictions on smoking are more stringent. Market growth has slowed considerably in Sweden in 2004, and the market is now growing at a rate of 1 - 3 percent per year. Portion-packed snuff's share of the total snuff market is 57 percent, and rising.

Table of Contents

In 2002, the Company launched line extensions to its Catch brand. In April 2003, the Company launched a new range of portion-packed products with a new more appealing appearance and a distinctive functional can lid. In 2004 further line extensions were introduced.

Swedish Match has the largest market share of the limited but growing Norwegian market. Consumption is increasing, with particular emphasis on portion-packed snuff, and was up by more than 20 percent in the Norwegian market in volume terms in 2004.

United States

Approximately 940 million cans of snuff were consumed in the United States in 2004. Consumption has increased at a higher pace in the past two years, after having been growing by about 2 to 3 percent annually for a number of years. The market is estimated to have grown by close to 6 percent, measured in cans, in 2003, and by nearly 7 percent in 2004. Swedish Match's largest competitor is US Smokeless Tobacco Company and its subsidiaries (UST).

Swedish Match's share of the market was for the full year 2004 approximately 8.9 percent down from 9.1 percent, according to AC Nielsen. Consumption volume declined for Timber Wolf, the best selling Swedish Match brand in the U.S. and a leading brand in the low-price segment in an extremely competitive market environment. Offsetting these volume declines, volume grew for a second Swedish Match value priced brand, Longhorn, which was launched in August 2003. The U.S. product range also includes Renegades, a portion-packed snuff. The Company has a limited test launch of a Swedish type of snuff, which is a smokeless tobacco product using the **GOTHIA TEK**[®] process.

Other markets

In the South African market, nasal snuff is the dominant smokeless tobacco product. Swedish Match established operations in the South African market in 1999 through its acquisition of Dingler, with its Taxi brand.

Swedish Match has limited test market and selling activity relating to snuff in Russia, among other markets. At the end of 2004, the Company discontinued its test market activity for snuff in India.

The sale of moist snuff was prohibited in the EU in 1992, mainly because it was assumed that the product was carcinogenic. Sweden was exempted from the ban when entering the EU in 1995. Several studies in Sweden have shown that the assumed carcinogenic effects is lacking in scientific support. Against this background, the European Commission has decided to change the warning labels on packaging for smokeless tobacco, including moist snuff sold in Sweden. The prohibition on the sale of moist snuff throughout the rest of the EU remains in place following the decision by the European Court of Justice in December 2004, that the current ban on the sale of this type of product is not in breach of fundamental EU-law.

Within the EU, Swedish Match sells nasal snuff, under the brands Singleton's, Kensington's, and Rumney's. Nasal snuff accounts for a small portion of total Swedish Match smokeless tobacco sales.

General

The Company expects that Sweden, Norway and the U.S. will continue to be the primary markets for Swedish Match's snuff products.

The table below shows the size of the Snuff Business in relation to the Swedish Match Group in 2004.

	<u>Snuff</u>	<u>Swedish Match</u>	<u>Percent</u>
Sales, SEK millions	3,081	13,007	24
Operating income, SEK millions	1,373	3,370	41
Capital expenditures in tangible fixed assets, SEK millions	242	486	50
Average number of employees	924	15,039	6

Table of Contents**Business - Chewing Tobacco****Key data**

(SEK millions unless otherwise stated)	2002	2003	2004
Sales	1,333	1,146	1,058
Operating income	406	336	304
Operating margin, %	30.4	29.3	28.7

Capital expenditures and personnel

(SEK millions unless otherwise stated)	2002	2003	2004
Capital expenditures in tangible fixed assets	42	23	18
Average number of employees	347	346	346

Swedish Match is the market leader in the chewing tobacco business in the U.S. Sales amounted to SEK 1,058 million (2003: 1,146). Operating income amounted to SEK 304 million (2003: 336), a decrease of 10 percent, as measured in Swedish kronor. In local currency (USD) terms, sales and operating income improved versus the previous year. Operating margin was 28.7 percent (2003: 29.3).

Chewing tobacco operations are conducted in the North American market, mainly in the U.S. Well known Swedish Match brands include the Red Man family and Southern Pride. In total, Swedish Match held a market share of approximately 44 percent of consumption volume in 2004.

The headquarters for the chewing tobacco operations are in Richmond, Virginia. Production is carried out in Owensboro, Kentucky.

During the fourth quarter of 2003, Swedish Match launched a new chewing tobacco product into test market in Japan in the Tokyo area. This product, branded Firebreak[®], is a chewing tobacco in a gum base. The test market continued during 2004.

Chewing tobacco market*United States*

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The use of chewing tobacco is an old custom in the U.S. Consumption is mainly concentrated in a region comprising the southeastern states. Chewing tobacco is usually associated with outdoor and recreational activities, such as hunting and fishing.

Four major producers dominate the chewing tobacco industry in the U.S. Swedish Match is the market leader with its Red Man family of brands (Red Man, Red Man Golden Blend and Red Man Select). Swedish Match's major competitor is Conwood.

The total U.S. market amounts to approximately SEK 2.6 billion. Consumption of chewing tobacco has been declining by more than 4 percent per year over the past three years, continuing a long-term trend. In 2003 and 2004, the market declined by approximately 5 percent, measured by weight. The reason is primarily demographic, as a result of the increasingly higher average age of consumers and fewer jobs in farming and other outdoor sectors.

General

The market for chewing tobacco is declining in the U.S., but profitability remains strong. Swedish Match's goal is to maintain its market position and to manage capacity utilization in order to control costs and secure profitability.

Table of Contents

The partnership with the retail sector is expanding, with training and support regarding the product range and product merchandising.

The table below shows the size of the Chewing Tobacco Business in relation to the Swedish Match Group in 2004.

	<u>Chewing Tobacco</u>	<u>Swedish Match</u>	<u>Percent</u>
Sales, SEK millions	1,058	13,007	8
Operating income, SEK millions	304	3,370	9
Capital expenditures in tangible fixed assets, SEK millions	18	486	4
Average number of employees	346	15,039	2

Business Cigars**Key data**

<u>(SEK millions unless otherwise stated)</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Sales	3,318	3,008	3,171
Operating income ⁽¹⁾	472	393	466
Operating margin, %	14.2	13.1	14.7

(1) Includes Swedish Match's 40 percent holding in Arnold André which is reported in accordance with the equity method.

Capital expenditures and personnel

<u>(SEK millions unless otherwise stated)</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Capital expenditures in tangible fixed assets	169	193	128
Average number of employees	6,504	7,148	7,781

Swedish Match is one of the world's largest manufacturers and distributors of cigars and cigarillos, and ranks second in terms of sales in the world cigar market. Including the jointly owned German company, Arnold André (in which Swedish Match holds a 40 percent interest), production amounts to more than one billion cigars per year.

Sales in 2004 grew 5 percent to SEK 3,171 million (2003: 3,008). Swedish Match sales are primarily in the European and in the U.S. mass market and in the U.S. premium cigars market. The growth in sales is primarily attributable to volume gains in the US market. Roughly 62 percent of Swedish Match cigar sales are in the U.S. Operating income was SEK 466 million (2003: 393). The operating margin was 14.7 percent (2003: 13.1).

The Company's main brands include La Paz, Willem II, Garcia Y Vega, La Gloria Cubana, White Owl and Macanudo. In 2000, the Company acquired 64 percent of the shares of General Cigar Holdings, Inc. The remaining 36 percent of the shares were acquired in April 2005. General Cigar is the leading manufacturer of premium cigars in the U.S. and produces the best selling premium cigar brand, Macanudo. As a result of the acquisition, Swedish Match strengthened its position as a leading global cigar company and as a leader in Other Tobacco Products (OTP) (cigars, snuff, pipe tobacco and chewing tobacco) in the U.S.

Table of Contents

Swedish Match manufactures many of the world's best known brands of cigars. The largest markets are Western and Northern Europe, and the U.S. The product range includes all types of cigars and cigarillos, from hand-rolled premium cigars to machine-made cigarillos.

The production plants are located in Houthalen (Belgium) and Pandaan (Indonesia). In 2002 Swedish Match's production in the plant in Overpelt (Belgium) was closed down and moved to other existing Swedish Match plants. Cigars are also produced in Santiago, the Dominican Republic, Danli and Confradia, Honduras, and Dothan, Alabama in the U.S. The Company also has tobacco farms in Jima and Mao in the Dominican Republic and in Connecticut in the U.S. The German company Arnold André with production plants in Bünde and Königslutter (Germany) is 40 percent owned by Swedish Match.

Cigar market

During 2004, the world market for cigars was more than 15 billion cigars with an estimated sales value of SEK 27 billion. More than three-quarters of cigars are sold in North America and Europe.

Europe

Consumption of cigars was relatively unchanged in Europe during 2004. The strongest market growth was noted in countries such as Spain, France, and Italy, while demand in Germany, Belgium, and the Netherlands was unchanged or lower.

There are a large number of players in the market, with many small local companies operating in parallel with major manufacturers. Production and wholesaling are both being restructured. The players are becoming fewer and larger although merger activity since 2000 has been limited. Swedish Match's market share in Europe is difficult to measure, but roughly amounts to between 10 and 15 percent. Europe accounts for approximately 25 percent of Swedish Match's Cigar Business total sales. The La Paz brand is one of the best selling brands in Europe.

United States

Until 1997, the U.S. cigar market was characterized by strong growth in the premium segment. In 1998, the very sharp market growth for cigars weakened. Excess inventories had been built up by manufacturers and distributors, and this led to price competition in the premium segment. In 1999 total consumption of cigars stabilized, and large excess inventories of product in the commercial chain reduced somewhat, negatively affecting manufacturers' sales despite stable consumption. In 2000, consumption of mass market cigars increased slightly, while consumption of premium cigars remained flat. There was a substantial reduction of excess inventories of premium cigars in 2000, as a number of lesser-known brands left the market. In 2001, the market for mass market cigars continued to increase slightly, and Swedish Match mass market volumes improved by 11 percent, primarily due to distribution gains. In 2002, the market for mass market cigars continued to grow modestly. However, Swedish Match volumes declined, as did the Company's share of market. The growth in the U.S. market in 2002 came primarily from sweet and flavored cigars, which was not part of Swedish Match's portfolio of products, at the expense of larger, natural cigars. Late in 2002, and during 2003, Swedish Match introduced new flavored cigars, primarily under the White Owl brand, on the U.S. market in order to more fully participate in the growth of the sweet and flavored segment. The market continued to grow in units in 2003, and Swedish Match stabilized its shipment volumes in large part due to flavored product introductions. This trend in market growth, and the trend toward flavored cigars, continued in 2004. Machine-made cigars sold in the U.S. market contributed to approximately 28 percent of Swedish Match's total sales of cigars in 2004, and Swedish Match has a volume market share in the US machine-made cigar market of approximately 7 percent, with growth above market rates.

With General Cigar, Swedish Match is the biggest player in the hand rolled premium cigar segment, with an estimated market share of between 25 and 30 percent. The U.S. premium cigar market is stable. U.S. premium cigars account for approximately 36 percent of total cigar sales for Swedish Match.

Asia/Australia

Asia and Australia continue to be characterized as growth markets for cigars. In Asia, Swedish Match uses its base in Hong Kong to develop contacts with mainland China.

Table of Contents*General*

The world market for cigars has been growing, but with considerable differences between markets. The cigar business has been an important growth area for Swedish Match. The Company aims to capitalize on the growth in cigar consumption in various markets. The Company is continuing efforts to develop its premium cigar business outside of the U.S.

The table below shows the size of the Cigar Business in relation to Swedish Match Group in 2004.

	<u>Cigars</u>	<u>Swedish Match</u>	<u>Percent</u>
Sales, SEK millions	3,171	13,007	24
Operating income, SEK millions	466	3,370	14
Capital expenditures in tangible fixed assets, SEK millions	128	486	26
Average number of employees	7,781	15,039	52

Business - Pipe Tobacco and Accessories**Key data**

<u>(SEK millions unless otherwise stated)</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Sales	843	909	901
Operating income	164	201	220
Operating margin, %	19.5	22.1	24.4

Capital expenditures and personnel

<u>(SEK millions unless otherwise stated)</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Capital expenditures in tangible fixed assets	20	15	28
Average number of employees	558	553	527

Swedish Match is a large manufacturer of pipe tobacco. In 2004 sales declined by 1 percent to SEK 901 million (2003: 909) with currency effects, namely the increase in the value of the South African Rand versus the Swedish krona, substantially offsetting declines in most markets. Operating income grew 9 percent to SEK 220 million (2003: 201) largely as an effect of currency fluctuation between the Swedish krona and the South African Rand, as well as by productivity improvements and pricing.

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Swedish Match's best known brands are Borkum Riff, Half and Half, Boxer, Best Blend and Velvet. Borkum Riff is one of the few brands of pipe tobacco sold globally. The main markets are North America, Northern/Western Europe, Southern Africa, and Australia/Japan.

Pipe tobacco is manufactured in Owensboro, Kentucky, and in Boxburg and Rustenburg, South Africa. Part of Swedish Match's pipe tobacco production is subcontracted to MacBaren, a Danish company.

Table of Contents

Pipe tobacco market

The market for pipe tobacco has been declining, by some 10 percent in Europe, and by more than 10 percent annually in volume terms, in North America. The main reason is demographic – the increasing average age of consumers and the weak influx of new buyers. In South Africa, the market in volume terms is also declining in the range of 8 percent per year.

The players in the pipe tobacco industry are mainly large companies, with many other tobacco products in their lines. Most manufacturers employ a defensive strategy, with high sales prices and limited marketing activity.

The largest single market for pipe tobacco is the U.S. Other large markets are Europe, Australia, Japan, Canada, and South Africa.

North America

Consumption of pipe tobacco in the North American market has been declining by approximately 8 to 12 percent a year for the past several years. This rate of decline is expected to continue over the next several years. Swedish Match is the fourth largest manufacturer in North America, with a market share of approximately 15 percent and a leading position in the premium segment with Borkum Riff. Swedish Match is also strong in the mass-market segment with Half and Half, Velvet and Paladin. The Company's largest competitors are Lane, Middleton, and Altadis.

Western and Northern Europe

Consumption in Europe has been declining by 6 to 10 percent a year over the past several years. There is a trend toward greater concentration in the retail chain. The competitive situation varies considerably between markets, with few large manufacturers. The exception is Germany, where there are a number of local and international manufacturers. Germany is one of the largest and most profitable markets in Western Europe. Swedish Match has strong positions in Sweden and Finland, as well as in Switzerland and Spain. Swedish Match's market share in Western Europe is under 10 percent, and has been stable.

South Africa

A marginal decline in demand in South Africa was noted in 2000 following a sharp increase in tobacco tax. With its acquisitions of Leonard Dingler and Brasant, Swedish Match created a solid platform in South Africa. Dingler's brands include Boxer, Nineteen O Four, Black and White, and Giraffe. In February 2001, the Company acquired the South Africa pipe tobacco operations of BAT Rothmans with its Best Blend brand following BAT's merger with Rothmans. In the second half of 2001, the South African Rand depreciated significantly versus most of the world's major currencies. This depreciation accelerated in the final three months of the year, causing commodity prices to increase significantly late in 2001, and especially during the first three months of 2002. This had a negative impact on purchasing power among consumers. Early in 2002 the government of South Africa announced double-digit increases on tobacco taxes. Sales turnover, volume, and earnings were negatively affected in both the final three months of 2001 and for most of 2002. The South African currency began to significantly strengthen versus both

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the U.S. dollar and the Swedish kronor in the second half of 2002. This improved currency effect more than offset modest volume declines of between 3 and 5 percent. During 2003, the South African market declined. However, the strengthening value in the South African Rand provided positive support to both sales and operating income for the business overall. In 2004, the pipe tobacco market declined by approximately 8 percent, and Swedish Match shipment volume declined at similar levels.

Other markets

Swedish Match considers that there may be market potential in Asia, some parts of Eastern Europe and Latin America.

General

Swedish Match is one of the major players in the market for pipe tobacco. The business is global and operating margins in 2004 were 24 percent.

Table of Contents

The table below shows the size of the Pipe Tobacco Business in relation to the Swedish Match Group in 2004.

	<u>Pipe Tobacco</u>	<u>Swedish Match</u>	<u>Percent</u>
Sales, SEK millions	901	13,007	7
Operating income, SEK millions	220	3,370	7
Capital expenditures in tangible fixed assets, SEK millions	28	486	6
Average number of employees	527	15,039	4

Business Matches**Key data**

<u>(SEK millions unless otherwise stated)</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Sales	1,648	1,395	1,378
Operating income	221	83	(297)
Operating margin, %	13.4	5.9	neg

Capital expenditures and personnel

<u>(SEK millions unless otherwise stated)</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Capital expenditures in tangible fixed assets	58	81	36
Average number of employees	5,743	5,388	4,746

Swedish Match is a global manufacturer of matches. In 2004, the Match Business had sales of SEK 1,378 million (2003: 1,395). Operating income amounted to SEK -297 million (2003: 83). Operating income includes an impairment charge of SEK 150 million and a provision of SEK 90 million for acquisition for shares in Wimco Ltd. in India.

The Company sells matches to consumers in more than 100 countries under a large number of local brand names. Swedish Match's main markets are Europe, South America (Brazil), and Asia (Indonesia and India, among others). Substantial volumes are also exported to other countries. Operations include Swedish Match Arenco, which manufactures match production and packaging machinery.

Match factories are located in Tidaholm and Vetlanda (Sweden), Curitiba and Pirai (Brazil), Szeged (Hungary) and Orhangazi (Turkey), Bulgaria and India. Swedish Match's holding in the Indian company Wimco Ltd. amounts currently to 74 percent. At the beginning of 2004, the Match Business became part of the Overseas Division, whose head office is in Rio de Janeiro, Brazil. In December 2004, the Company announced closure of the Valencia, Spain match factory.

Table of Contents

Match market

Europe

The long-term consumption trend in Western and Northern Europe is declining. This downward trend appears to have continued in Western Europe in 2004. In Europe, the market shows a trend toward increased consumption of specialty and high value products (such as barbeque items), even as overall match consumption is flat or declining.

Asia

The Indian market is stable, as population growth substantially offsets a modest shift away from matches toward utility lighters for cooking, as well as declining smoking rates. The Indian market has become increasingly competitive, and Swedish Match has experienced volume declines in this market.

Swedish Match has a 74 percent interest in Wimco Ltd., one of the world's largest manufacturers of matches, with four production units in India. At the time of the acquisition in 2000, Wimco was active in a number of industries. Since 2001 Wimco's operations have been concentrated to its core business, matches. See Item 8.A Consolidated Statements and other Financial Information for a discussion regarding the Company's requirement to purchase additional shares of Wimco Ltd.

Latin America

Brazil, where the Group has established operations under well-known brand names such as FIAT LUX, is the focal point for operations in Latin America. The market share in Brazil is approximately 50 percent. In volume terms, the Brazilian market is approximately the same size as Europe, and shows a declining trend. Following the closure of a production plant in São Laurengo, production was concentrated to the plant in Curitiba in Southern Brazil. Locally, prices have increased during the past few years in Brazil, where the product is used mainly for household applications. Part of the output from Swedish Match's plants is exported to neighboring countries.

General

Swedish Match intends to further consolidate its position in the Match Business by shifting production capabilities among manufacturing facilities in order to maximize Group efficiency and to create economies of scale.

The Group's product strategy includes repositioning brands, updating the product range in some markets, and obtaining better exposure in stores. The Company will continue its efforts in developing higher margin value-added products, such as firelogs and grill and barbeque products.

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Production operations will be further rationalized; however, local production may be required for a presence in certain markets.

The table below shows the size of the Matches Business in relation to the Swedish Match Group in 2004.

	<u>Matches</u>	<u>Swedish Match</u>	<u>Percent</u>
Sales, SEK millions	1,378		