

Inside

INFORMATION ABOUT SWEDISH MATCH FOR SHAREHOLDERS AND OTHER STAKEHOLDERS

#1 february 2003

Strong 2002 yields increase dividend

Operating income rose 12 percent to 2,371 MSEK. The Snuff and Cigars business areas increased their operating income by 30 percent and 4 percent respectively. Earnings per share increased by a full 21 percent and a dividend increase from 1.45 SEK to 1.60 SEK has been proposed. **Page 2**

Swedish Match gets a grip on the Norwegian market

In Norway, Swedish Match is the market leader in the snus market. But a pioneering spirit still prevails in the Oslo office of the newly formed sales company, Swedish Match Norway Sales. **Page 6**



More women using snus

The number of Swedish women who use snus is increasing, having nearly doubled over the past five years. The average snus-using woman is well-educated and relatively well-paid. More than half are former cigarette smokers, who now often insert a mini-pouch or portion-sized pouch of snus under their lip instead. **Page 6**

Pension and mutual funds dominate ownership

Swedish Match is a prime example of the new trend toward institutional ownership on the stock exchange. Its ownership spectrum is dominated by Swedish and foreign pension and savings funds. Swedish Match largest shareholder is the US mutual fund company Fidelity, which ranks as the world's largest company of its type. **Page 7**

Grovsnus and General in new white pouches

Two new portion-packaged snus products – Grovsnus White Portion and General White Portion – are scheduled for launch in April. The names refer to the white pouches containing the snus. The new products have several advantages: the flavor lasts longer, they run less, and they can be handled without getting wet fingers. **Page 4-5**

SNUFF:

EU court to give ruling



A major step has been taken toward lifting the EU's ban on snuff with the decision by the administrative court in Minden, in the German state of North Rhine-Westphalia, to refer the issue to the European Court of Justice in Luxembourg. The case is expected to take two years. Swedish Match has always maintained that the ban violates fundamental principles of European Community Law, including the requirements of non-discrimination and proportionality. **Page 4-5**

Research support a 40-year tradition

A year ago, the Board of Directors of Karolinska Institute decided to stop accepting research grants from the tobacco industry. Professor Håkan Eriksson, department head at Karolinska Institute in Stockholm, views this as a case of throwing out the baby with the bathwater, since it was never a question of contract

research. "Far from trying to exert an influence, Swedish Match has always given us a free hand." Since the late 1950s, Swedish Match has contributed to the funding of research on the effects of tobacco use, for example research into the link between smoking during pregnancy and sudden infant death syndrome. **Page 8**



Professor Håkan Eriksson at Karolinska Institute in Stockholm.



Leading OTP player

SWEDISH MATCH'S CONTINUED GROWTH in terms of earnings and earnings per share during 2002, in the face of difficult economic conditions in many markets, shows that our choice of strategy was correct and is leading us toward improved value for our shareholders.

In the immediate future, we plan to proceed along the path upon which we have embarked, with the aim of strengthening our position as the leading niche player in the huge global tobacco market, and to be among the leaders in the Other Tobacco Products (OTP) segment, which covers tobacco products other than cigarettes. The emphasis will be on smokeless products. In the foreground is snuff, which is steadily strengthening its position as an attractive alternative in a world where the harmful health effects of cigarette smoking are increasingly in the spotlight and have resulted in various forms of restrictions on cigarette consumption.

We are one of the world's largest producers of snuff, with a dominant position in Europe's "snus belt" in the north. In addition, we have built up a solid position in the world's largest snuff market, North America, in the segment where growth is strongest, namely the so-called "value segment." During 2002 we advanced our total market share in the US to more than 9 percent, which represents a doubling within slightly more than four years.

Last year we also made further progress with the internationalization of our snuff. After initiating sales in the Indian metropolis of Mumbai, we extended our campaign to a number of other regions in the country. We also continued with sales in Eastern Europe, in markets such as Slovakia and the Czech Republic, as well as in Moscow, Russia.

The major EU market is closed to us due to a ban on snuff, although Sweden has been granted an exemption. We regard the ban as discriminatory, disproportionate and without legal foundation. However, we achieved a minor success in November 2002, when a German administrative court decided to refer the issue of legality to the European Court.

Lennart Sundén, CEO

Swedish Match Inside is a magazine for Swedish Match's shareholders. The print run is 65,000 copies of the Swedish version and 6,000 copies of the English version.

PUBLISHER
Swedish Match AB

ADDRESS
Swedish Match
118 85 Stockholm
Tel: +46 8 658 02 00
www.swedishmatch.com

PUBLISHER RESPONSIBLE
Bo Aulin

EDITORIAL
Lena Forsman,
Hallvarsson&Hallvarsson AB
Lena Olofsdotter,
Swedish Match AB

REPORTERS
Birgitta Gunnarsson,
Martin Haag and
Mats Hallvarsson

PRODUCTION
Hallvarsson&Hallvarsson AB

REPRODUCTION
Scarena, Stockholm

LAYOUT AND DESIGN
Peppar Design,
Petter Carnhagen

PRINTING
Ljungbergs, Klippan

☆☆☆
SWEDISH MATCH

FULL-YEAR 2002:

Increased profit

Swedish Match two heavyweights in terms of sales and earnings – the Snuff and Cigars product areas – provided the Group's driving force during 2002 and increased their operating income by 30 percent and 4 percent respectively. The snuff sales offset last year's negative currency trend, with the result that the Group's net sales remained essentially unchanged at 13,643 MSEK. Operating income rose 12 percent to 2,371 MSEK, with improved margins. Shareholders can take pleasure in an increase of a full 21 percent in earnings per share and a proposal to increase the dividend from 1.45 SEK to 1.60 SEK.



Sven Hindrikes.

Last year was a tough one for many companies, with low growth in the economy, a strongly negative stock market trend and currency movements that worked against major international companies like Swedish Match that have sales in USD and other currencies," says Sven Hindrikes, Executive Vice President and Chief Financial Officer "But in this hostile environment, Swedish Match showed its strengths, with sales that increased by 4 percent in local currencies, a further increase in earnings and a 21-percent increase in earnings per share. This proves that our strategies for creating shareholder value are working well."

A major positive development was that cash flow strengthened so markedly – up from 1,609 MSEK to 2,585 MSEK. This paved the way for the proposed increase in the dividend to shareholders, as well as creating a solid platform for continued share buy-backs and ensuring the necessary

financial strength for possible future acquisitions.

"The improvement derives both from operations and from positive changes in working capital, which shows that our efficiency-enhancement programs are producing results. Cash flow is one of the most important variables for shareholder value," comments Sven Hindrikes.

SNUFF AGAIN SHOWED positive growth, with sales increasing by 13 percent for full-year 2002 (up 6 percent in Q4) despite the negative impact of a weaker dollar. Operating income rose 30 percent for the year, while the operating margin was a full 44.2 percent.

"The main explanation is increased sales volumes in both the US and Northern Europe, coupled with the positive effects of price increases and changes in the product mix," notes Sven Hindrikes. "In the US, for example, our volume in terms of cans sold rose 10 percent, which gives us a mar-

ket share of more than 9 percent in this, the world's largest snuff market. This represents an increase of about one percentage point during the year."

Snuff continues to be the Group's main growth product. During the year, Swedish Match intensified its focus on selling snuff in new markets. Following a launch in the Indian metropolis of Mumbai, the sales campaign was extended to several other regions of the country. The sales drive in Eastern Europe continued with a launch in Moscow. Swedish snus has been available for some time in both Slovenia and the Czech Republic.

SWEDISH MATCH'S SALES in the cigar area during 2002 amounted to 3,318 MSEK. This was a decrease of 5 percent, which can be explained by the lower exchange rate for the dollar when converted into SEK. In terms of local currency, sales remained unchanged.

"The fact that sales did no better than this was due to a decline in sales

Cash flow a focused exercise

A pleasing feature in Swedish Match's year-end report for full-year 2002 was the strong increase in cash flow. Cash flow from operations rose by nearly SEK 1 billion – or to be precise by 976 MSEK – to 2,585 MSEK. "Cash flow is a focused exercise in our endeavors to create shareholder value," notes Sven Hindrikes.

with owning shares have increased dramatically over the past few years. The basic flow consists of cash flow from normal operations, which has shown a highly positive underlying trend since 1998 that has accelerated during the past two years.

"**MAXIMIZING CASH FLOW** is one of the Group's most important objectives and is at the center of many of our operative and financial improvement programs," explains Sven Hindrikes. "It is very clear that cash flow is prioritized today to an entirely different degree from a few years ago. Cash flow drives shareholder value, gives the company strength and stability and creates freedom of movement that permits swift and

One of Swedish Match main strengths as an investment is the capacity of normal business operations to generate a positive cash flow. This provides security for shareholders in a world where, in general, the risks associated

raises dividend

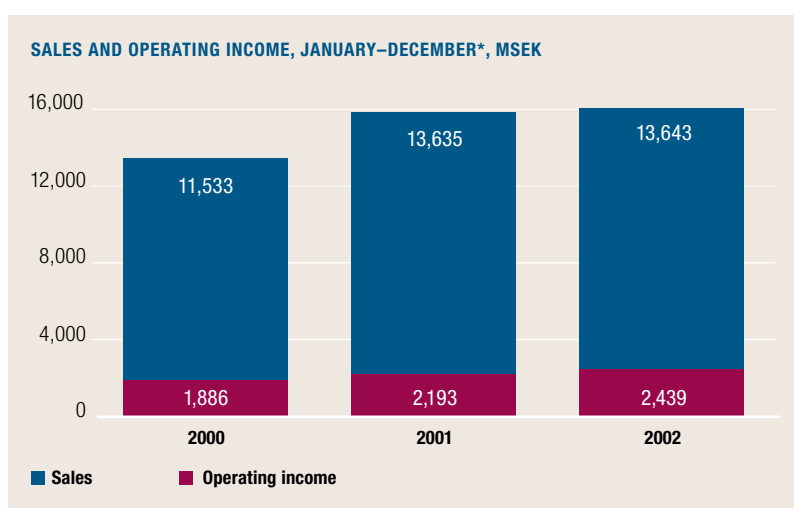
volumes for machine-made cigars in the US. In response to this decline, we are currently intensifying our focus on developing the range and on marketing. In Europe, by contrast, cigar sales were stable, and the same applied to premium cigars in the US. As far as we can judge, we have also strengthened our market share somewhat in the important premium cigar market in the US, where our market share is around 25-30 percent," says Sven Hindrikes.

Chewing-tobacco operations held their own during the year. Pipe tobacco, with substantial business in South Africa, was adversely affected by the substantial weakening of the rand, the South African currency, resulting in a decline in sales and operating income. Lighters also had a difficult year, coming under pressure in particular from increased competition from producers in low-cost countries, combined with a strengthening of the EUR which handicapped the competitive potential of companies exporting from Europe.

MATCH OPERATIONS AGAIN reflected the success of the restructuring program. Supported by a favorable trend in certain non-European markets, operating income rose 21 percent and the operating margin reached 13.4 percent, up from 10.8 percent in 2001.

The Group also continued with its active program of measures regarding finance.

"We have reduced our net debt by 918 MSEK through repayments of loans, thereby strengthening our financial position," says Sven Hindrikes. "Our net interest expense has declined. During the fourth quarter, it was down to -37 MSEK, partly thanks to the fact that we currency-hedged the equity in respect of the North American market, thereby achieving a favorable interest rate margin. It is also worth noting that our tax rate declined to 30.5 percent, partly due to the utilization of loss car-



	SALES, MSEK			OPERATING INCOME*, MSEK		
	Jan-Dec 2002	Jan-Dec 2001	Change %	Jan-Dec 2002	Jan-Dec 2001	Change %
Snuff	2,788	2,457	13	1,233	950	30
Chew. tobacco	1,333	1,377	-3	406	372	9
Cigars	3,318	3,481	-5	522	500	4
Pipe tobacco/ Accessories	843	933	-10	164	236	-31
Matches	1,648	1,690	-2	221	183	21
Lighters	700	809	-13	74	101	-27
Other	3,013	2,888	4	-181	-149	—
Total	13,643	13,635	0	2,439	2,193	11

*Excluding items affecting comparability

ryforwards, and we anticipate that it may remain at this low level for some time to come."

AS PART OF ITS EFFORTS to create shareholder value, the Group continued to buy back shares during 2002. A total of 7,995,000 shares were repurchased, at an average price of 69 SEK. This

means that at year-end the Group owned shares corresponding to 5.4 percent of the total number of shares.

"In our judgment, continued share buy-backs will improve the Group's key ratios and this will have a positive impact on the Swedish Match share price in the long term," concludes Sven Hindrikes. □

resolute action in many key business situations – for example, when making acquisitions.

"Our high-priority internal Cash Race program is aimed at improving cash flow, in common with many other programs designed to release capital in purchasing, inventory and fixed assets," continues Sven Hindrikes. "The capital released will be used primarily to safeguard the Group's long-term future through profitable investments. The surplus will be returned to shareholders via the channels we have chosen, namely share buy-backs and dividends."

Sven Hindrikes notes that the strong increase in cash flow from operations during 2002 can mainly be explained

by higher earnings, lower tax payments and the reduction in the amount of tied-up working capital.

CONTINUING WITH THE ANALYSIS, we find that cash flow from investments also improved during 2002, due in particu-

lar to the large expenditure, amounting to 962 MSEK, on acquisitions during 2001. Financing flows also changed for the better. Altogether, Group liquidity had strengthened by 2,016 MSEK by year-end 2002. □

CONSOLIDATED CASH FLOW STATEMENT IN SUMMARY, MSEK

	2002	2001
Cash flow from operations before changes in Working Capital	2,483	1,954
Cash Flow from changes of Working Capital	102	-345
Cash flow from operations	2,585	1,609
Cash flow from investments	-717	-1,520
Cash flow from financing	-1,366	-1,453
Liquid funds at the end of the period	2,016	1,606

Analysts' questions

Swedish Match's year-end report was published on February 11. Following its publication, a telephone conference was held with analysts from brokerage firms and banks. Here is a selection of the questions that were answered:

PIETER VORSTER, CREDIT SUISSE FIRST BOSTON:

"I have three questions. How large an impact has the restructuring within the cigar operations had on earnings, and will its effects continue? What is the nature of the currency effects cited in the earnings for lighters? And what is behind the proposed dividend increase?"

SVEN HINDRIKES, CFO:

"Investments in machinery at the cigar plant in Houthalen resulted in a nonrecurring expense for start-up amounting to about 2 MEUR during the fourth quarter, and there could be additional costs during the early part of this year."

LENNART SUNDÉN, CEO:

"The currency effects for lighters mainly derive from our plant in the Netherlands, which has largely dollar-based exports – to Eastern Europe for example. So the currency effect is the result of the strengthening of the EUR against the USD.

"The dividend is the result of discussions we have had within the Board of Directors, based on which we agreed to propose a 10-percent increase, to 1.60 SEK per share. This is fully in line with our revised dividend policy, which stipulates a level of 30–50 percent of net income. The level for 2002 is 39 percent. However, the increase is greater this year in terms of nominal value – up 0.15 SEK, compared with 0.10 SEK for 2001."

JONATHAN FELL, MORGAN STANLEY:

"How much of the total investment of 751 MSEK in fixed assets relates to the new plant in Gothenburg, and how long do you expect to continue with this level of investment?"

SVEN HINDRIKES:

"A relatively large proportion relates to Gothenburg. But since the new plant there is expected to be placed in operation in stages during the second quarter of this year, it is reasonable to predict a return to more normal levels in 2004, meaning around 400–500 MSEK."

FRANS HOYER, CHEVREUX DE VIRIEU:

"How much have you made from hedging arrangements in the US, and will the gains continue for the remainder of this year?"

SVEN HINDRIKES:

"Our hedging program in the US allows us to borrow in USD at a considerably lower interest rate than in Europe. The contract is fixed until the end of 2003 and will produce an interest gain of about 50-60 MSEK."

VIRGINIA HÉÉRIBOUT, CDS IXIS SECURITIES:

"Can you clarify the status of cigar operations in the various segments?"

LENNART SUNDÉN:

"The European market and the premium market in the US recovered during the year, and sales volumes during the fourth quarter were quite good. The mass market segment in the US, on the other hand, continued to decline, and we plan to take a number of corrective measures during the year."

Major step forward

in snuff issue within EU

In November 2002, the administrative court in Minden, in the German state of North Rhine-Westphalia, decided to refer the issue of the EU ban on snuff to the Court of Justice of the European Communities in Luxembourg. The German court is seeking an answer as to whether the ban on sales of snuff within the EU is legal according to European Community Law. Swedish Match believes that this represents a major step toward lifting the ban.

In 1989, what was then known as the European Community (EC) adopted a directive concerning the regulations for the labeling of tobacco products. When the directive was revised in 1992, the new version banned the sale of tobacco products "for oral use" in the EU market, based, among other factors, on an assumption that such products are particularly carcinogenic. The manner in which the ban is formulated means that it applies to Swedish snuff (snus).

As far as Sweden was concerned, the snuff ban understandably became a contentious issue during membership negotiations with the EU. Through an exemption in the treaty of accession, Sweden is permitted – as the only EU country to be given this concession – to allow the sale of snuff.

"A NUMBER OF MAJOR epidemiological studies conducted during the 1990s show that Swedish snus does not increase the risk of being affected either by cancer or by cardiovascular diseases", says Bo Aulin, Senior Vice President, Secretary and General Counsel. "In June 2001, the 1989 directive, in its revised form from 1992, was rescinded and replaced by a new directive. As a result of the Swedish studies, the cancer warning was removed from snus cans in Sweden, but the snuff ban in the remainder of the EU was retained in the directive of 2001 despite the scientific reports."

On the other hand, the directive stipulates that the European Commission is to submit a report to the European Parliament, not later than December 31, 2004, on how the directive has been

applied. In this report, the Commission is also required to examine any new scientific or technical findings, paying special attention to "evaluating tobacco products that could possibly reduce harm."

"However, it could still be years before such an evaluation could have an effect in the form of amended legislation, given the EU's complex decision-making procedures. A trial in the Court of Justice, even though it is expected to take two years, is therefore the fastest way to get the snuff ban lifted", says Bo Aulin.

SWEDISH MATCH HAS IN FACT always maintained that the ban violates fundamental principles of European Community Law, including the requirements of non-discrimination and proportionality.

When a directive has been adopted,



Next generation of snus comes in can of the future

A novel type of product is awaiting launch in April under the General and Grovsnus brand names. The two new products feature white portion pouches sold in cans with an extra space in the lid, in which used portion pouches can be stored.

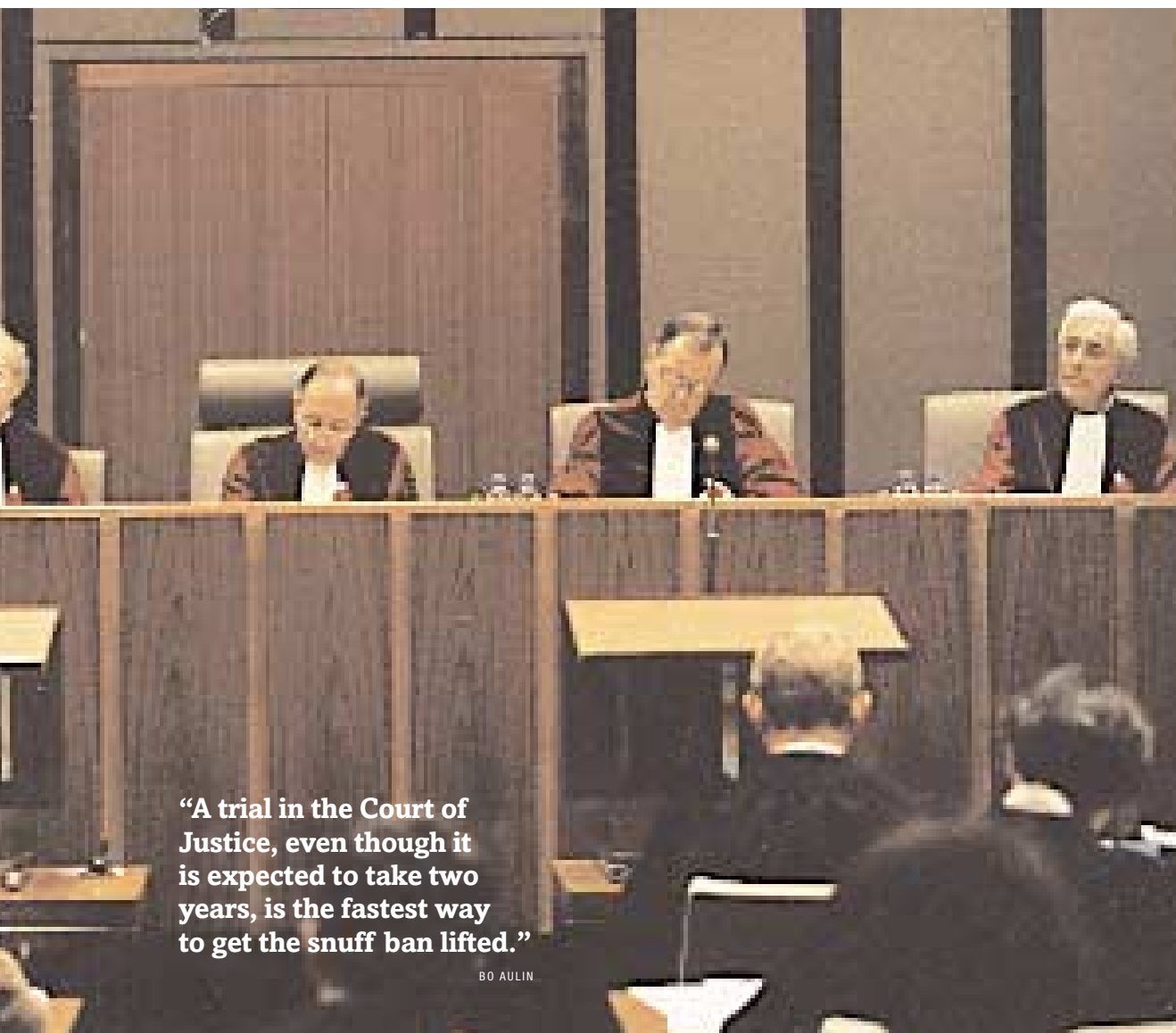
The new products are named General White Portion and Grovsnus White Portion in reference to the white portion pouches. But it is not only the appearance that distinguishes the new portion pouches from those already used in the General and Grovsnus brand families.

"The flavor lasts longer and they run less than the normal portion pouches. They are also more practical to handle, since the surface is less moist,"

notes Anna-Karin Karlsson, brand manager in the marketing department. "The surveys we have done concerning the new products show that consumers think that they have a fresh appearance and are practical."

Sales of portion-packaged snus have risen dramatically by 50 percent in five years. It is thought that the new white portion pouches will prove most popular with consumers who already use General and Grovsnus portion-packaged snus.





“A trial in the Court of Justice, even though it is expected to take two years, is the fastest way to get the snuff ban lifted.”

BO AULIN

the member states are required to implement it in their own legislation. The idea is that the resulting legislation should in principle be equivalent in all the EU member states, with only formal differences, but despite this aim there are many discrepancies between the national regulations. In Germany, Swedish Match has sold snuff since 1985 under the designation “chewing tobacco.” Since chewing tobacco is not covered by the directive, the company wrote to the German government on two occasions during the 1990s to seek a ruling as to whether Swedish snus could continue to be sold in Germany. Pending a response to these letters, the company has continued to sell snus in Germany. However, no answer has ever been received.

Instead, a local health authority

banned further sales in Germany last year. This decision was appealed to the administrative court in Minden, which subsequently, with the support of both the parties involved, decided to refer the issue of the ban’s compatibility with European Community law to the Court of Justice in Luxembourg.

IN PARALLEL WITH THE LEGAL examination of the issue, increasing attention is being paid to what is commonly referred to as “the Swedish Experience” in public health circles throughout the world. The Swedish Experience can be summarized as high snus consumption, low cigarette consumption and low incidence of tobacco-related illnesses. “Sweden is the first country in the world to have achieved the World Health Organization’s target of reducing the

proportion of smokers in the adult population to under 20 percent, and it is precisely the widespread consumption of snus in Sweden that has helped to bring this about. More than half of all Swedish snus users are former smokers. As a consequence of the switch to snus, smoking-related diseases are considerably less common in Sweden than in other comparable countries. And the frequency of oral cancer is lower in Sweden than in any other country”, says Bo Aulin.

“Swedish Match takes the view that snus does more good than harm and should be regarded as part of the solution to the tobacco problem rather than part of the problem. Nor does the company consider that there is any cogent public-health-related reason to maintain the ban”, concludes Bo Aulin. □



However, another key target group in the longer term is people who quit smoking and begin using snus.

“This is the next generation of portion-packaged snus that we are launching in the can of the future,” says Anna-Karin Karlsson.

The term “can of the future” refers to the fact that the cans have an extra lid over a hollow where used portion pouches can be stored.

“In this way, we are helping consu-



Anna-Karin Karlsson, brand manager in the marketing department.

mers to tidy up the entire process of using snus and cutting down on litter,” says Anna-Karin Karlsson.



How the European Court of Justice works

THE COURT OF JUSTICE of the European Communities consists of 15 judges and eight advocates general. The judges and advocates general are appointed by the governments of the EU member states.

The Court’s function is to ensure that all treaties, laws and ordinances promulgated by the institutions of the EU are correctly applied.

THE COURT CAN TAKE up the following types of cases, among others:

- Actions relating to treaty breaches. The European Commission versus a member state, or one member state versus another.
- Actions relating to challenges against validity. May be brought by a member state, the Council of Ministers, the European Commission and in certain cases also the European Parliament, or by a private individual. Relates to whether a Community act is lawful.
- Passivity actions can be brought against the Commission, the Council of Ministers or the Parliament if they have neglected to make a decision.
- Preliminary rulings. At the request of a court in a member state, the Court of Justice can deliver an opinion concerning the validity and interpretation of a Community act. This is the procedure that applies in the case of the snuff ban.

IN PRACTICE, MANY OF THE EU’s most important legal principles have been established on the basis of preliminary rulings whereby the Court of Justice delivers a legal opinion to a national court. The latter is subsequently obliged to apply the interpretation given by the Court of Justice. Preliminary rulings are also intended to serve as a guide for courts in other member states.

THE PROCEDURE FOR A preliminary ruling is as follows:

- The Court of Justice receives an inquiry from a national court.
- This request is translated into all the EU official languages and sent to the member states, the Commission and sometimes to the Council of Ministers. A notice is also published in the EU’s Official Journal.
- The parties in the case, the member states and the Commission subsequently have two months within which to submit written answers.
- When the written proceeding has been completed, the Court decides whether evidence is to be heard and whether the case is to be decided in plenary session or in chambers, and sets a date for the hearing.
- Cases are argued in open court, in the presence of the parties involved, judges and an advocate general.
- A few weeks later, the advocate general presents his or her opinion in another open court session.
- The judgment is delivered in a further open court session.
- The judgment is sent to the national court that requested the opinion.

New company formed to boost sales in Norway

There is still something of a pioneering spirit in the office at Brynsallén 4 on the outskirts of Oslo. Not all the desks have been occupied and only nine of the projected 14 employees are on the scene at the brand-new sales company, Swedish Match Norway Sales. Operations were formally launched on January 1, 2003.

This feels like a real entrepreneurial venture," says company president Sven-Erik Steffenrud. Although he has many years of experience of marketing and sales from the building supplies and convenience goods industries, this experience was gained in positions as president of established operations, whereas in this case the task is to build something new from scratch – from securing office space to recruiting qualified personnel, formulating a strategic plan and "buying paper clips," as he jokingly remarks.

Norway is of course not a new market for Swedish Match products. The company has been a leading player in the Norwegian snus market for some time. To date, however, distribution and sales have taken place via other channels. The new aspect is that Swedish Match is now handling its own affairs in the Norwegian market. The purpose, naturally, is to boost sales, particularly of snus.

"The Norwegian snus market is highly dynamic and it is primarily in this light that we need to approach this project," says Sven-Erik Steffenrud.

NORWEGIANS HAVE, OF COURSE, used snus for many years. Their consumption has steadily

increased, amounting last year to around nine million cans sold in the Norwegian market. In addition, roughly the same number of cans of snus reached Norwegian consumers through tax-free sales and cross-border purchases in Sweden. The largest brand name is General. Other Swedish Match brand names in the Norwegian market are Ettan, Catch and Grovsnus.

Until fairly recently, the general picture has been that snus appeals mostly to men with jobs and interests related to the outdoors. But an attitude shift is now taking place. Just as in Sweden, new groups – the well-educated, high income earners and women – are starting to switch from cigarette smoking to snus.

Portion-packaged snus has played a key role in this trend, as has increased health awareness. As in the rest of the industrialized world, smoking restrictions are becoming increasingly widespread. In Norway, for example, a total ban on smoking in restaurants is to be introduced as of January 1, 2004.

THE FACT THAT NORWAY has a relatively large proportion of smokers, at least compared with Sweden, also points to a growth potential for snus as an alternative to smoking.

The number of daily cigarette smokers comprises about 30 percent of the population, while the corresponding proportion in Sweden is 19 percent. Moreover, 47 percent of Swedish users of snus are former smokers. Cigarette smokers are also the primary target group for the snus campaign in Norway.

The opportunities for marketing and brand exposure are, if anything, even more limited in Norway than in Sweden. Not even shop signs are allowed to carry brand names. However, Swedish Match's focus on snus has attracted considerable attention in the Norwegian media.

"Our main strategic goals are to market fresh snus and achieve increased sales of portion-packed snus. To guarantee a high level of freshness, we are currently working on distributing coolers and optimizing distribution," Sven-Erik Steffenrud explains.

"We already have a high level of distribution and good market coverage. The disadvantage in this regard is that it means many sales points with low sales at each of them. However, we have decided to take a broad-based approach, combined with

selective major campaigns focused on as complete a range as possible in areas where we see the greatest sales potential."

To steer consumption toward portion-packaged snus, it was decided to introduce price differentials favoring this product.

During the year, the company plans to install 500 of its own coolers at Norwegian sales points.

HOWEVER, THERE IS MORE to Swedish Match Norway than just snus, although snus has to date accounted for 75 percent of sales and is the product category that has grown by far the most.

The range on offer also includes lighters, matches, cigars and pipe tobacco, and the trend for these products has been similar to the trend in many of Swedish Match's other markets – that is, a slight decline in sales volumes in 2002. Swedish Match is still the market leader in match sales in Norway, however, with 95 percent of the market.

"Our long-term goal is to also become the market leader in sales of cigars and lighters," says Sven-Erik Steffenrud. □



The opening of Swedish Match's office in Oslo signaled the start of a new focus on the Norwegian market. From left: Sven-Erik Steffenrud, Stefan Gellner, Claes Modess, Bengt Jönsson, Sven Hindrikes och Lennart Sundén.

One in five snus consumers is a woman

The number of Swedish women who use snus is increasing, having doubled over the past five years. More than 60 percent are former smokers.

There is nothing new about the combination of women and snus. On the contrary; in the 18th century the use of snuff was a widespread practice among both women and men, particularly in the finer salons. Ladies-in-waiting at the court of King Gustav III may well have indulged.

Today, of the nearly one million Swedes who use snus, one in five is a woman. Moreover, the ranks of female snus consumers are swelling rapidly. In 1996 there

were 80,000 women snus users, and by 2001 the number had grown to 150,000 – nearly doubling over a five-year period.

THE AVERAGE SNUS-USING woman is 36 years old, well-educated (82 percent have completed an upper secondary school or university-level program, compared with the Swedish national average of 70 percent), and is relatively well-paid (SEK 194,000 per year, compared with the average figure of SEK 163,000 for women in Sweden).

There are several reasons why women choose snus. One reason, of course, is that it is becoming increasingly difficult to be a smoker, now that virtually all public areas are no-smoking zones. In the workplace, many smokers are forced to use spartan smoking rooms, while some employers even rationalize smoking rooms out of existence. But this naturally applies to both sexes.

The fact that an increasing number of women are choosing snus may be due to the availability of portion-packaged snus and semi-dry mini-pouches for those who prefer not to have a large wad in their mouth. The main factor, however, is the awareness that any health effects attributable to snus are only a fraction of those caused by cigarettes. Sixty-one percent of women snus consumers are former smokers, and snus is an effective means of giving up smoking. During 2001, the Swedish Cancer Society and the pharmaceuticals company Pharmacia conducted a survey among people who had given up smoking. It revealed that 33 percent had succeeded in quitting smoking with the aid of snus and 17 percent by using nicotine-containing preparations. □



"I regard snus as a good alternative to cigarettes. It is less expensive and doesn't harm the lungs. It is also convenient in situations where it is not appropriate to smoke. My favorite is CatchDry Licorice."
Eva Pelve



"It was my husband who persuaded me to switch from cigarettes to snus. I am partial to Tre Ankare mini. I don't like the flavor to be too strong, so I squeeze out each dose in a paper towel before putting it in my mouth."
Kicki Johansson



"I only use snus when I'm dancing, because it doesn't smell bad and I can avoid going outside for a smoke. I alternate between Catch and Tre Ankare mini."
Marie Lindström



"I use snus because I like it. My favorite is CatchDry Eucalyptus because it comes in small pouches that are not conspicuous under your lip."
Sandra Forsmark

Note: Unless stated otherwise, the sources used were the results from various surveys carried out by the opinion-survey company Temo.

Share price climbs for third consecutive year

The Swedish Match share was one of last year's winners on the stock exchange. The share price rose 23 percent during 2002 – from SEK 55 to SEK 68. This performance ranks Swedish Match as the listed company that showed the strongest share price increase among the most actively traded companies on Stockholmsbörsen (the Stockholm exchange).

Most listed companies recorded falling share prices during 2002, with the decline averaging 36 percent on Stockholms-

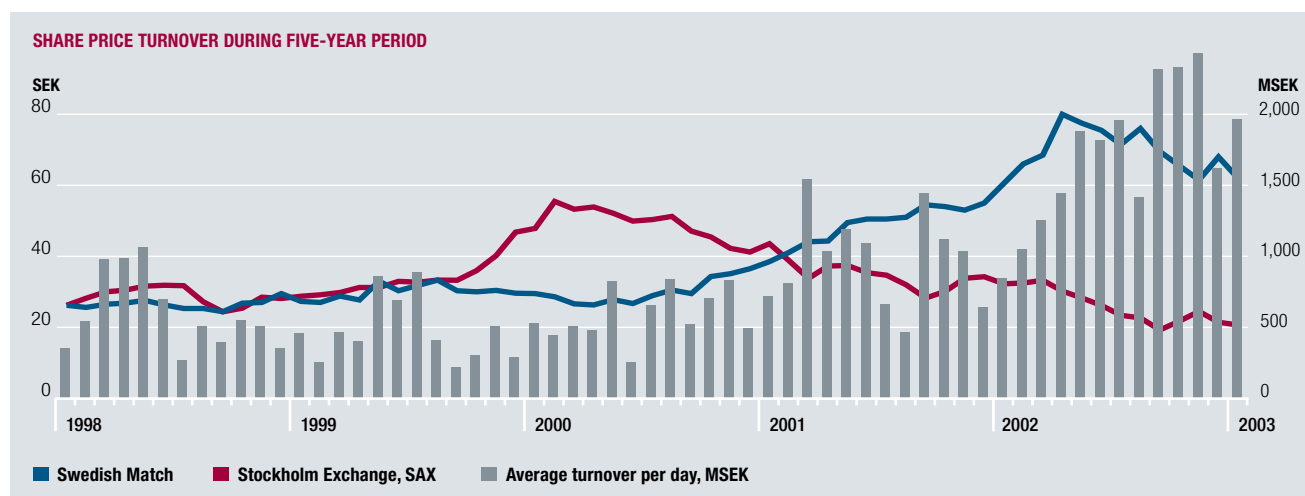
börsen. The Nasdaq exchange in the US, where Swedish Match's American Depository Receipt is listed, also showed a corresponding negative price trend.

It was the third consecutive year of decline for Stockholmsbörsen, in line with the trend for the world's major stock exchanges.

THE TREND FOR SWEDISH MATCH has gone in the opposite direction; its share price has increased in each of the past three years.

The gains were 28 percent in 2000, 51 percent in 2001 and 23 percent in 2002. Since the beginning of 2000, the share price has more than doubled, while the value of shares on Stockholmsbörsen has declined by more than half.

The Swedish Match share had a brisk turnover during 2002, with an average of more than 1 million shares traded per day. No major permanent changes in ownership occurred, however, as the accompanying article reports. □



TOTAL RETURN

Total return, %	
Jan 1–Feb 6, 2003	-11
2002	25
2001	56
2000	32
1999	4
1998	19

KEY FIGURES

Earnings per share, SEK	
2002	4.10
2001	3.40
Shareholders' equity per share, SEK	
Dec 31, 2002	11.72
Dec 31, 2001	11.73

SHARE PERFORMANCE

Jan 1–Feb 6, 2003, %	
Swedish Match	-11
SAX	-8

Large foreign ownership continues

Few companies listed on Stockholmsbörsen have such a large foreign ownership as Swedish Match. Pension funds and mutual funds are the dominant investors.

Swedish Match is one of the Swedish listed companies that have a majority of foreign shareholders. At year-end 2002, the foreign-owned portion of shares outstanding amounted to 67 percent, which was a slight decrease compared with the preceding year. Among the most actively traded companies, only a small number have such a high proportion of foreign shareholders as Swedish Match.

On average, Swedish listed companies are 34-percent foreign-owned (2001), and the trend has been for the proportion to diminish in parallel with the market declines of the past few years.

Thirty-five percent of Swedish Match shares are owned by American shareholders, which means that the US is slightly ahead of Sweden (33 percent) in ownership statistics calculated by country. In third place is the UK (14 percent).

Logically enough, Swedish Match's largest shareholder is an American institution, the mutual fund company Fidelity, which ranks as the world's largest company of this type.

During 2002, Fidelity slightly increased its holding and now owns 15.4 percent of the share capital (13.7 percent at year-end 2001). Next on the list are Alecra (formerly SPP) and Robur Funds, which manage hold-

ings corresponding to approximately 9 percent of the share capital and voting rights.

The ten largest Swedish owners also include three of the AP Funds and one of Sweden's largest banks, SEB. Major foreign owners among the ten largest shareholders include Harbor Funds (US) and Singapore's state investment company.

No major changes in ownership occurred during 2002; the list of the ten largest owners is still essentially dominated by the same shareholders, although the ranking has changed slightly. The largest newcomer on the ownership scene is the investment company from Singapore.

Swedish Match has more than 100,000 shareholders, the majority of whom are a legacy from the introduction of Swedish Match on the stock exchange in 1996, when the company was spun off from the Swedish "folk share" Volvo. However, in common with most listed companies, ownership is relatively concentrated, with the 25 largest shareholders owning more than 80 percent of the share capital. Private investors only account for a modest portion of the share capital, and the trend is toward increased concentration of ownership and a decrease in ownership by private individuals.

Swedish Match lacks a clear principal shareholder. The company is a prime representative of the new trend toward institutional ownership on the stock exchange. The ownership spectrum is dominated by Swedish and foreign pension and savings funds. Judging from the modest changes among the major owners, however, it seems as if the majority of them have a long-term horizon. Nevertheless, major owners do sell shares from time to time. During 2002, mutual fund companies Franklin Templeton and Putnam, which were among the ten largest shareholders in 2001, significantly reduced their holdings. □

TEN LARGEST SHAREHOLDERS*

Share of capital, % (Dec, 2002)	
Fidelity Funds, US	15.3
Alecra, Sweden	4.7
Robur Funds, Sweden	4.3
Harbor Funds, US	3.6
Singapore Investment	2.8
Fourth AP Fund, Sweden	2.7
Capital Group Funds, US	2.7
SEB, Sweden	1.8
First AP Fund, Sweden	1.5
Third AP Fund, Sweden	1.4

*Excludes Swedish Match's own shares
(Source: Swedish Securities Register Center (VPC), Swedish Standards Institution (SIS) shareholder service)

TEN LARGEST SHAREHOLDER COUNTRIES

Share of capital, % (Dec, 2002)	
US	35.4
Sweden	33.3
UK	14.2
Singapore	2.5
Luxembourg	2.5
France	1.5
Belgium	1.3
Japan	1.1
Switzerland	1.0
Australia	1.0

(Source: Swedish Securities Register Center (VPC), Swedish Standards Institution (SIS) shareholder service)

You can now subscribe to and order electronic services via Swedish Match's website:
www.swedishmatch.com.

CALENDAR REMINDER

This service provides reminders about activities on the Swedish Match calendar via SMS and/or e-mail. You can choose to be reminded about financial or other activities one or several days before the event.

SHARE PRICE SERVICE

This service provides real-time information about Swedish Match's share price via SMS and/or e-mail.

PRESS RELEASE SERVICE

This service provides real-time information about Swedish Match press releases via SMS and/or e-mail.

CALENDAR

Financial reports schedule 2003

Annual General Meeting	April 25
Interim report for Jan 1–Mar 31	April 25
Interim report for Jan 1–Jun 30	July 23
Interim report for Jan 1–Sep 30	October 23
Year-end report on operations in 2002	February (2004)



Professor Håkan Eriksson, department head at Karolinska Institute in Stockholm, is chairman of the Swedish Medical Advisory Council.

TOBACCO RESEARCH

5 MSEK per year to Swedish researchers

Since the end of the 1950s, Swedish Match has been contributing financially to research on the effects of tobacco use. The money, which is distributed by the Swedish Medical Advisory Council, has supported a number of high-quality projects. An example is research into the link between smoking during pregnancy and sudden infant death syndrome – an area in which Swedish research is world-leading.

Although the number of smokers has declined in Sweden, approximately 20 percent of women and 17 percent of men continue to smoke. “We know that they risk being affected by a number of well-known and well documented harmful effects, while other harmful effects and links are still not fully documented. More research therefore needs to be conducted in this area to extend our knowledge and do more to prevent people from becoming dependent on smoking.”

These are the words of Professor Håkan Eriksson, department head at Karolinska Institute in Stockholm. He is a specialist in female sexual hormones and chairman of the Medical Advisory Council, of which he has been a member since 1990. Since the 1970s, Håkan Eriksson has been involved in the work of ten or more foundations that are engaged in the funding of research, so he has many years of experience of assessing projects from a scientific viewpoint.

The grant awarded by the Council is announced each year. Last year some SEK 4.8 M was divided among about 30 research projects.

“In view of the relatively small number of projects that receive funding, the grant received by each individual researcher can mean a lot. SEK 300,000 is enough to pay

a laboratory assistant, for example,” notes Håkan Eriksson.

FINAL REPORTS ON THE PROJECTS are published annually, and reports also appear in various scientific journals. The research areas that receive funding include general research, such as research into various forms of cancer, cardiovascular diseases and diseases of the respiratory tract, as well as projects in areas that the Council wishes to prioritize.

“Every application is always discussed impartially, but what we particularly wish to encourage now is behavioral research, since it is important to find methods of counteracting nicotine dependence,” explains Håkan Eriksson. “Other areas of special interest at present are the link between smoking and hardening of the arteries, and genetic research in areas such as cancer caused by tobacco use.”

In February 2002, the Board of Directors of Karolinska Institute decided to stop accepting research grants from the tobacco industry. Grants from the Medical Advisory Council are also covered by this decision.

“It’s my impression that the decision was influenced by a number of factors relating to particular tobacco companies,” he says. “But in any case there is no ques-

First contribution made in 1958

DURING THE EARLY 1950S, the realization that tobacco smoking could cause serious health problems gained credence. At that time, the production and sale of tobacco products in Sweden was handled by the state-run Tobacco Monopoly. Prompted by a number of disturbing research findings, the Tobacco Monopoly decided to continue funding independent research aimed at increasing knowledge about the effects of tobacco use.

After discussions with the then Medical Board, the Medical Expert Council – now the Medical Advisory Council – was created in autumn 1957. The Council’s main task since that time has been to support and stimulate Swedish research into the medical, biological and psychosocial effects of tobacco.

At the beginning of the 1990s, Swedish Match, as the company is now called, left the state sphere and eventually became a listed company on Stockholmsbörsen (the Stockholm Exchange) in 1996. During this period, several steps were taken to emphasize the Research Council’s independence from the company, and the Council now consists exclusively of independent, active researchers who themselves elect the Council’s chairman and scientific secretary. A total of more than 800 project grants have been distributed since the creation of the Council.

More information is available at www.medicaltobaccoresearch.com

tion of this being contract research. We reviewed the 785 project grants registered by the Council, from 1958 to 2000, and there is not a single instance where it could be claimed that a project served the interests of the tobacco industry.

“**SWEDISH MATCH HAS NEVER** engaged in any attempt to exert an influence; on the con-

trary, the company has always given us a free hand. This being so, the Karolinska Institute’s decision is regrettable, since good use has been made of the money distributed to date. Now we are hoping that other faculties will adopt a more realistic view. There are other, better ways of handling the ethical issues relating to external financing than to forgo it altogether.” □

SWEDISH MATCH IN BRIEF

Swedish Match is a unique company with a complete range of market leading snuff and chewing tobacco, cigars and pipe tobacco – tobacco’s niche products – as well as matches and lighters. The Group’s global operations generated sales of 13,635 MSEK in 140 countries in 2001. The Group has 14,795 employees. Swedish Match’s shares are listed on the Stockholm Exchange (SWMA) and NASDAQ (SWMAY).

Smokeless Tobacco



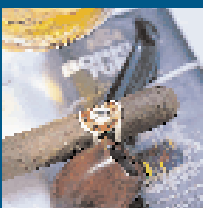
Swedish Match has a broad presence in the global market for smokeless tobacco (snuff and chewing tobacco), with prominent market positions in the Nordic countries, North America and South Africa.

MARKET POSITION

Snuff: Market leader in the Nordic countries and South Africa and the third largest player in North America.

Chewing Tobacco: Market leader in North America

Cigars and Pipe Tobacco



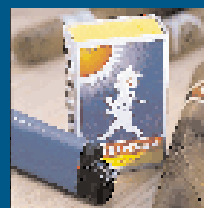
Along with smokeless tobacco, cigars and pipe tobacco have been identified as a growth sector for Swedish Match. The products are sold in large parts of the world, with particular emphasis on North America, Europe and South Africa.

MARKET POSITION

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

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

Matches and Lighters



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

MARKET POSITION

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

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

KEY FIGURES

MSEK	2002	2001
Net sales	13,643	13,635
Operating income ¹⁾	2,439	2,193
Operating income before depreciation	3,090	2,863
Net income ²⁾	1,429	1,228
Income per share after tax, SEK	4:10	3:40
Dividend per share, SEK	1:60 ³⁾	1:45
Return on shareholder’s equity, %	35.2	28.3

¹⁾ Excluding items affecting comparability
²⁾ Excluding financial items
³⁾ Proposed dividend