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SWEDISH MATCH

SWEDISH MATCH
Annual Report 2000

CASE
LICENSING

TABLE OF CONTENTS

SWEDISH MATCH – a unique company	2	PARENT COMPANY FINANCIAL STATEMENTS	44
PRESIDENT'S STATEMENT	4	Income Statement	44
SWEDISH MATCH – a strong niche player with leading market positions.	7	Cash Flow Analysis	44
GROUP REVIEW	10	Balance Sheet	45
Corporate Governance	15	Notes	46
Smokeless Tobacco	16	PROPOSED DISTRIBUTION OF EARNINGS	48
Cigars and Pipe Tobacco	20	AUDITORS' REPORT	49
Matches and Lighters	24	FIVE-YEAR SUMMARY	50
Swedish Match and the Environment	27	QUARTERLY DATA	52
Competence Development	28	BOARD OF DIRECTORS	54
CONSOLIDATED FINANCIAL STATEMENTS	30	GROUP MANAGEMENT	56
Income Statement	30	SWEDISH MATCH SHARE	58
Balance Sheet	31	INFORMATION TO SHAREHOLDERS ..	60
Cash Flow Analysis	32	DEFINITIONS AND ADDRESSES	
Notes	33		

FINANCIAL REPORTS SCHEDULE

Interim report for Jan 1-Mar 31, 2001	April 24, 2001
Interim report for Jan 1-Jun 30, 2001	July 24, 2001
Interim report for Jan 1-Sep 30, 2001	October 23, 2001
Year-end report on operations in 2001	February 2002
Annual Report 2001	March 2002
Form 20-F 2000	June 2001
Form 20-F 2001	June 2002

The financial reports may be ordered from:

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The financial information is also accessible at

www.swedishmatch.com

SWEDISH MATCH 2000

SALES rose 22 percent to 11,533 MSEK (9,420)

OPERATING INCOME before items affecting comparability increased 32 percent to 1,886 MSEK (1,434)

INCOME before taxes and items affecting comparability amounted to 1,710 MSEK (1,318)

EARNINGS per share before items affecting comparability rose to 2.78 SEK (2.26 adjusted), an increase of 23 percent

THE NUMBER of shares outstanding at year-end was 375.1 million (431.3)

THE BOARD OF DIRECTORS proposes an increased dividend to 1.35 SEK (1.22)²⁾

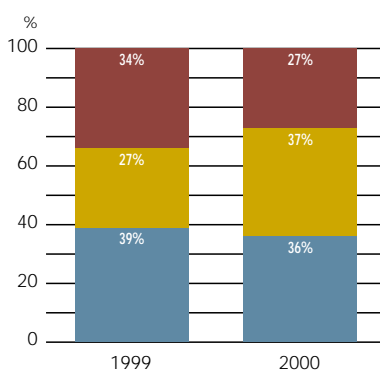
Key ratios

MSEK	2000	1999
Net sales	11,533	9,420
Operating income	1,886	5,396
Operating income before depreciation	2,429	5,777
Net income	1,153	4,656
Earnings per share after tax, SEK	2.78	10.56 ²⁾
Dividend per share, SEK	1.35 ¹⁾	1.22 ²⁾
Return on shareholders' equity, %	21.8	115.0

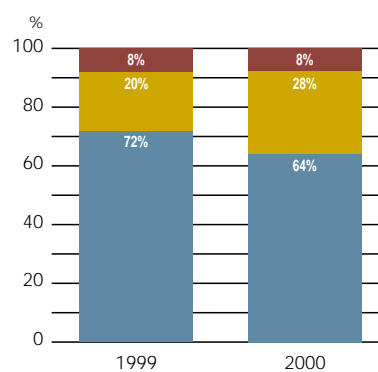
¹⁾ Board proposal

²⁾ Adjusted for bonus issue element in redemption

Sales per product area



Operating income per product area



Smokeless Tobacco Cigars and Pipe Tobacco Matches and Lighters

SWEDISH MATCH

– a unique company

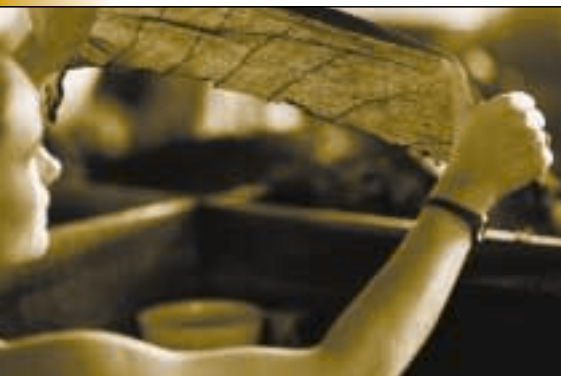
Swedish Match is a unique company with a complete range of market-leading snuff and chewing tobacco brands, cigars and pipe tobacco – tobacco's niche products – as well as matches and lighters. The Group's global operations generated sales of 11,533 MSEK in 140 countries in 2000.

SMOKELESS TOBACCO



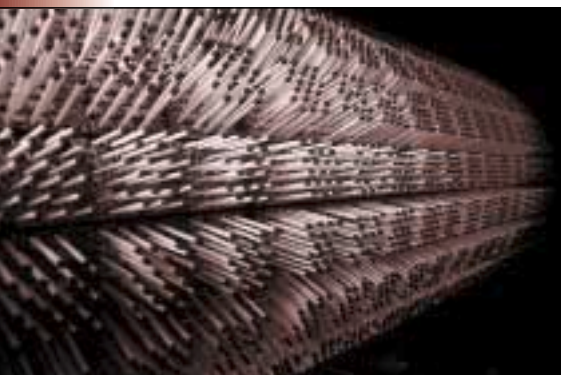
Swedish Match has a broad presence in the global market for smokeless tobacco (snuff and chewing tobacco), with prominent market positions in the Nordic countries, North America and South Africa.

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.

MATCHES AND LIGHTERS



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

Its products are manufactured in 15 countries. The Group has 13,672 employees. Swedish Match shares are listed on the OM Stockholm Exchange (SWMA) and NASDAQ (SWMAY).

SNUFF	CHEWING TOBACCO
<p><i>Market leader in the Nordic countries and South Africa and the third largest player in North America.</i></p> 	<p><i>Market leader in North America – the world's largest market for chewing tobacco.</i></p> 
CIGARS	PIPE TOBACCO
<p><i>World's second largest cigar company, with a product range that covers all price segments.</i></p> 	<p><i>One of the world's oldest and largest producers of pipe tobacco.</i></p> 
MATCHES	LIGHTERS
<p><i>World's leading manufacturer of matches and the only company with match production and sales operations in all parts of the world.</i></p> 	<p><i>One of the world's three largest manufacturers.</i></p> 

PRESIDENT'S STATEMENT



Dear shareholders!

We can now look back on two calendar years of intensive work in accordance with the strategies that were established in the beginning of 1999. Our financial results in year 2000 confirm the feasibility of the strategic program. A "new" Swedish Match is emerging, a unique tobacco company, with leading global brands and niche products in growing markets, that works *with* social and consumer trends, not *against* them.

The tobacco industry's market profile is multi-faceted, with some of the global consumer industry's largest, most widespread and most popular products. The smokeless tobacco sector, with snuff as the leading product, shows rapid growth and brown tobacco is characterized both by growth niche sectors and stagnating products, while demand for cigarettes is declining in most markets.

“...a unique tobacco company, with leading global brands and niche products in growing markets, that works *with* social and consumer trends, not *against* them.

These market conditions were central issues in our choice of a new business strategy two years ago. The main question was: what was the most prudent course for continued development of the Group's strong brands and century-long skills and expertise in the tobacco industry, in line with changing social attitudes, and more rapid growth for the invested capital of more than 100,000 shareholders?

The answer was embedded in several fundamental values in Swedish Match. The Group's consumer philosophy has been carried forward with continuous product development focused on quality, taste and enjoyment. In addition, we have always clearly defined our position regarding the use of tobacco – it is a product for adults, and should not be used by any persons under the age of 18.

Growth strategy

Based on these fundamental values and the Group's marketing resources, we formulated the growth strategy that has now been implemented for more than two years. The basic condition was to accept the challenge created by ongoing changes in consumer patterns and build a new platform for profitable growth. As a result, we sold our cigarette operations in the summer of 1999, and focused our attention on growth segments of the tobacco market. We have focused primarily on organic growth in the smokeless tobacco segment – snuff and chewing tobacco – and a number of acquisitions in brown tobacco products with distinctive enjoyment characteristics, such as cigars and pipe tobacco. The acquisitions have given the Group a leading market position in cigars.

This growth-oriented element of our strategy has been complemented by structural changes and cost rationalization measures to increase the profitability of our business areas. The effects of major reconstruction in the Group's lighter operations, which was started in 1999, were manifested in 2000 through a clear improvement in operating income. The Match Division is now implementing a similar rationalization program to increase its operating margin to 10 percent. Our rationalization programs have yielded lower selling and administration costs.

Accordingly, 2000 was a year in which we saw substantial results of the new strategy. Sales increased 22 percent to 11,533 MSEK, mainly as a result of our focus on organic growth within snuff operations, but also through acquisitions. Operating income before items affecting comparability rose 32 percent to 1,886 MSEK. With the exception of matches, all product areas contributed to the Group's improved earnings.

The leading OTP company

It is also important to note, however, that we are now achieving a greater impact with our efforts to project Swedish Match as a unique tobacco company. We are gaining recognition for our proactive stand to focus on smokeless tobacco such as snuff and pure enjoyment-products such as cigars. There are international references to "The Swedish Example," the first industrialized country to succeed in efforts to reach the World Health Organization's (WHO) goal of less than 20 percent cigarette smokers among its adult population. The importance of snuff cannot be overstated in this context. All statistics indicate that Swedish snuff, or "snus" as it is called in Swedish, serves as an alternative to cigarette smoking. Our position as the world's leading OTP company (Other Tobacco Products) justifies our claim as "The Unique Tobacco Company," which is attracting greater attention.

Swedish "snus" plays a central role in our current development. The product is steeped in tradition, based on a history dating back 200 years, but today's success was created by highly determined, long-term efforts by Swedish Match. Innovative product development focused on reducing and, to the greatest possible extent, eliminating harmful substances – from tobacco seeds through unique production processes to cold storage in shops and stores – has established "snus" from Swedish Match as a unique tobacco product. We are now protecting this total quality philosophy throughout the entire product chain under GothiaTek, a quality concept for our Swedish "snus" that was introduced last year. Swedish "snus" from Swedish Match, accordingly, is becoming a product category unto itself, a product category that benefits all "snus" users who want to know what they are putting in their mouths.

Sales of snuff products showed strong growth in 2000. Volumes increased sharply in our largest markets, rising eight percent in northern Europe and 19 percent in North America. Operating income from snuff operations rose 15 percent to 954 MSEK. Market shares in the US increased from six to eight percent.

Following our acquisitions of the machine-made cigar operations of General Cigar, an American cigar company, and also El Credito in the US, we are now the second largest cigar company in the world. Synergy gains during 2000 were substantial: we now sell our snuff, chewing tobacco and cigar products through a much larger and concentrated American distribution network, generating both volume and cost gains. In May, we acquired a majority ownership interest in the remaining operations of General Cigar, comprising the company's hand-made premium cigars, and Swedish Match now owns 64 percent of the American company.

South Africa is an interesting market. In 1999, we acquired Leonard Dingle, the country's leading producer of snuff and pipe tobacco, which was complemented by the acquisition of Brasant during the second quarter of 2000. Brasant is one of the largest tobacco distribution companies in South Africa. After year-end, we also acquired the pipe tobacco operations of BAT in South Africa. As a result, we have established a platform for expansion in this part of Africa, a region with snuff traditions that can be developed further.

Surplus funds to shareholders

Year 2000 was also characterized by substantial transfers of surplus funds to shareholders, in accordance with the policy established by our Board of Directors. The present strength of Swedish Match's earnings capacity is such that it provides significant surplus funds that are more than adequate for our business development and investment requirements. The Board's philosophy is simple: the Company shall work continuously to find an optimal capital structure. This means that, in the same way that companies ask shareholders for capital in the form of new share issues, surplus capital should also stream in the opposite direction when capital conditions permit.

A comprehensive program designed to transfer funds back to shareholders was implemented during the year. In July, 1,045 MSEK was paid to shareholders through the redemption program approved by the Annual General Meeting. The meeting also approved a mandate for a

“ ...GothiaTek, a quality designation for our Swedish snuff, was launched during year 2000.

“ ... the Company shall work continuously to find an optimal capital structure.

share buyback program comprising not more than five percent of all shares outstanding in the company.

An Extraordinary General Meeting of shareholders in October resolved to expand the Board's mandate to comprise the repurchase of not more than ten percent of the company's outstanding shares. The decisions were made to generate more opportunities to create value for shareholders.

Future outlook

Swedish Match's strategy is in line with social development and trends. Organic growth will continue with the Group's concentration on smokeless products. Special focus during the next few years will be placed on efforts to broaden the product range in new markets. We shall also continue to pursue our acquisition strategy, and we are prepared to make supplementary acquisitions of brands and distribution channels and play an active role in the ongoing process of structural change in our existing product categories. These measures, combined with additional coordination and integration synergies and continued consolidation, strengthen our hopes of continued potential for improved operating earnings.

“ **Our strategies have established Swedish Match as the world's leading niche company in the tobacco industry, a company with good potential for continued profitable growth.** ”

Key assets are the Group's strong portfolio of brands, distribution competence and international distribution network. Last year's success, as reflected in marketing and synergy gains, has laid the foundation for several future investments. We plan to introduce more American prestige cigar brands in the growing European market, for example. In the American market, we will intensify our efforts to market smokeless tobacco. These products offer

significant international potential that we intend to pursue more vigorously.

Product development is conducted as a high priority. We shall continue to develop our smokeless

products and seek new avenues. We shall also continue to restructure our match operations.

Our strategies have established Swedish Match as the world's leading niche company in the tobacco industry, a company with good potential for continued profitable growth. We will continue to develop the market positions, products, brands and skills that make Swedish Match a unique tobacco company.



Lennart Sundén
President and Chief Executive Officer

SWEDISH MATCH

– a strong niche player with leading market positions



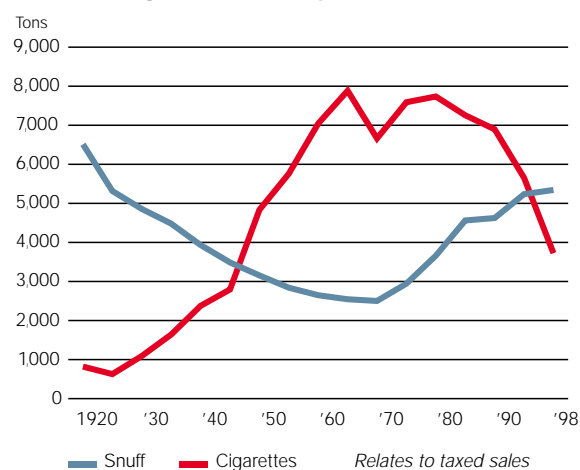
A unique company – in a global market

Swedish Match is a unique, global company. Swedish Match is the only international company in the tobacco industry to pursue a carefully formulated strategy for niche tobacco products. The products comprise smokeless tobacco products, cigars and pipe tobacco, also described as OTP (Other Tobacco Products). The operations of Swedish Match, accordingly, are conducted totally in line with consumer trends and concentrated on segments of the tobacco market that provide consumers with taste experiences and the pleasures of high quality in parallel with strong business growth and good potential for continued profitable growth.

The Group's strategic choices are based on trends in the global tobacco market over the past 10-20 years. Consumption of cigarettes, the overwhelmingly dominant tobacco product, is stagnating in the world's most economically advanced markets. Partly as a result of the general decline in cigarette consumption, snuff sales have risen in certain markets. At the same, cigar consumption is experiencing a renaissance, as an expression of a socially accepted and pleasurable form of tobacco consumption. The decline in cigarette consumption is due mainly to growing fears of health risks caused by cigarettes and political intervention that, in many cases, has resulted in bans on smoking in many public areas and increased taxation. Consumption trends for chewing tobacco and pipe tobacco are also negative. Volumes are declining in the US, the world's largest market for chewing tobacco, and in the global market for pipe tobacco. The main reasons are demographic, whereby consumers are getting older and are not being replaced by younger consumers.

These trends have created overcapacity in the tobacco industry, and the ongoing process of global consolidation, with acquisitions and mergers, is gradually reducing the number of players in what is still a highly fragmented industry.

Snuff and cigarette consumption in Sweden



Niche strategy for profitable growth

Swedish Match has traditionally had its greatest strengths in the Nordic region and the US, where the trend toward lower cigarette consumption has been most notable in the world. In Sweden, smoking has declined to less than 20 percent of the adult population and in the US to about 25 percent, with the decline continuing in both countries.

The US and Nordic countries have spearheaded global market trends, and the Group's strong presence in these regions has provided Swedish Match with an advantage in the process of strategic development.

In this complicated market profile, with generally stagnating markets, tougher attitudes toward smoking and far-reaching social invention, Swedish Match has developed a unique niche strategy for profitable growth.

Swedish Match divested its cigarette operations in 1999 as part of the Group's strategy to concentrate its resources on tobacco products that show growth, and thereby transformed a problem into a business opportunity.

Strategies and focus on quality products for pleasurable and taste experiences are being implemented in market segments where concerns over health effects are less supported, particularly in the smokeless segment of the market. The operations are based on products that offer opportunities for profitable growth. The potential is strong in markets characterized by strong purchasing power in the world's industrialized nations where demand for cigarettes is declining as well as emerging nations, where demand for niche products is growing in parallel with general improvements in social standards.

Strategic platform

Swedish Match has a number of competitive advantages that form the foundation for today's strategic platform.

The core of the Group's focus on tobacco is snuff, an old Swedish "culture product."

Swedish Match know-how in moist snuff is unparalleled and the Group's expertise is protected by GothiaTek, a concept that stands for a unique quality process throughout the entire product chain, from tobacco seeds to refrigerated counters in retail sales outlets. Swedish Match is the market leader in northern Europe. In the US, the world's largest snuff market and a market characterized by continued growth, the Group's market share is about eight percent. Snuff, the international tobacco market's primary growth product, has its strongest rate of increase in Sweden and the US. The product's growth is supported by the aforementioned downward trend for cigarettes – many people are considering snuff as a more socially acceptable alternative to smoking, and a habit with fewer health risks than cigarettes.

The obvious interaction between the decline in cigarette consumption and the increase in snuff sales in trend-setting American and Nordic markets also indicates significant marketing potential in other economically advanced markets. New markets are limited at the present time, however, due to the ban on sales of snuff in EU member nations, with Sweden as the only exception. Swedish Match is working actively with detailed information based on scientific research regarding health advantages of snuff, compared with, above all, cigarettes.

Significant potential is also offered in certain markets in Africa and Asia, regions with established consumer traditions in smokeless tobacco products.

The second traditional advantage lies in the Group's longstanding expertise in cigars, traditions rooted in many years as a leader in the European cigar market and some of Europe's leading brands. Its position of market leadership has been expanded strongly through acquisitions during recent years, and Swedish Match is now the second largest cigar company in the world.

The international cigar market is the only market, in addition to the snuff market, that reflects long-term growth. As a social manifestation of refined pleasure and smoking enjoyment, cigars have strong potential for growth in parallel with the decline in cigarette consumption and social advancements that provide more people with occasional opportunities to enjoy an exclusive product.

A third traditional position of Group strength is found in pipe tobacco, which includes Borkum Riff, one of the world's best-known brands. The market for pipe tobacco is characterized by decline in the western world, but is considered interesting for future expansion based on its strong profitability. Swedish Match is one of the leading producers of pipe tobacco in the US and commands very strong market positions in northern Europe and, as a result of recent acquisitions, in South Africa.

Chewing tobacco is the Group's fourth major OTP component. The market is largely confined to North America and, despite general decline, is characterized by good profitability. Swedish Match is the market leader with its Red Man family of brands.

In addition to broad and deep knowledge of tobacco products, brands and distribution are also key factors for a successful tobacco company.



Swedish Match has created a unique position as the complete OTP-distributor. Through its ability to offer a complete range of snuff, chewing tobacco, cigars and pipe tobacco in all price segments, the Group has established strong positions in the retail sales sectors of many markets. Our tobacco products are supplemented by the Group's matches and lighters, which further strengthen the critical mass for global marketing and distribution.

Matches have been one of the most common everyday commodities for households in all parts of the world for more than 100 years. Swedish Match is the world's only international player in the match sector, serving markets in virtually all countries worldwide. Demand for matches is declining in the world's industrialized nations, but the distribution network and know-how generates significant synergy benefits for the Group's overall marketing and distribution activities. In the lighter sector, the Group is number three in the world market.

Distribution – creating value

Swedish Match combines its concentration on the tobacco industry's growing and profitable niche products with a clearly defined acquisition strategy. Supported by its strong international positions of market leadership and critical global mass in marketing and distribution, the Group has distinct advantages over many competitors based on its ability to achieve synergies of scale in both production and distribution in conjunction with acquisitions in all targeted product segments.

A typical example is the US market, where the Group has strengthened its position considerably through acquisitions during recent years. When Swedish Match acquired the machine-made cigar operations of General Cigar in 1999, we also established substantially improved market coverage by merging the sales forces of both companies, which has benefited the operations of all product areas. The acquisitions have also enabled Swedish Match to become a service-focused partner for the retail sales sector and create stronger critical mass and increased synergies of scale.

Furthermore, we have enhanced our potential for business growth through product development and the launch of existing products in new markets through

present distribution channels. The distribution channels and structure of the Group's match companies established and developed over many years will also provide access to new markets, particularly in less economically advanced countries.

Brands – creating value

Brands are a very significant element in a tobacco company's value. They often represent substantial long-term investments in product development, quality improvements, packaging, distribution, marketing and sales. Brands also represent consumer loyalty and trust in a company's products. This trust is one of Swedish Match's greatest success factors.

Swedish Match has a very strong brand portfolio of smokeless products, cigars and pipe tobacco and a large number of strong match and lighter brands.

Brand loyalty for tobacco products is unique. From the initial choice of a particular brand, a consumer's brand loyalty endures for a long time. This factor offers an unusual strength that Swedish Match can utilize in terms of investment costs over long periods of time.

Strictly regulated marketing restrictions in many countries are another peculiarity of tobacco brands. It is difficult, accordingly, to introduce new brands today in most western countries. The limited supply of new tobacco brands, in turn, is increasing the value of established brands.

Despite the special conditions that govern the launch of new tobacco brands, Swedish Match has noted success in its efforts to launch new smokeless tobacco products. In 1994, the Group launched its Timber Wolf snuff brand in the US and, after six years, the product has captured a market share of eight percent. Southern Pride, a new brand of chewing tobacco, was also launched in the US in 1998 to supplement the Group's existing portfolio of chewing tobacco brands. And in Sweden, the Group has been highly successful in efforts to launch its Catch snuff brand.

Through acquisitions in the Cigars product area, Swedish Match has supplemented its brand portfolio and now covers all price segments of the North American and European markets.



GROUP REVIEW

Acquisitions

In February, Swedish Match acquired the outstanding 40 percent minority in the Turkish subsidiary Swedish Match KAV.

In May, Swedish Match and Gum Tech International Inc. signed a definitive agreement for a joint venture to develop, manufacture, market, and distribute non-tobacco nicotine products. Under terms of the agreement, Swedish Match owns 51 percent of the joint-venture company, with a successive capital investment of not more than 10 MUSD; Gum Tech owns 49 percent of the company and will contribute intangible rights.

In the second quarter, an agreement was signed concerning the acquisition of operations from Brasant Enterprises (Pty) Ltd in South Africa. Brasant has annual sales of about 60 MSEK and is a leading distributor of tobacco products to tobacconists, convenience stores and the hotel/restaurant industry in South Africa.

In May, Swedish Match acquired 64 percent of General Cigar, an American company. Members of the Cullman family own the remaining 36 percent of shares in the company. General Cigar produces Macanudo, the best-selling premium cigar brand in the US, and several other premium cigars, including Partagas, Punch, Hoyo de Monterrey and Cohiba. General Cigar, which was founded in 1906, has been managed by the Cullman family since 1961 and is one of the world's leading producers of cigars in the premium segment. The head office is located in New York, and the company's production plants are situated in Santiago, in the Dominican Republic, and San Pedro Sula and Danli, in Honduras. General Cigar is also one of the world's leading producers of high-quality shade wrappers for cigars (Connecticut shade wrappers).

In July, Swedish Match acquired the outstanding five percent minority in Swedish Match Cigars B.V. of the Netherlands. Also in July, the Group acquired an additional 22 percent of the shares outstanding in Wimco Ltd. of India, raising the Group's total ownership interest to 74 percent.

Net sales

Net sales increased 22 percent during the year to 11,533 MSEK (9,420), of which acquisitions accounted for 15 percentage points.

Sales of snuff increased in northern Europe and the US, the Group's two largest markets. Volumes in northern Europe rose eight percent, which exceeded average annual growth of five percent during recent years. The number of consumers who are switching from cigarettes to snuff continues to increase. In the US, Swedish Match volumes increased about 19 percent. The Group's market

share in the growing total market for snuff in the US rose to about eight percent, compared with six percent in the preceding year. Sales of chewing tobacco, which are almost exclusively in the US, increased in a declining market. During recent years, the market for chewing tobacco has declined by an average of four percent annually.

Acquisitions accounted for most of the increase in sales of Cigars and Pipe Tobacco. Lighter operations showed higher volumes during the year, particularly in Eastern Europe and Asia.

Operating income

Operating income for the year, before items affecting comparability and divested operations, amounted to 1,886 MSEK (1,434), an increase of 32 percent. Improved operating income was reported by all product areas except Matches, which is undergoing a program of structural change.

The improved operating income for snuff products was derived from continued higher volumes in the Nordic market and the US, while earnings growth for cigars and pipe tobacco was primarily attributable to acquisitions. The earnings of chewing tobacco operations were affected favorably by higher prices, currency effects and synergies from the expanded sales force created by the acquisition of General Cigar's operations for machine-made cigars. Lighter operations reported satisfactory earnings during the year. After production adjustments in 1999, which included the shutdown of one plant, capacity utilization at the remaining plants has increased and profitability has improved.

Other activities include the distribution of tobacco products in the Swedish market, corporate overhead costs and costs for business development. The net financial result in 2000 amounted to a deficit of 123 MSEK (deficit: 127).

Restructuring

Due to a decline in sales volumes for matches in certain markets, 395 MSEK was allocated in 1999 for a restructuring program. The provision was intended to cover costs for production capacity cutbacks and writedowns in the values of fixed assets in India. As part of the restructuring program, the number of employees in European match operations was reduced by 361 during 2000. The restructuring of match operations in Europe is continuing.

Net financial expense

Net interest expense for the year amounted to 175 MSEK (expense: 131). Other financial items, net, amounted to an expense of 1 MSEK (income: 15).

Sales and Operating Income per product area	2000	1999	2000	1999
MSEK	Net sales		Operating income	
Snuff	2,071	1,688	954	828
Chewing tobacco	1,227	1,068	331	297
Cigars	2,690	1,438	347	206
Pipe Tobacco and Accessories	762	420	213	109
Matches	1,712	1,673	90	107
Lighters	720	662	74	14
Other operations	2,351	1,742	- 123	- 127
Subtotal	11,533	8,691	1,886	1,434
Divested business	—	729	—	255
Items affecting comparability	—	—	—	3,707
Total	11,533	9,420	1,886	5,396

Condensed Income Statement	2000	1999
MSEK		
Net sales	11,533	9,420
Operating income	1,886	5,396
Net financial items	- 176	- 116
Taxes	- 547	- 638
Minority interest	- 10	14
Net income	1,153	4,656
Earnings per share, SEK	2.78	10.56

Taxes

Total tax costs for 2000 amounted to 547 MSEK (638), corresponding to 32 percent of income before taxes. The total tax cost in 2001 is expected to remain unchanged at 32 percent.

Earnings per share

Earnings per share before items affecting comparability rose to 2.78 SEK (2.26), an increase of 23 percent. Earnings per share before amortization of goodwill and brands, and before items affecting comparability, amounted to 3.35 SEK (2.57), an increase of 30 percent.

Dividend

The Board of Directors have agreed to propose to the Annual General Meeting to distribute a dividend to the shareholders of 1.35 SEK per share (1.22 adjusted for the bonus issue element in the redemption program), a total of 506 MSEK (539) based on the number of shares outstanding at year-end. The dividend corresponds to 49 percent of income per share in 2000.

Swedish Match has a long-term dividend policy focused on sustaining dividend payments corresponding to 40-50 percent of the Group's net income. The size and timing of dividend payments depend on Swedish Match's financial position, net income, anticipated future profitability, cash flow, investments, expansion plans and other factors that need to be considered.

Liquidity

Cash and bank balances and short-term securities amounted to 2,960 MSEK (7,296) at year-end 2000. Most of the Group's liquid funds are invested in short-term, interest-bearing marketable securities. Substantial payments were made during year 2000 for the acquisition of 64 percent of General Cigar, dividends and redemption payments and buyback of shares.

In addition to liquid funds, Swedish Match has unutilized lines of short-term credit totaling 1,000 MSEK and long-term credits amounting to 1,988 MSEK extending through year 2004.

Financing

Interest-bearing loans amounted to 5,699 MSEK at year-end. The Group's principle financing comprises an international commercial paper program (Global MTN Programme), of which 3,181 MSEK was utilized at year-end 2000, and a Swedish bond program of which 1,582 MSEK had been utilized at year-end.

At December 31, 2000, 82 percent of Group borrowing carried floating-rate interest and 18 percent carried fixed-rate interest.

Equity/assets and Net debt/equity ratio

The Group's equity/assets ratio at year-end 2000 was 32.2 percent, compared with 36.6 percent in the preceding year.

Interest-bearing liabilities at year-end 2000 exceeded liquid assets by 2,739 MSEK. At year-end 1999, the Group's liquid assets were 1,267 MSEK higher than interest-bearing liabilities. Accordingly, the net debt/equity ratio, or net debt as a percentage of equity, was 52.1 percent at December 31, 2000.

The long-term goal for the equity/assets ratio is 25-30 percent, and the long-term net debt/equity ratio should not exceed 100 percent.

Condensed Balance Sheet	2000	1999
MSEK		
Fixed assets	7,469	5,566
Inventories	3,270	1,732
Current assets	2,582	2,076
Liquid funds	2,960	7,296
Total assets	16,281	16,670
Shareholders' equity	4,635	5,940
Minority interests	620	162
Provisions	1,867	1,195
Long-term liabilities	4,845	5,303
Current liabilities	4,314	4,070
Total shareholders' equity and liabilities	16,281	16,670
Operating capital	9,821	6,352
Net debt	2,739	- 1,267

Investments

The Group's direct investments in tangible fixed assets amounted to 331 MSEK (452). In addition, 1,660 MSEK (51) was invested in acquisitions of subsidiaries and associated companies. Total depreciation and amortization amounted to 543 MSEK (381), comprising 262 MSEK (222) for depreciation of tangible assets and 281 MSEK (159) for amortization of intangible assets.

As a result of the continued increase in snuff sales, particularly sales of portion-packaged snuff in Sweden, a decision was made to build a new production plant outside Gothenburg, Sweden. The plant, which will provide employment for 120 persons, is expected to cost about 500 MSEK. Production is scheduled to begin in 2003.

Tobacco tax

During 2000, the Group paid tobacco taxes and value-added tax on tobacco taxes in Sweden amounting to 9,662 MSEK (9,016).

Redemption of shares and buy back program

During the second quarter of 2000, an offer was extended to all shareholders to redeem one of every 14 shares in the company for a cash settlement of SEK 35 per share. The redemption program was completed in July through a transfer to shareholders totaling 1,045 MSEK, corresponding to 29,869,472 redeemed shares. In conjunction with the redemption program, the Board of Directors of Swedish Match resolved on June 13 to approve a direct issue of 2,476,200 shares to five of the largest shareholders in the company. A decision was also made to increase the par value of all shares from 2.20 SEK to 2.40 SEK through a bonus issue. These measures were implemented to prevent a reduction in the company's share capital and, as a result, support more rapid implementation of the redemption procedure. After completion of these measures, the number of shares in the company amounts to 403,946,391.

In accordance with a mandate approved by the Annual General Meeting on April 27 to implement a share buy-back program comprising not more than five percent of the company's shares, which was increased to a maximum of 10 percent at a Special General Meeting on October 27, the company had repurchased 28,799,500 shares at December 31, 2000, corresponding to 7.13 percent of the company's total shares. The average price paid for the repurchased shares was SEK 31.39. Shareholders at the Special General Meeting also approved a proposal to reduce the share capital through cancellations of 17,350,210 shares, without refunds to shareholders, for provisions to a fund to be utilized in accordance with resolutions approved by the Annual General Meeting. An application has been filed to reduce the share capital.

The repurchased shares, in accordance with a decision by the Annual General Meeting, can be used to finance acquisitions and the company's options program.

Condensed Cash Flow Analysis	2000	1999
MSEK		
Cash flow from current operations	945	1,329
Cash flow from divested operations	—	4,798
Cash flow from other investment activities	- 1,967	- 2,793
Cash flow from financing activities	- 3,273	1,181
Cash flow for the year	- 4,295	4,515
Liquid funds at beginning of year	7,296	2,876
Translation differences in liquid funds	- 41	- 95
Liquid funds at year-end	2,960	7,296

The total number of shares outstanding at December 31, 2000, after the repurchase, was 375,146,891. If the mandate to repurchase shares as approved at the Special General Meeting in October 2000 is fully utilized, an additional 27 million shares could be repurchased, thereby reducing the total number of shares outstanding to 348 million.

Options program

The Board of Directors of Swedish Match decided in 1999 to introduce an options program to further increase the commitment of senior management personnel and their ownership interests in the company. The allotments are annual and depend on the relative return on Swedish Match shares, compared with a selection of international tobacco companies, and the improvement in income per share. In order for the maximum allotment to be made, relative return on Swedish Match shares must exceed average return of the selected tobacco companies by 20 percentage points and earnings per share must increase by 20 percent, compared with average income per share during the three preceding years. The options are issued at market value with no payment obligation.

The exercise price corresponds to 120 percent of the average share price during a period close to the allocation day.

As part of the options program, a total of 2,791,283 call options were issued to a number of senior executives during the first half year 2000. The call options may be exercised from March 13, 2003 until March 14, 2005. Each option entitles the holder to buy 1.02 shares at a price of 34.70 SEK per share. If they are exercised, the call options will be exchanged for shares acquired by the company through the buy back program. The issued call options did not create any dilution effect on income per share in year 2000.

Significant events after year-end

After the close of fiscal year 2000, an agreement was reached concerning the acquisition of the South African pipe tobacco operations of British American Tobacco. The acquisition includes a production plant, inventories and brands. Annual sales of the operations amount to about 200 MSEK. The acquired operations will be consolidated from February 1, 2001.

In January, a small advertising products company in Belgium was acquired.

Financial risk management

Activities

With a substantial percentage of sales outside Sweden, and in its capacity as a net lender, the Swedish Match Group is exposed to financial risks – currency risks, interest and financing risks and liquidity and credit risks.

The Board of Directors has established a financial policy to manage the Group's financial risks. Responsibility for the Group's financing, financial risk management and other finance-related issues is centralized in the Parent Company's finance department.

The centralized financial activities create economies of scale and synergies and provide good financial service to the Group's subsidiaries.

Foreign exchange risk

Transaction exposure

Transaction exposure arises from sales and purchases in currencies other than the relevant subsidiary's domestic currency. With the exception of Group operations in Sweden, Swedish Match has a substantial part of its production operations and sales in Euro countries and the US. As a result, a balance has been created between payments

received and disbursed in EUR and USD, which limits the Group's transaction exposure.

In accordance with Group policy, the purchasing company's currency is the preferred currency for internal invoicing, which concentrates foreign exchange exposure mainly in the Group's large production companies. The subsidiaries cover part of the risk exposure in future currency flows with assistance provided by the finance department. The finance department, accordingly, assumes the foreign exchange risk and covers subsequent external net exposure, mainly through hedging and loans raised in foreign currencies.

In accordance with the finance policy, the financing of subsidiaries must be managed in a manner that minimizes foreign exchange risks. This is achieved by borrowing in the local currency of the subsidiary concerned. Borrowing is only undertaken in another currency if it is not possible to finance the subsidiary in local currency due to foreign exchange regulations or other reasons.

Translation exposure

The Group's income and equity are affected when the income statements and balance sheets of foreign subsidiaries are translated into SEK, so-called translation exposure. As a rule, Swedish Match does not hedge the equity of its foreign subsidiaries. In exceptional cases, due consideration is taken for hedging costs and access to highly functional capital markets.

Interest and financing risks

Swedish Match strives to create financial stability in parallel with flexibility in borrowing and avoiding reliance on only a few financing sources. Interest risk is the risk of negative effects on Group income as a result of changes in market conditions. Financing risks comprise risks arising from large borrowing requirements under austere credit market conditions.

The Group's interest risks are managed centrally. Interest-bearing liabilities, not including pension liabilities, amounted to 5,699 MSEK at December 31, 2000. The average fixed-interest term for the Group's interest-bearing liabilities at December 31, 2000 was 516 days.

Liquidity and credit risks

To limit liquidity and credit risks, investments are made exclusively in instruments with high liquidity and credit worthiness. In addition to bank deposits, investments are concentrated in government treasury bills and bonds and certain approved securities.

At December 31, 2000, the Group's interest-bearing assets amounted to 2,960 MSEK, and the average fixed-interest term was 141 days.

Cash management

Cash pools have been established in several global banks in Sweden, the US and euro countries to increase the efficiency of payment flows and concentrate the Group's liquidity. The structures of the cash pools provide opportunities for cross-border concentration of payment flows and efficient management of the Group's total liquidity in SEK, USD and EUR.

Rating

At December 31, 2000, Swedish Match had the following credit ratings from Standard & Poor's and Moody's Investors Service:

	Standard & Poor's	Moody's
Long-term rating:	A-	Baa 1
Short-term rating:	K-1/A-2	—

CORPORATE GOVERNANCE

■ ANNUAL GENERAL MEETING

The Annual General Meeting of 2000 elected the Board of Directors proposed by the Nomination Committee. Anders Lannebo, President of Lannebo Fonder, was elected as a new member of the Board. Mats Jansson left the Board. All other members appointed by the Annual General Meeting were reelected.

The Annual General Meeting also elected members of the Nomination Committee. All members were reelected: Bernt Magnusson (Chairman of the Board), Bo Eklöf (then President of SPP) and Björn Franzon (Vice President of the National Pension Insurance Fund, Fourth Fund Board). The Nomination Committee prepares and submits proposals to the Annual General Meeting for the election of Board members and auditors and fees paid to Board members and auditors.

■ BOARD OF DIRECTORS

The Board of Directors of Swedish Match AB has established a working procedure with instructions for the allocation of duties between the Board and the President as well as instructions for financial reporting. The Board convenes annually for the statutory meeting and five ordinary meetings. Four of the ordinary meetings are scheduled to coincide with publication dates for the company's full-year and interim reports. The fifth ordinary meeting is held in December, and concentrates on a review of the budget. The company's auditors usually attend the meeting at which the year-end financial report is presented to inform the Board of their observations during the audit.

The Board of Directors monitors the President's performance of his/her obligations, is responsible for ensuring that the company's organization fulfills its purpose, and conducts continuous evaluations of the company's routines and guidelines for management and investment of the company's funds. In addition, the Board approves budget and strategic plans for the company and the Group, and monitors the development of operations in relation to budget and strategic plans.

The new Board of Directors held its statutory meeting on the same day as the Annual General Meeting. The statutory meeting passed its ordinary resolutions concerning election of the Chairman (Bernt Magnusson), secretary (Bo Aulin) and signatory rights. Two members of the Board may sign jointly on behalf of the company, as well as a limited number of senior company employees, two of whom may sign jointly. The President is always authorized to sign on behalf of the company in matters related to everyday management of the company's operations.

The number of Board meetings held during 2000 was 12, including five meetings held via remote connections (per capsulam). In addition to monitoring business operations in relation to budget and strategic plans, the Board also evaluated and reached decisions on several acquisitions. A significant

amount of time was also devoted to follow-up work focused on the restructuring of the Group's match operations in Europe. A decision was also made to build a new snuff production plant in the Gothenburg area. Work by the Board of Directors in 2000 also included planning and decisions to optimize the Group's capital structure, including utilization of opportunities to buy back the company's own shares in compliance with changes in Swedish law.

■ CHAIRMAN

The Chairman of the Board monitors the development of business operations and ensures that Board members receive all information required to maintain the quality of their work and exercise their duties as stipulated in the Swedish Companies Act. The Chairman represents the company in matters regarding ownership.

■ PRESIDENT

The President manages the company's operations under guidelines established by the Board of Directors. The President prepares required information and documentation prior to Board meetings and submits reasoned proposals for decisions by the Board. The President also provides Board members with information required on a monthly basis to monitor the company's and the Group's position, liquidity and development, while also providing the Chairman with continuous information regarding the company's ongoing operations.

■ GROUP MANAGEMENT

The President leads Group management and, after consultations with its members, makes decisions regarding business operations. Group management consists of all division managers and staff officers, a total of ten members. Meetings of the executive management take place during one or two days each month. Many of the meetings are scheduled to coincide with visits to various Group units. The President also conducts business review meetings with all divisions of Swedish Match, three times per year in accordance with a rolling scheme with each of the five divisions.

■ REMUNERATION COMMITTEE

The Remuneration Committee of the Board of Directors discusses and resolves questions concerning salaries and other terms of employment, pension benefits and bonus systems for the President and management personnel who report directly to the President. The Committee also discusses and resolves other remuneration issues that involve matters of principle or carry considerable importance in other respects, for example option programs and profit-sharing programs. Chairman of the Remuneration Committee is Chairman of the Board Bernt Magnusson. Other members are Jan Blomberg, Klaus Unger and Lennart Sundén.



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We have secured quality assurance throughout the entire product chain with GothiaTek, a quality concept introduced in 2000 for our Swedish snuff

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SNUFF

- Snuff volumes increased sharply in Northern Europe and North America, where the favorable trends of growing market shares also continued.
- A decision was made to build a new production plant for portion-packed snuff.
- The Group's research and product development has resulted in a proprietary product category with a unique quality standard. It is labeled with the "Svenskt Snus by GothiaTek" quality stamp, which was introduced on the Group's snuff cans in Sweden during year 2000.

The year

Sales in 2000 increased 23 percent to 2,071 MSEK (1,668). Higher sales were reported in the two largest markets. In Northern Europe, volume sales increased eight percent, exceeding the average annual growth rate of five percent during recent years. The strong increase in volume growth is attributable to the launch of new products and a continued increase in the number of consumers who are switching from cigarette smoking to snuff consumption. In the US, Swedish Match's volumes were up 19 percent. In a growing total market for snuff, the Group's market share increased to about eight percent in

2000, compared with six percent in the preceding year.

Operating income increased 15 percent to 954 MSEK (828).

As a result of the continued rise in snuff sales in northern Europe, particularly for portion-packed snuff, a decision was made in September to build a new production plant in the Gothenburg area.

The market

Snuff consumption has strong traditions in Northern Europe, North America, Africa and some countries in Asia.

Brands are a large part of a tobacco company's value, which often represents substantial investments in development, distribution, marketing and sales. Swedish Match holds a very strong brand portfolio of smokeless products on its main markets.



Nordic countries

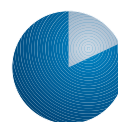
Consumption of snuff or "snus" as it is called in Swedish, in the Nordic countries has shown a steady growth rate up to five percent annually during recent decades and accelerated growth in the past few years. Volumes in 2000 increased eight percent. Underlying reasons for this growth include increased health awareness among members of the population who smoke and increased restrictions on smoking in public. In Sweden, the largest Nordic market with about one million "snus" users, more than half of all "snus" consumers are former smokers. The largest increase in snuff consumption today has been noted among urban consumer categories with higher than average levels of education and income. Women account for slightly more than ten percent of "snus" consumers. "Snus" consumption in 2000 amounted to approximately 190 million cans.

Swedish Match carries a 200-year old snuff tradition and is the Nordic market's leading player. The Group has conducted research focused on tobacco for the past decades to eliminate or reduce health risks related to the use of tobacco. Swedish Match has also developed new methods, used in parallel with traditional methods, with guidelines for tobacco farmers regarding tobacco seed, cultivation, harvesting and storage techniques, and created preparation and production methods that are unique in today's global market. To secure optimal hygiene and quality, the Group emulates standards applied in the food industry, from production through the entire product chain to end-consumers, with refrigerated storage in shops and stores. The Group's research and product development has resulted in a proprietary product category with a unique quality standard – Swedish snuff. The products are marked with the "Swedish snuff" or "snus" "by GothiaTek" quality label, which was introduced on the Group's "snus" cans in November 2000.

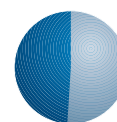
For the past few years, the Group has conducted a comprehensive strategic branding campaign that has strengthened the market identities of its Ettan, General, Catch and Grovsnus brands. Catch Eucalyptus, a new "snus" brand, was launched in the beginning of 2000.

SNUFF

Share of Group's total sales, 18%



Share of Group's total operating income, 51%



Swedish Match is the leading producer of snuff products in Northern Europe and in the South African market and one of the leading producers in North America

Snuff consumption is increasing, particularly in northern Europe and North America

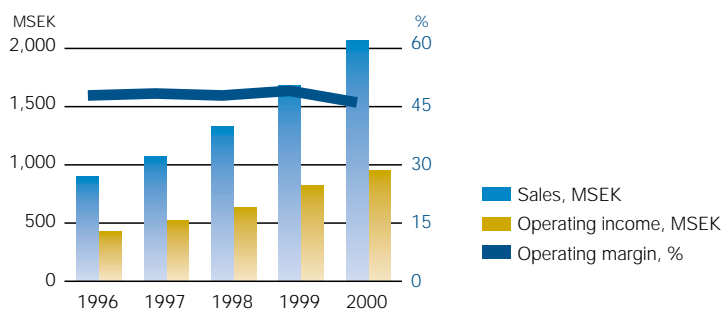
Production plants

Sweden, South Africa, Zimbabwe* and US
* through partly owned company Tobacco Rette

Major brands

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

Key Data, MSEK	2000	1999
Sales	2,071	1,688
Operating income	954	828
Operating margin, %	46.1	49.1
Investments in tangible fixed assets	58	68
Average number of employees	607	485



North America

In the North American market, snuff is sold in two segments: a premium segment characterized by steady development and a rapidly growing value segment, which accounts for nearly 20 percent of the total market. Total consumption of snuff in 2000 continued to rise at the same growth rate noted in previous years, or about three percent.

Swedish Match is one of four players in the North American market and, with its Timber Wolf brand, the leading producer in the snuff market's value segment. The product range also includes Renegades portion-packed snuff.

The Group's continued success in North America is attributable in part to its expanded sales force, which was created through the acquisition of cigar operations in the US. Synergy effects have led to improved market coverage and distribution.

South Africa

Swedish Match is the leading producer of snuff in South Africa, with Taxi, the market's leading brand.

Toward year-end 2000, Swedish Match also started selling Swedish "snus" in South Africa.

In 2000, Swedish Match acquired Brasant, South Africa's leading distributor of tobacco products. Through its sales force, Brasant is represented in Cape Town, Johannesburg and Durban, and in Windhoek, Namibia. The acquisition has facilitated new product launches and distribution of all Group products to retailers in southern Africa.

EU

Sales of snuff were prohibited in the EU in 1992, primarily based on assumptions that the product might be carcinogenic. Sweden was exempt from the ban when it entered the EU in 1995. Several studies in Sweden have shown that suspicions of carcinogenic effects from the use of snuff are lacking in scientific support. In view of these findings, the EU Commission submitted a proposal in 1999 to remove cancer-warning labels from smokeless tobacco packagings, including snuff. Most probably, it will become a reality in the near future. This may be regarded as a step toward a total repeal of the EU ban of snuff sales, particularly in view of the ban's highly questionable legal standing. The ban's compliance with EU-law will otherwise be resolved by the European Court of Justice.

The future

Continued favorable growth in snuff sales is forecast during the next few years in existing markets. Snuff is also believed to have good development potential in new markets.

A decision was made in 2000 to build a new production plant, just outside Gothenburg, to adjust production capacity to growing market demand for portion-packed "snus". The new plant will be ready to begin production operations in the beginning of year 2003.



CHEWING TOBACCO

- Swedish Match increased its market share in North America during the year.
- The marketing organization was strengthened considerably by acquisitions in North America, which has led to improved geographic market coverage.

The year

Sales for the year totaled 1,227 MSEK (1,068), an increase of 15 percent. Operating income amounted to 331 MSEK (297), an increase of 11 percent.

The improvements in sales and income were attributable to higher prices, favorable currency effects and synergies generated by the expanded sales force following the acquisition of General Cigar's mass-market operations.

The market

The southeastern states of the US account for the largest consumption of chewing tobacco. Demand has declined by an average of four percent annually during recent years.

There are four producers of chewing tobacco in the North American market. Swedish Match is the leading player with its Red Man family of brands, the market leader. The Southern Pride brand has also shown strong growth since it was launched in 1998. Swedish Match increased its market shares in 2000. Following the acquisition of machine-made cigar operations from General Cigar, the marketing organization in the US was strengthened considerably by integrating the sales forces of both companies. As a result, the Group has expanded its geographic market coverage in the northeastern and western regions of the US.

An agreement reached in the beginning of 2000 between Swedish Match and National Tobacco of the US, whereby the Group would acquire the American company's chewing tobacco brands, was not approved by the US Federal Trade Commission (FTC).

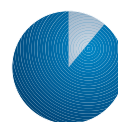
The future

Swedish Match's goal is to maintain and strengthen its leading position in the declining but still highly profitable market for chewing tobacco.

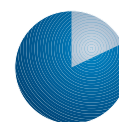


CHEWING TOBACCO

Share of Group's total sales, 11%



Share of Group's total operating income, 18%



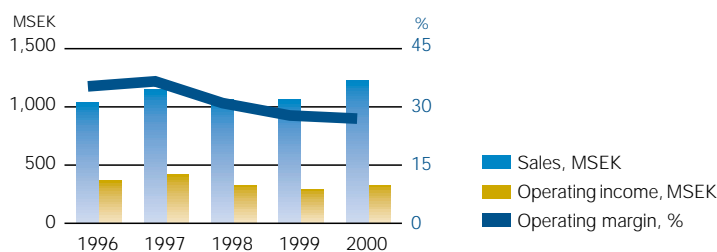
■ Swedish Match is the market leader for chewing tobacco in North America

■ Red Man is the best-known brand family

Production plant
USA

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

Key Data, MSEK	2000	1999
Sales	1,227	1,068
Operating income	331	297
Operating margin, %	27.0	27.8
Investments in tangible fixed assets	35	29
Average number of employees	528	491





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The Group's original consumer philosophy has been carried forward with continuous product development focused on quality, taste and smoking pleasure

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CIGARS

- Swedish Match is the second largest cigar company in the world, with products in all segments of the market.
- Through its acquisition of 64 percent of all shares outstanding in General Cigar, the Group gained access to four of the US market's best-selling premium cigars: Macanudo, Partagas, Punch and Hoyo de Monterrey.

The year

Sales in 2000 amounted to 2,690 MSEK (1,438), an increase of 87 percent. The increase was mainly attributable to acquired operations.

Operating income for the year amounted to 347 MSEK (206), an increase of 68 percent, attributable primarily to acquired operations.

The market

The international cigar market is fragmented, characterized by a large number of small and mid-size players. Most of the world's cigar companies are active in North America, the Caribbean and Europe. During the late-1990s, the cigar industry underwent some structural change that reduced the number of players. Swedish Match

assumed an active role in the restructuring process and acquired a number of companies. Combined with the Group's own cigar operations, the acquisitions advanced Swedish Match to second place among global cigar companies.

Cigars are produced in a large number of different formats and sizes – premium products, or hand-made cigars sold through exclusive tobacconists, to machine-made cigars and cigarillos distributed and sold by a large number of retail sales outlets. The overwhelming majority of cigar brands are local or regional, with only a few global brands.

Europe is the world's largest cigar market, accounting for about 40 percent of the global market. North America accounts for about 35 percent of the global cigar market.

Swedish Match markets more than 60 cigar brands in a large number of countries. Macanudo is the best-selling premium cigar in the US.



Europe

The strongest growth in the European cigar market during 2000 was noted for hand-made cigars and machine-made cigars in the more expensive price classes.

Swedish Match's share of the European market amounts to about 15 percent.

Swedish Match's largest machine-made cigar brand in the European market is La Paz, a leading global brand established in the Netherlands in 1813. La Paz showed continued strong growth after a comprehensive branding project during recent years, an expanded product range and new packaging concepts. Tube-encased cigars in super corona and panatela formats were launched under the La Paz brand during 2000.

North America

Hand-made cigars

The American market for hand-made cigars amounts to about 350 million cigars annually. Demand remained stable in this sector of the market in 2000.

Swedish Match acquired 64 percent of all shares in General Cigar, previously a publicly listed US cigar company. The acquisition has provided Swedish Match with some of the best-selling premium cigars in the American market: Partagas, Punch, Hoyo de Monterrey and Cohiba, as well as the market leader Macanudo.

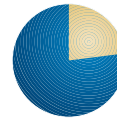
After the acquisition, Swedish Match's share of the American market for hand-made cigars amounts to about 25 percent.

In 1999, the Group acquired El Credito, a producer of premium cigars, which was integrated with General Cigar effective January 1, 2001, resulting in the concentration of Dominican Republic production operations in one location.

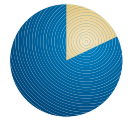
The strong brand-name cigars incorporated in Swedish Match through the acquisitions of El Credito and General Cigar will be marketed outside the US by the Group's global sales organization.

CIGARS

Share of Group's total sales, 23%



Share of Group's total operating income, 18%



■ Swedish Match is the world's second largest cigar company

■ The most important markets are Western Europe and the US

■ The comprehensive product range covers all segments of the market, from hand-made cigars to machine-made cigarillos

Production plants

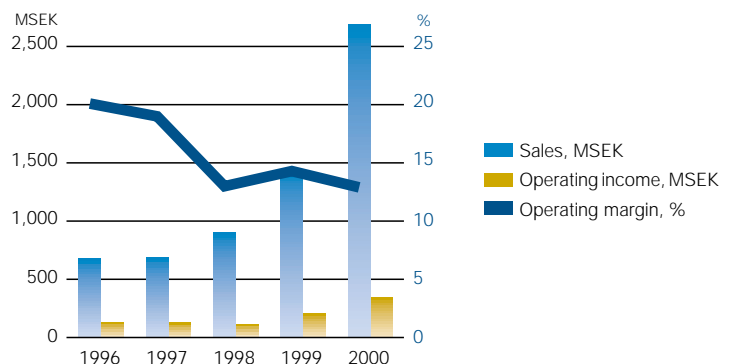
The Netherlands, Belgium, Honduras, Germany*, Indonesia, the US and the Dominican Republic

* through partly owned Arnold André

Major brands

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

Key Data, MSEK	2000	1999
Sales	2,690	1,438
Operating income	347	206
Operating margin, %	12.9	14.3
Investments in tangible fixed assets	101	142
Average number of employees	4,997	2,323



Machine-made cigars

The acquisition of General Cigar's operations for machine-made cigars in 1999 provided Swedish Match with a complete product range that covers all price segments of the North American cigar market. As a result of acquisitions, Swedish Match now has a broader range of products than any other player. The Group has also become the leading producer of Other Tobacco Products (OTP), comprising snuff, chewing tobacco, cigars and pipe tobacco, which provides significant competitive advantages and a strong position in retail sales channels.

The marketing organization for operations acquired from General Cigar in 1999 has been integrated in Swedish Match's operations in North America which has created a sales force with broader geographical coverage and lower sales and administrative costs.

Swedish Match's share of the market for machine-made cigars in North America amounts to slightly more

than 10 percent. A substantial percentage of sales in the machine-made segment was attributable to Garcia y Vega, a brand that approaches the premium segment.

Asia and Australia

Cigar consumption continues to increase in Australia and markets in Asia. The Group strengthened its market presence in Asia during 2000 through the launch of La Paz, Macanudo and Willem II cigars in China.

The future

Cigars show continued growth in many markets. Swedish Match has a unique breadth and a strong brand portfolio comprising a very large number of local and regional brands, in addition to the small number of global brands. Supported by its strong brands, the Group is favorably positioned for determined activities to meet growing demand in different countries.

PIPE TOBACCO AND ACCESSORIES

- The acquisitions in South Africa of Leonard Dingler, a producer of pipe tobacco and snuff, and Brasant, a leading distribution company, have provided the Group with a strong position in southern Africa.

The year

Sales in 2000 amounted to 762 MSEK (420), an increase of 81 percent. The increase is attributable mainly to acquisitions in South Africa.

Operating income rose 95 percent to 213 MSEK (109).

The market

Swedish Match is a leading producer of pipe tobacco for the global market, a highly fragmented sector comprising strong, local players and large international companies. Most brands are regional or local. The product range marketed by Swedish Match includes Borkum Riff, the largest global brand of pipe tobacco. Important markets include Australia, Japan, North America, South Africa and Western Europe.

Western Europe

Consumption in Europe reflects a sustained downward trend. Market trends vary, however, between different individual markets. In Spain and Germany, for example, some increase in demand was noted during 2000, compared over previous years. Swedish Match is historically well established in Europe, with particularly strong positions in Switzerland, Spain, Austria and the Nordic countries.

North America

Demand in the American market during 2000 was down about eight percent, about the same rate of decline noted in previous years. Swedish Match brands sold in the US include Borkum Riff, Half & Half, Velvet and Paladin, as well as Custom Blend from Royal House Ltd.

The Group launched Mellow Breeze in Germany during 2000, as well as Borkum Riff Vanilla and Vanilla Cavendish in Austria and Switzerland.



South Africa

Consumption of pipe tobacco in South Africa shows a sustained upward curve, but a marginal decline in demand was noted in 2000 following a sharp increase in tobacco tax. Companies acquired by Swedish Match in South Africa over the past 18 months, including the country's leading producer of pipe tobacco, Leonard Dingler, and the Brasant distribution company, have provided the Group with a very strong position in South Africa.

Swedish Match initiated sales of its Boxer pipe tobacco brand in Mozambique and Angola during the year.

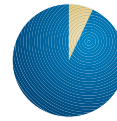
Following the close of the reporting period, Swedish Match announced an agreement with British American Tobacco covering acquisition of its pipe tobacco operations in South Africa. The acquisition comprises a production plant, inventories and brands. Annual sales amount to about 200 MSEK. The acquisition was consolidated as of February 1, 2001.

The future

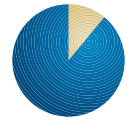
Continued consolidation is anticipated in the highly fragmented, global pipe tobacco industry, and Swedish Match intends to play an active role in the restructuring process.

PIPE TOBACCO AND ACCESSORIES

Share of Group's total sales, 7%



Share of Group's total operating income, 11%



Swedish Match is one of the leading players in the global market for pipe tobacco

Primary markets for the Group's pipe tobacco are Europe, North America and South Africa

Production plants

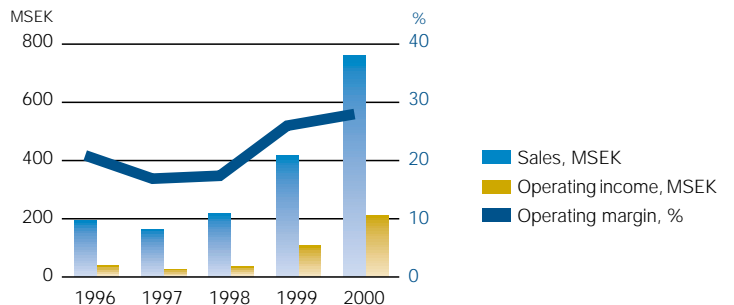
US and South Africa

Major brands

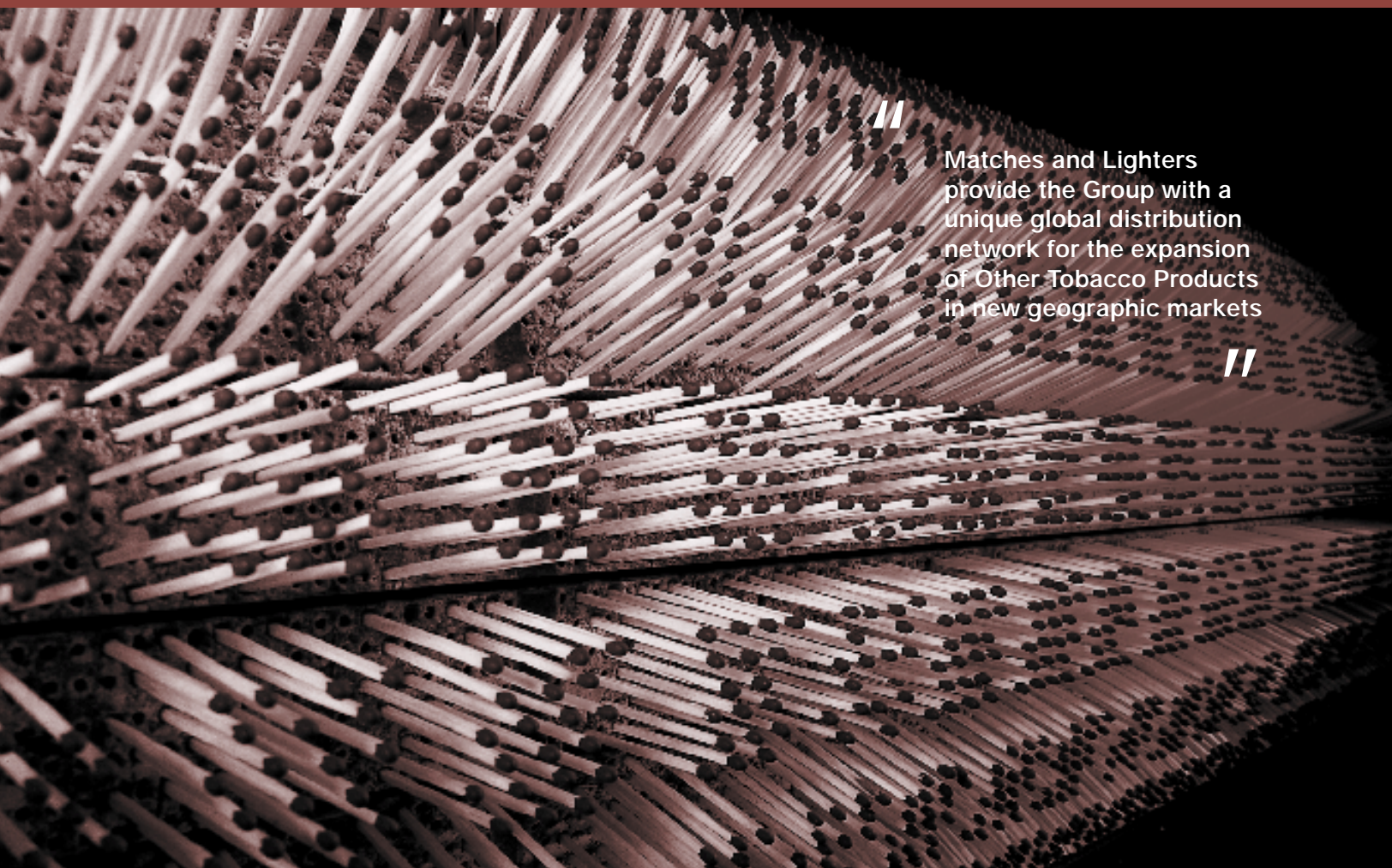
Borkum Riff, Greve Gilbert Hamiltons Blandning, Half & Half, Boxer, Mellow Breeze, Velvet, Paladin and Black & White

Key Data, MSEK

	2000	1999
Sales	762	420
Operating income	213	109
Operating margin, %	28.0	26.0
Investments in tangible fixed assets	35	27
Average number of employees	357	143



MATCHES AND LIGHTERS



“ Matches and Lighters provide the Group with a unique global distribution network for the expansion of Other Tobacco Products in new geographic markets ”

MATCHES

■ Match operations are undergoing a restructuring program designed to improve profitability.

The year

Sales in 2000 amounted to 1,712 MSEK (1,673). Operating income declined 16 percent to 90 MSEK (107).

The market

Match consumption is linked strongly to levels of economic development. The higher the living standards, the lower per-capita consumption of matches, but with higher quality match products and prices. Asia and the Pacific region account for two-thirds of global match consumption today. In terms of volume, the Brazilian match market is about the same size as the Western European market.

Matches sold in Europe are generally of high quality, and the product range shows a trend toward greater

differentiation, with a variety of special match products. Global consumption of matches reflects a slightly downward trend.

Most of the world's match production operations are highly localized, and the market is extremely fragmented, with a large number of manufacturers.

Swedish Match is the largest international player, with a wide variety of strong regional and local brands. The Group's main markets are Western Europe, Brazil and India. Swedish Match is the market leader in Western Europe. After the acquisition of Wimco, Swedish Match is one of the largest, independent players in India. The acquisition has provided access to a highly developed distribution network that offers a resource for the distribution of other products in India. In Brazil, the Group has

Swedish Match launched complete series of lights – matches, grill and firelighters and firelogs – under some of its major brands in Europe.



a long tradition in match operations, and Swedish Match is the leading market player, with profitable match operations.

To adapt the product range to growing demand for special matches, Swedish Match has launched several complete series of lights during recent years, including products such as matches, grill and firelighters and firelogs marketed under some of the Group's major brands in Western Europe. The new concept is creating better opportunities for a more visible presence and exposure in the retail trade.

The Group's match operations include Arenco, an engineering company that manufactures match production machinery at plants in Kalmar, Sweden and Shanghai, China. Arenco supplies the division with highly automated production machines, and its products are also sold in external markets. During recent years, Arenco has also sold technical solutions and mechanical equipment to companies in the packaging industry.

The future

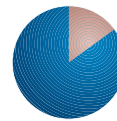
Match operations provide Swedish Match with an international market presence and distribution networks of strategic importance to the rest of the Group.

Profitability, an operating margin of ten percent, will require continued rationalization.

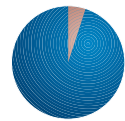
Swedish Match will continue to develop new light products and new sales concepts for the commodities sector.

MATCHES

Share of Group's total sales, 15%



Share of Group's total operating income, 5%



■ Swedish Match is the world's leading match producer and the only international manufacturer

■ Primary markets are Western Europe, Brazil and India

■ Operations include the production of match manufacturing machinery and equipment by Swedish Match Arenco

Production plants

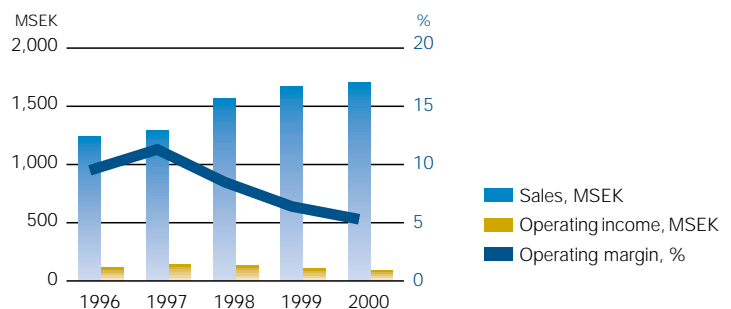
Sweden, Brazil, Bulgaria, Spain, Hungary, Turkey, Indonesia* and India
* through partly owned P.T. Java Match Factory

Major brands

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

Key Data, MSEK

	2000	1999
Sales	1,712	1,673
Operating income	90	107
Operating margin, %	5.3	6.4
Investments in tangible fixed assets	70	136
Average number of employees	6,333	7,034



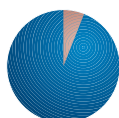
LIGHTERS

- The improvements in operating income and operating margin were a result of restructuring in 1999, which included plant closure and cost reduction.
- Stronger volumes in certain markets.

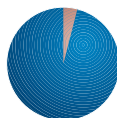


LIGHTERS

Share of Group's total sales, 6%



Share of Group's total operating income, 4%



- Swedish Match is one of the world's three largest manufacturers of disposable lighters
- The largest markets are Europe, parts of Asia and the US
- Cricket is our most important brand name

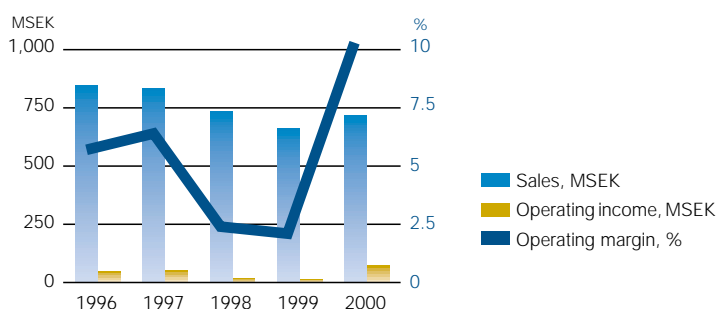
Production plants

The Netherlands, the Philippines and Brazil

Major brands

Cricket, Feudor and Poppel

Key Data, MSEK	2000	1999
Sales	720	662
Operating income	74	14
Operating margin, %	10.3	2.1
Investments in tangible fixed assets	22	27
Average number of employees	625	719



The year

Sales for the year amounted to 720 MSEK (662), an increase of nine percent. Operating income improved to 74 MSEK (14).

Sales volumes increased during the year. After the completion of structural changes in the Group's lighter operations in 1999, which included the closing of one production plant, the operating margin improved in 2000.

The market

Business growth for lighter operations is correlated strongly with trends in cigarette consumption and general economic growth. Higher volumes are generally noted in developing nations, while markets in Western Europe and the US are characterized by marginal decline. In terms of volume, the total market reflects modest growth.

The combined global market share of the world's three major manufacturers, which include Swedish Match, is estimated at about 60 percent, not including China. Because of the large number of manufacturers in "low-cost" countries, the international market is characterized by intense competition.

Disposable lighters are products that require effective, broad-coverage distribution.

Swedish Match reported increased sales volumes in Europe during the year, mainly in Eastern Europe and particularly in Russia, where market conditions have improved sharply and the Cricket brand has a leading position.

Swedish Match reported stable sales in North and Latin America, with virtually unchanged market shares. Volumes rose somewhat in some Asian markets.

To answer market trends in the more expensive segment, Swedish Match has launched the electronic Pocket-lighter during recent years and various metal holders for Pocket. Since attractive design is a strong competitive factor, new designs are launched several times a year under the Cricket brand.

The future

Swedish Match will continue to work with product development and streamline its design program as part of efforts to remain competitive and defend the Group's market positions.

SWEDISH MATCH *and the environment*

Policy

Objective

The objective of this policy is to establish a consistent management approach to environmental aspects of Group operations.

Vision

Swedish Match's environmental vision is to achieve a balance in which the company consistently reaches its commercial objective to meet the requirements of shareholders, customers and other interests, while at the same time integrating its operations and products in the natural ecocycle. Results of the company's commercial and environmental endeavors are permanently linked and mutually supportive.

Policy

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

- Swedish Match shall comply with environmental legislation, regulations and other requirements that affect all aspects of Group activities, wherever they are conducted
- Swedish Match shall apply suitable environmental management systems at all sites of Group operations, formulated to prevent contamination and reduce the risk of negative environmental impact
- In addition to customary financial and marketing criteria, Swedish Match shall also consider environmental aspects in all commercial undertakings
- Swedish Match shall identify and gradually implement changes in every phase of the life cycle of products, processes and services to reduce negative environmental aspects that may be in contravention to the conditions necessary for a sustainable society

Environmental management systems

Swedish Match is gradually implementing environmental management systems in the Group's different production plants. During year 2000, plants in Belgium (Houthalen and Overpelt), the Netherlands (Assen) and the US (Owensboro) were certified in accordance with ISO 14001. The other Dutch plant (Valkenswaard) is expected to receive its certification in 2001, along with the Group's production plants in Brazil (Manaus) and the Philippines (Manila). The production plant in Indonesia (Pandaan) is expected receive certification in 2002.

Permits and compulsory reports

The following is a presentation of permits and compulsory Swedish reporting requirements for the Group's different production plants. All plants complied with the specifications of their permits in year 2000. All permits are valid until further notice, unless otherwise stated.

Tobacco products

The snuff plant in Gothenburg is required to submit specific reports in compliance with stipulations of the Environmental Code. Construction of a new production plant in Kungälv will begin in 2001. The new plant will be subject to the same compulsory report requirements as the Gothenburg plant.

Matches

The plant in Vetlanda produces matchsticks and outer box substances such as the striking surface materials used in manufacturing matches in other parts of the world. The operations are subject to permit authorization until further notice under the Environmental Act. Noise, timber storage facilities and emissions of solvents are regulated under law. Some printing operations were transferred in 2000 from Belgium to the Vetlanda plant. Since printing operations require the use of certain chemicals, environmental authorities have been notified and no problems are anticipated in expanding the plant's permit.

Matches, firelighters and sulfur-coated match tips for proprietary production and export are manufactured in the Tidaholm plant. The operations are subject to permit authorization until further notice under the environmental protection act.

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

Match production machines are manufactured in Kalmar. The operations are subject to permit authorization approval under the environmental protection act.

Swedish Match has secured authorization permits for Group production plants in other countries in full compliance with environmental legislation in the respective countries.

Importance of development in the environmental fields

In the US, the UK and Scandinavian markets, Swedish Match is attracting greater interest among wholesalers and consumers. The Group's growing appeal is natural, since its products are sold through food supply chains and other retail outlets characterized by relatively strong demands on environmentally compatible products. Efforts to develop an environmentally compatible striking tip for match production is one example of the Group's environmentally driven product development work.

A global trend is reflected in increasing demands by public authorities for environmental adaptations in production plants and processes. As mentioned above, Swedish Match is adapting its operations through implementations of measures to clean and reduce emissions and introduce environmental control systems in a growing number of Group production plants.

COMPETENCE DEVELOPMENT



Global Business Challenge



Trainee program



International management program



Work continued in 2000 to support integration between different Swedish Match units and strengthen the Group's common global corporate culture, which is based on six fundamental values: Communication, Teamwork, Trust, Innovation, Recognition and Growth. Professional leadership and continued strong access to internal leadership resources are key factors in development of the Group's fundamental values. Swedish Match, accordingly, invests continuously in long-term training programs for management personnel and employees at different levels in the Group.

Global Business Challenge

The management training program known as Global Business Challenge was completed in November 2000. The program was designed to provide greater knowledge of the interaction between different Group functions, which factors generate favorable effects on shareholder values and enhance the efficiency of work procedures, capital utilization and cost reductions. Approximately 200 managers took part in eight training courses with



about 20 participants in each course. Some parts of the training program were conducted as a competition between simulated companies during a number of simulated years. The structure was designed to provide participants with greater business management skills in areas such as decision-making, marketing philosophies, positioning, asset management and resource utilization.

International management program

The international management program is being conducted for the third time. Participants have been employed by Swedish Match for at least three years and already have international business experience. About 20 representatives of management from all Group divisions are taking part in the course now in progress. The participants have worked for 30-50 days with projects proposed by the Group's management staff and attended four seminars. The main themes of the program are e-business, defined as business opportunities developed via





Cooperation project



Personnel



the Internet and intranet, and comprehensive leadership skills. The program is intended to strengthen the concept of team building, business management and diversified leadership skills, with the objective to build a strong recruitment foundation for future international management personnel within the Group and promote a common global culture.

Trainee program

Planning work was started during the year for the Group's second international trainee program, beginning in 2001. The program is focused on younger employees under 30 years of age, with one or more years of professional experience. The course objective and curriculum is linked closely with the international management training program. The actual training, however, consists largely of systematically supervised projects in various international Group environments during three six-month periods of time.

Cooperation project

To intensify and broaden Group insights in leadership and organizational development, Swedish Match conducted a coordinated project in cooperation with several other global companies. The project was designed to study the actions of successful companies in their respective industries, with particularly interesting experiences in leadership development programs, network structures and entrepreneurship. Knowledge gained from the project will be developed and adapted for more specific projects within Swedish Match.

Personnel work

Group efforts to promote gender equality continued during the year. A review was conducted that showed a relatively equitable gender distribution in the Group's Swedish units. However, within certain job categories an imbalance exists. At management level, a more balanced gender distribution was achieved during 2000.



CONSOLIDATED INCOME STATEMENT

MSEK	Note	2000	1999
Net sales, including tobacco tax		19,831	16,953
Less tobacco tax		- 8,298	- 7,533
Net sales		11,533	9,420
Cost of goods sold		- 6,647	- 5,138
Gross profit		4,886	4,282
Selling expenses	2	- 1,925	- 1,746
Administrative expenses	2	- 836	- 791
Other operating income	3	26	73
Other operating expenses	3	- 1	- 13
Share of earnings in associated companies		17	43
Amortization of intangible assets	2	- 281	- 159
Items affecting comparability	4	—	3,707
Operating income		1,886	5,396
Interest income		252	192
Interest expenses		- 427	- 323
Exchange rate differences and other financial items	5	- 1	15
Income after financial items		1,710	5,280
Taxes	6	- 547	- 638
Minority interests		- 10	14
Net income		1,153	4,656
Average number of shares		410,177,322	431,339,663
Earnings per share, SEK		2.78	10.56

CONSOLIDATED BALANCE SHEET

MSEK	Note	December 31, 2000		December 31, 1999	
Assets					
Fixed assets					
Intangible assets	7	4,288		3,268	
Tangible assets	8	2,576		1,866	
Financial assets	9	605		432	
Total fixed assets		7,469		5,566	
Current assets					
Inventories	10	3,270		1,732	
Current operating receivables					
Trade receivables		1,871		1,495	
Other receivables		530		456	
Prepaid expenses and accrued income		181	2,582	125	2,076
Liquid funds					
Short-term investments	11	1,895		5,018	
Cash and bank	11	1,065	2,960	2,278	7,296
Total current assets		8,812		11,104	
Total assets		16,281		16,670	
Equity and liabilities					
Shareholders' equity					
Restricted equity					
Share capital		969		949	
Restricted reserves		1,291		1,020	
Unrestricted equity					
Unrestricted reserves		1,222		- 685	
Net income for the year		1,153	4,635	4,656	5,940
Minority interests		620		162	
Provisions					
Provisions for pensions and similar commitments	13	409		283	
Provisions for taxation	6	775		515	
Other provisions		683	1,867	397	1,195
Long-term liabilities					
Bond loans	14	3,936		4,580	
Liabilities to credit institutions	14	702		513	
Other long-term liabilities		207	4,845	210	5,303
Current liabilities					
Liabilities to credit institutions	14	1,061		936	
Accounts payable		738		589	
Other current liabilities	15	1,569		1,854	
Accrued expenses and deferred income	16	946	4,314	691	4,070
Total equity and liabilities		16,281		16,670	
Commitments and contingent liabilities					
Pledged assets	17	388		477	
Contingent liabilities		280		250	

CONSOLIDATED CASH FLOW ANALYSIS

MSEK	Note	2000	1999
Operations			
Income after financial items		1,710	5,280
Depreciation and amortization		543	381
Capital gains reported in operating income		—	- 4,102
Other		51	229
		2,304	1,788
Taxes paid		- 590	- 486
Cash flow from operations before changes in operating capital		1,714	1,302
Cash flow from changes in operating capital			
Trade receivables		- 87	- 207
Inventories		- 219	- 187
Other assets		- 65	125
Accounts payable		17	92
Accrued expenses and other current liabilities		- 415	204
Cash flow from operations		945	1,329
Investment activities			
Investments in property, plant and equipment		- 331	- 452
Sales of property, plant and equipment		83	83
Divestments of business operations		—	4,798
Acquisitions of subsidiaries and associated companies		- 1,660	- 51
Acquisitions of intangible assets		- 11	- 2,488
Change in financial receivables		- 48	115
Cash flow from investment activities		- 1,967	2,005
Financing activities			
Change in short-term loans		- 91	- 2,019
Long-term loans		105	3,722
Amortization of long-term loans		- 727	- 48
Dividends paid		- 539	- 474
New share issue		66	—
Capital redemption		- 1,062	—
Buy back of shares		- 905	—
Other		- 120	—
Cash flow from financing activities		- 3,273	1,181
Cash flow for the year		- 4,295	4,515
Liquid funds at the beginning of the year		7,296	2,876
Translation differences in liquid funds		- 41	- 95
Liquid funds at the end of the year	11	2,960	7,296
Supplementary information, see Note	18		

NOTES

(All amounts in MSEK unless otherwise stated). The Annual Report follows the recommendations of the Swedish Financial Accounting Standards Council. The accounting principles are unchanged from the preceding year.

1 Significant accounting principles

Consolidated financial statements

The consolidated financial statements include the Parent Company, all subsidiaries and associated companies. Subsidiaries are defined as companies in which Swedish Match holds shares vested with more than 50 percent of the votes or in which Swedish Match has a decisive influence in some other way. Associated companies are defined as companies in which Swedish Match has long-term holdings equivalent to at least 20 percent but not more than 50 percent of total votes. Holdings in associated companies are reported in accordance with the equity method. The Group's share of the reported income of associated companies is reported as a proportion of operating income and income taxes.

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

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

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

Foreign Currency

Translation of the accounts of foreign subsidiaries

Foreign subsidiaries, with the exception of subsidiaries in countries with high inflation, are translated to Swedish kronor in accordance with the current method. Balance sheets, accordingly, are translated at year-end exchange rates and income statements are translated at average exchange rates for the year. Exchange rate differences arising from translations of income statements and balance sheets are entered directly under equity.

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

Receivables and liabilities in foreign currency

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

Derivative instruments

Currency forward contracts

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

Interest rate swaps

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

Currency swaps

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

Income taxes

Provisions for taxes include current Swedish and foreign tax liabilities and deferred income taxes from temporary differences between book and tax values. Deferred tax liabilities and deferred tax assets are entered at the current tax rate for the company concerned (liability method). Assets and liabilities in the form of deferred tax are offset only in and between units where tax equalization is possible.

Deferred tax assets are booked with respect to temporary differences that will lead to future deductions and tax losses carried forward. If the deferred tax asset is not likely to be realized, it is not entered as an asset, but rather appropriated to the valuation reserve.

Intangible fixed assets

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

Effective in year 2000, amortization of intangible fixed assets is reported as a separate item in the income statement. Entries in previous years have been adjusted to comply with the new principles.

Notes – Consolidated Financial Statements

Tangible fixed assets

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

New acquisitions and re-acquisitions are capitalized, while repair and maintenance costs are expensed as incurred. When assets are sold or discarded, the acquisition cost is written off, and the associated accumulated depreciation and any gain or loss is entered as income.

Inventories

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

Use of estimates

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

2 Selling and administrative expenses

Selling expenses include expenses for research and development and similar expenses totaling of 105 (94) MSEK.

Effective in year 2000, amortization of intangible fixed assets is reported as a separate item in the income statement. Entries in prior years have been adjusted to comply with the new principles.

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

	2000	1999
Auditing	8	6
Other	11	8
PricewaterhouseCoopers	19	14
Other accountants (auditing assignments)	1	1

3 Other operating income and other operating expenses

Other operating income includes exchange rate gains amounting to 18 (18) MSEK.

Other operating expenses include exchange rate losses amounting to 4 (15) MSEK.

4 Items affecting comparability

Cigarette operations were divested on July 1, 1999 for 4,800 MSEK. After deductions for net book value, capital gains amounted to 4,102 MSEK.

Items affecting comparability in 1999 also included a provision of 395 MSEK to cover restructuring costs for the Group's match operations. The net amount of these items, 3,707 MSEK, was reported as items affecting comparability in 1999.

5 Exchange-rate differences and other financial items

	2000	1999
Exchange-rate differences	16	62
Other financial items	- 17	- 47
Total	- 1	15

6 Taxes

Income taxes in 2000 and 1999 were distributed as follows:

	2000	1999
Current income taxes	- 428	- 565
Deferred income taxes	- 112	- 44
Other taxes	- 7	- 29
Total taxes	- 547	- 638

The tax effects of temporary differences that resulted in assets and liabilities in the form of deferred tax at December 31, 2000 and December 31, 1999 are summarized below:

	2000	1999
Losses carried forward	289	132
Restructuring reserve	59	97
Pension and healthcare benefits	93	85
Tax equalization reserve	- 269	- 229
Depreciation in excess of plan	- 272	- 146
Inventory reserve	- 52	- 62
Valuation reserve	- 203	- 197
Other	- 139	54
Net deferred income tax liability	- 494	- 266
<i>Classified per balance sheet category</i>		
Current financial receivables	122	111
Financial assets	159	138
Less tax provisions	- 775	- 515
Net deferred income tax liability	- 494	- 266

Notes – Consolidated Financial Statements

Note 6 cont.

At December 31, 2000, the Group had deductible losses carried forward equivalent to 867 MSEK. The Group's deductible tax losses carried forward fall due as follows:

Year	Amount
2001	6
2002	8
2003	35
2004	185
2005	74
2006	14
Thereafter	545
Total deductible tax loss carryforwards	867

In 2000 and 1999, the Group's net income was charged with tax of 32.0 percent and 12.1 percent, respectively. The difference between the Group's tax expense and application of the statutory tax rate in Sweden of 28 percent is attributable to the items shown in the following table:

	2000	1999
Swedish tax rate	28.0	28.0
Adjustments for foreign tax rates	4.4	5.8
Losses that could not be utilized	1.6	2.7
Capital gains	—	– 26.6
Non-taxable items	– 2.1	– 0.6
Non-deductible amortization of goodwill	2.0	0.5
Adjustments for taxes in prior years	– 3.2	1.6
Non-deductible expenses	1.2	0.5
Other	0.1	0.2
Total	32.0	12.1

7 Intangible assets

Intangible fixed assets at December 31 are as follows:

	Trademarks and other intangible assets		Goodwill		Total	
	2000	1999	2000	1999	2000	1999
Acquisition value brought forward	1,795	329	2,215	1,137	4,010	1,466
Purchases/investments	—	1,449	11	1,039	11	2,488
Companies acquired	—	—	1,274	—	1,274	—
Exchange differences, etc.	– 25	17	212	39	187	56
Accumulated acquisition value carried forward	1,770	1,795	3,712	2,215	5,482	4,010
Amortization brought forward	– 92	– 34	– 650	– 537	– 742	– 571
Amortization for the year	– 87	– 57	– 194	– 102	– 281	– 159
Companies acquired	—	—	– 89	—	– 89	—
Scrapping/write downs	—	—	– 38	—	– 38	—
Exchange differences	0	– 1	– 44	– 11	– 44	– 12
Accumulated amortization carried forward	– 179	– 92	– 1,015	– 650	– 1,194	– 742
Book value carried forward	1,591	1,703	2,697	1,565	4,288	3,268

8 Tangible fixed assets

Tangible assets as of December 31 included the following:

	Buildings and land		Machinery and other technical facilities		Equipment, tools and fixtures		New construction		Total	
	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
Acquisition value brought forward	1,238	1,421	2,377	2,743	311	467	218	196	4,144	4,827
Purchases/Investments	47	98	98	166	48	42	138	146	331	452
Companies acquired	725	—	297	—	3	—	—	—	1,025	—
Companies divested	—	-96	—	-412	—	-117	—	-7	—	-632
Sales/scrapping	-63	-129	-134	-66	-25	-64	—	-12	-222	-271
Reclassifications	9	19	191	87	-32	2	-168	-108	0	—
Exchange differences	98	-75	175	-141	-4	-19	24	3	293	-232
Accumulated acquisition value carried forward	2,054	1,238	3,004	2,377	301	311	212	218	5,571	4,144
Depreciation brought forward	-407	-465	-1,676	-1,810	-195	-312	—	-1	-2,278	-2,588
Depreciation for the year	-49	-27	-176	-152	-36	-43	-1	—	-262	-222
Companies acquired	-230	—	-172	—	—	—	—	—	-402	—
Companies divested	—	65	—	295	—	92	—	—	—	452
Sales/scrapping	1	60	128	48	17	61	—	—	146	169
Write-downs	—	-49	—	-161	—	—	—	—	—	-210
Reclassifications	-1	1	-24	3	26	-5	-1	1	0	—
Exchange differences	-35	8	-162	101	-2	12	0	—	-199	121
Accumulated depreciation carried forward	-721	-407	-2,082	-1,676	-190	-195	-2	0	-2,995	-2,278
Book value carried forward	1,333	831	922	701	111	116	210	218	2,576	1,866

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

	2000	1999
Buildings	66	102
Land	14	17
Total assessed tax value for property in Sweden	80	119

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

	2000	1999
Cost of goods sold	-183	-168
Selling expenses	-18	-16
Administrative expenses	-61	-38
Total	-262	-222

9 Financial fixed assets

Financial fixed assets consist of the following items and were changed in 2000 and 1999, respectively, as shown below:

	2000	1999
Participations in associated companies	125	132
Participations in other companies	23	22
Deferred tax receivables	159	138
Long-term receivables	298	140
Total	605	432

	2000	1999
Amount brought forward from preceding year	432	463
Change in long-term deferred tax receivables	7	-26
Long-term receivables in acquired companies	168	—
Change in long-term financial receivables	-13	-41
Acquisitions of shares in other companies	—	1
Acquisitions of participations in associated companies	—	50
Share in earnings of associated companies, net after tax	14	23
Dividends from associated companies	-36	-24
Exchange differences	33	-14
Value carried forward	605	432

Notes – Consolidated Financial Statements

Note 9 cont.

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

	2000		1999	
	Owner-ship %	Book value	Owner-ship %	Book value
Arnold André GmbH & Co. KG	40	70	40	77
Other associated companies		55		55
Total shares in associated companies		125		132
Other shares and participations		23		22
Total shares and participations		148		154

Within the framework of normal business, Swedish Match conducts various transactions with associated companies. Receivables from these companies totaled 24 MSEK at December 31, 2000 and 44 MSEK at December 31, 1999. Total sales to associated companies amounted to 106 MSEK and 125 MSEK in 2000 and 1999, respectively.

10 Inventories

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

	2000	1999
Finished goods inventories	768	639
Work in progress	194	86
Leaf tobacco	2,027	710
Other input and consumable materials	281	297
Total inventories	3,270	1,732

The increase in leaf tobacco was attributable to leaf tobacco inventories in acquired companies.

11 Liquid funds

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

	2000	1999
Short-term investments		
Government bonds and treasury bills	598	404
Corporate bonds/commercial paper	1,207	2,444
Money market funds	90	2,170
	1,895	5,018
Cash and bank		
Bank accounts and cash	760	540
Investment loans in banks	305	1 738
	1,065	2,278
Total liquid funds	2,960	7,296

Liquid funds in accordance with the above include instruments with maturity dates of more than 3 months.

12 Shareholders' equity

Swedish Match's share capital is distributed among 403,946,391 shares with a par value of 2.40 MSEK per share. Each share carries one vote. Through repurchases, the Company owns 28,799,500 shares, and the net total of shares outstanding, accordingly, amounts to 375,146,891.

	2000	1999
Share capital, opening balance	949	949
Redemption of shares	- 67	—
New issue	5	—
Bonus issue	82	—
Total share capital	969	949
Restricted reserves, opening balance	1,020	540
Premium on new issue	61	—
Bonus issue	- 82	—
Transfers between unrestricted and restricted shareholders' equity	292	480
Total restricted reserves	1,291	1,020
Unrestricted reserves, opening balance	3,971	671
Redemption of shares	- 995	—
Dividend	- 539	- 474
Buyback of own shares	- 905	—
Transfers between unrestricted and restricted shareholders' equity	- 292	- 480
Translation difference *	- 18	- 402
Net income for the year	1,153	4,656
Total unrestricted shareholders' equity	2,375	3,971
Total shareholders' equity	4,635	5,940
Accumulated translation difference		
Opening balance	- 212	190
Change in accumulated translation difference	- 18	- 402
Closing balance	- 230	- 212

* The translation difference was affected favorably by currency hedging of shareholders' equity amounting to 283 (101) MSEK.

13 Pensions and similar commitments

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

The pension benefits offered to employees of the Group's Swedish operations are covered mainly by two fully independent super-annuation funds. These funds also provide pension benefits for the employees of a former subsidiary. At December 31, 2000, the market value of assets in the funds exceeded the actuarial value of the pension obligations. The surplus funds can be used only after approval by the Boards of these funds. In 2000, the funds contributed

Notes – Consolidated Financial Statements

Note 13 cont.

77 MSEK to Group companies in Sweden. The corresponding figure for 1999 was 98 MSEK.

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

Some of the Group's benefit-based pension commitments, primarily local and national general plans, are covered by the Company. The current value of these future pension benefits is reported as a liability in the Consolidated Balance Sheet and totals 104 (64) MSEK.

In addition to pension plans, the Group's US subsidiaries employ unfunded plans for healthcare and other benefits for retired employees who fulfill the requirements for minimum age and years of service. These plans generally involve a cost contribution, for which the retired employee's share of cost is adjusted regularly and includes other components such as deductible amounts and co-insurance. The estimated cost of future benefit payments for healthcare is entered as a liability, in accordance with US accounting principles. This liability in the consolidated balance sheet amounts to 305 (200) MSEK.

14 Liabilities to credit institutions

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

Year	2000
2002	501
2003	622
2004	806
2005	0
2006 and later	2,709
Total	4,638

Current interest-bearing liabilities:

	2000	1999
Next year's amortization of long-term loans	954	727
Bank overdraft facility utilized	30	53
Other current liabilities	77	156
Total current interest-bearing liabilities	1,061	936

15 Other current liabilities

Other current liabilities at December 31 consist of the following:

	2000	1999
Tobacco taxes	738	776
Value Added Tax liability	230	237
Income tax liability	211	298
Other	390	543
Total	1,569	1,854

16 Accrued expenses and deferred income

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

	2000	1999
Accrued wage/salary-related expenses	130	85
Accrued vacation pay	53	63
Accrued social security charges	111	133
Other	652	410
Total	946	691

17 Commitments and contingent liabilities

Operating lease agreements

Future annual minimum charges under the terms of irrevocable operating lease agreements with initial or remaining terms of one year or more consisted of the following at December 31, 2000:

2001	99
2002	89
2003	81
2004	75
2005 and thereafter	291
Total minimum charges	635

The Group's leasing expenses for operating lease agreements amounted to 98 MSEK and 78 MSEK in 2000 and 1999, respectively.

Future irrevocable minimum leasing charges receivable are distributed in accordance with expiration dates as follows:

Expiration	Annual minimum charges
Within one year	38
More than one year but less than five years	59
More than five years	3
Total minimum charges	100

Leaf tobacco purchases

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

Legal disputes

The Company is involved in a number of legal proceedings of a routine character for the business. In some cases, the Group's cigar operations are involved in disputes with competitors regarding the use of certain brand names. Although management cannot in any meaningful way estimate the damages that might be awarded in any ongoing or anticipated disputes, management considers that obligations attributable to all such ongoing disputes should not have any significant negative impact on the earnings or financial position of Swedish Match.

18 Supplementary information to Cash Flow Analysis

Acquisitions of subsidiaries in 2000

In 2000, companies were acquired for a total of 1,624 MSEK. Liquid funds in the acquired companies totaled 199 MSEK. As a result of these acquisitions, the Group acquired net assets as shown in the presentation below. In addition to acquisitions of these subsidiaries, 235 MSEK was invested in acquisitions of minority interests in previously consolidated companies. Goodwill acquired in the conjunction with the acquisitions of minority interests amounted to 58 MSEK. Of total costs for acquisitions as stated above, amounting to 1,624 MSEK, the purchase price for 64 percent of the shares in General Cigar accounted for 1,573 MSEK.

Assets and liabilities of the acquired companies are presented in the following table:

Tangible fixed assets	623
Intangible fixed assets	1,127
Inventories	1,163
Accounts receivable, trade	241
Change in liabilities to minority interests	- 561
Accounts payable, trade	- 107
Loans in acquired operations	- 312
Other assets/liabilities, net	- 550
Purchase price paid	1,624
Cash and bank balances in acquired companies	- 199
Purchase price for minority interests in previously consolidated companies	235
Effect on the Group's liquid funds	1,660

Divestment of subsidiaries 1999

During 1999, Swedish Match divested Swedish Match Cigarettes AB and Eesti Tubakas AS. Proceeds from the divestments amounted to 4,800 MSEK. Liquid funds in both companies, at the time of the sale, amounted to 2 MSEK.

Distribution of the Group value of divested assets is illustrated below:

	1999
Tangible fixed assets	- 180
Inventories	- 312
Accounts receivable, trade	- 76
Accounts payable, trade and accrued expenses	127
Other assets/liabilities, net	- 255
	- 696
Proceeds from divestments	4,800
Cash and bank balances as of sale date	- 2
Effect on the Group's liquid funds	4,798

Liquid assets

See Note 11.

Interest paid and dividends

Interest payments during the year amounted to 531 (204) MSEK. Dividends received from associated companies during the year amounted to 36 MSEK.

19 Derivative instruments

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

At December 31, 2000, the Group had outstanding currency forward contracts in the following nominal values, net:

	2000	1999
Forward contracts	2,955	1,657

The book values and market values of all Group derivative instruments at December 31, 2000 amounted to following amounts:

	2000		1999	
	Book value	Estimated market value	Book value	Estimated market value
Currency forwards	95	125	- 59	- 60
Currency swaps	- 38	- 38	- 14	- 15
Interest swaps	33	52	14	- 25
Total	90	139	- 59	- 100

20 Geographic information

Certain information by geographical area is summarized in the tables below:

	2000	1999
<i>Sales outside the Group</i>		
Sweden	4,058	3,980
Europe excluding Sweden	2,037	2,080
North America	3,837	2,226
Latin America	403	309
Other areas	1,198	825
Total sales outside the Group	11,533	9,420
<i>Assets</i>		
Sweden	4,908	6,665
Europe excluding Sweden	2,247	5,005
North America	6,458	2,368
Latin America	585	503
Other areas	2,083	2,129
Total assets	16,281	16,670

21 Net income and shareholders' equity in accordance with US accounting principles

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

Notes – Consolidated Financial Statements

Note 21 cont.

A summary of the effects on the Group's profit and shareholders' equity from applications of US GAAP is presented in the tables below:

	Note	2000	1999
<i>Reconciliation of net income</i>			
Income for the year in accordance with Swedish accounting principles		1,153	4,656
<i>Items that increase or reduce profit</i>			
Reporting of goodwill, etc:	a		
Amortization of goodwill		- 128	- 218
Other depreciation		- 1	- 2
Adjustment of capital gains in cigarette operations		—	-2,734
Restructuring expenses	b	- 140	19
Sale- leaseback	c	1	- 5
Adjustment of company acquisitions	d	—	- 65
Reporting of hedging activities	e	23	- 8
Pensions and pension investments	f	19	- 19
Options program	g	- 5	9
Surplus funds from Alecta	h	- 7	—
Short-term investments	i	—	—
Tax effects of US GAAP adjustments above		—	68
Net income in accordance with US accounting principles		915	1,701
<i>In MSEK per share:</i>			
Net income in accordance with US accounting principles		2.23	3.94
<i>Reconciliation of equity</i>			
Reported equity in accordance with Swedish accounting principles		4,635	5,940
<i>Items that increase or reduce profit</i>			
Reporting of goodwill, etc.	a		
Goodwill		1,713	1,841
Property, machinery and equipment		41	42
Restructuring expenses	b	70	210
Sale- leaseback	c	- 270	- 271
Adjustment of company acquisitions	d	-38	- 34
Reporting of hedging activities	e	29	6
Pensions and pension investments	f	123	131
Options programs	g	4	9
Surplus funds from Alecta	h	- 7	—
Short-term investments	i	8	—
Tax effects of US GAAP adjustments above		11	6
Equity in accordance with US accounting principles		6,319	7,880

a. Reporting of goodwill, etc.

At December 31, 1995, Swedish Match was owned by the Volvo Group, which acquired the Parent Company in two stages, November 1993 and June 1994, whereby the pur-

Note 21 cont.

chase method was applied in reporting the transactions. Accordingly, the difference between the acquisition value and book value of net assets was distributed among buildings, land and shares held by Swedish Match, and for which market values exceeded book values at the time of the acquisition. The remainder of the difference between the acquisition price and book value of the assets comprised goodwill. These distributions were booked at Group level by Volvo and were not pushed down to the subsidiary Group, Swedish Match.

US GAAP requires that "push down" accounting be applied for independent annual reports of wholly owned subsidiaries if the ownership share is 95 percent or more, which was the case in Volvo's acquisition in 1994. Consequently, the adjustments made in accordance with the purchase method by Volvo, pertaining to Swedish Match, began being reported for US GAAP purposes by Swedish Match in June 1994. The goodwill thereby calculated has subsequently been further adjusted since US GAAP requires that the acquisition price shall be set on the basis of the payment amount at the time the transaction was completed and not the date the transaction was made announced, as required by Swedish GAAP. Total gross value of goodwill which, according to the above, was transferred to Swedish Match in 1994 amounted to 6,158 MSEK. Adjustments for property, machinery and equipment amounted to 119 MSEK. The goodwill entry is amortized over 20 years.

The capital gain reported by Swedish Match as an item affecting comparability in conjunction with the sale of the shares in UST, Inc. has instead increased the value of the assets at the time Volvo made the acquisition.

In 1999, Swedish Match divested its cigarette operations. This has resulted in a reduction in the goodwill value that was transferred from Volvo to the extent it was applicable to cigarette operations. The original gross value attributable to the cigarette operations totaled 3,605 MSEK. The planned residual value of this goodwill entry, consequently, has been settled against the capital gains that arose in the sale of the cigarette operations. Including minor adjustments for properties, machinery and equipment, the adjustment against the gain amounted to -2,734 MSEK. The remaining gross value of goodwill related to remaining operations within Swedish Match amounts to 2,553 MSEK. Corresponding amounts from properties, machinery and equipment, fittings, etc. totaled 49 MSEK.

b. Restructuring expense

In the Swedish Match Group, provisions for restructuring costs have been made in accordance with Swedish accounting principles. According to US GAAP, costs for restructuring measures are reported only on the condition that a sufficiently detailed implementation plan has been formulated at the beginning of the accounting period, that the measures are made public and that conditions are known to employees who will be affected prior to the balance sheet day. Provisions cancelled for US GAAP reconciliation are primarily explained in that the aforementioned requirements have not been met.

Note 21 cont.

c. Sale-leaseback of property

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

d. Adjustments of company acquisitions

Certain costs for restructuring reserves that affect the acquiring company are included in total goodwill in the Consolidated Balance Sheet. In accordance with US GAAP, these costs have been charged against income since they were not associated with the acquired company.

e. Reporting of hedging activities

In applications of Swedish accounting principles, unrealized currency exchange gains and losses on forward contracts that hedge anticipated future transactions are normally accounted for only when the underlying transaction takes place. In applications of US GAAP, calculations of the positive and negative unrealized exchange differences for such forward contracts are based on market values at fiscal year-end and must be included in reported net income.

f. Pensions and pension investments

Pensions are reported by every unit of the Swedish Match Group, if required, based on principles deemed appropriate for local statutory purposes, provided they stipulate that pension entitlements are reported as an expense.

Under US GAAP, pensions are reported in accordance with SFAS No. 87, "Employers' Accounting for Pensions." The Group has estimated the effects on net income and shareholders' equity under the assumption that SFAS No. 87 provisions are being applied. Financial assets in a Swedish pension foundation, accordingly, have been reclassified from "plan assets" to "the corporate assets" under SFAS No. 87.

g. Options program

The Board of Directors decided in 1999 to introduce an options program for Senior Management. In accordance with Swedish GAAP, the Company makes provisions for social fees and withholding tax on the options. In accordance with EITF 00-16, Recognition and Measurement of Employer Payroll Taxes on Employee Stock-Based Compensation, these costs are not reported until the tax liability arises, which normally occurs when the options are issued.

h. Reporting of refunds from Alecta (formerly SPP)

Alecta, the Swedish insurance company, announced its decision in April 2000 to repay pension fund contributions to its policyholders, including Swedish Match. The refunds comprise two components, a cash refund to be paid immediately and a receivable against which Swedish Match will be able to offset future premium payments. In accordance with Swedish GAAP, the cash payments and discounted present values of future premium reductions were booked as income during 2000.

In accordance with US GAAP, only cash payments are carried as income, while future premium reductions will be booked as income when they are actually received.

i. Short-term investments

Short-term investments comprise treasury bills, government bonds, corporate bonds and money market funds. In accordance with US GAAP, Swedish Match's short-term investments can be classified as "available for sale." According to US GAAP, such assets must be carried at fair value in the balance sheet. Unrealized gains and losses, net of deferred taxes, should be classified as a separate component of shareholders equity until realized.

	Reported in accordance with Swedish GAAP		Restated values in accordance with US GAAP	
	2000	1999	2000	1999
Fixed assets	7,469	5,566	9,424	7,975
Current assets	8,812	11,104	7,113	11,269
Total assets	16,281	16,670	16,537	19,244
Shareholders' equity	4,635	5,940	6,319	7,880
Minority interests	620	162	14	162
Provisions	1,867	1,195	1,121	1,140
Long-term liabilities	4,845	5,303	5,121	5,972
Current liabilities	4,314	4,070	3,962	4,090
Total liabilities and shareholders' equity	16,281	16,670	16,537	19,244

Notes – Consolidated Financial Statements

Note 21 cont.

Deconsolidation of General Cigar

Swedish Match acquired 64 percent of the American company General Cigar in May 2000. The Cullman family holds the remaining 36 percent. In accordance with the shareholder agreement between Swedish Match and the Cullman family, the minority shareholders are afforded the opportunity to actively participate in significant issues pertaining to the daily operations of General Cigar, known as "substantive participating rights." Accordingly, as stated in EITF 96-16, "Investor's accounting for an investee when the investor has a majority of the voting interest but the minority shareholder or shareholders have a certain approval or veto rights," General Cigar should not be consolidated by Swedish Match. Therefore, the investment in General Cigar is reported applying the equity method according to US GAAP. This does not result in any effect on reconciliation of the net income for the year or shareholders' equity in accordance with Swedish GAAP and US GAAP. However, the balance sheet is affected by this difference. The table on the previous page presents a condensed consolidated balance sheet in accordance with Swedish GAAP and US GAAP.

Cash Flow Analysis

According to SFAS No. 95, "cash and cash equivalents" only cover funds with terms of three months or less. Some of Swedish Match's liquid funds (see Note 11) do not meet this requirement. As a result, changes in this segment of liquid funds are reported as investments, as defined by SFAS No. 95.

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

22 Personnel

The average number of employees in the Parent Company during 2000 was 43, and 13,672 in the Group. The corresponding numbers in 1999 were 45 and 11,797, respectively.

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

	2000			1999		
	Salaries and other compensation	Social costs (of which pension costs)		Salaries and compensation	Social costs (of which pension costs)	
Parent Company	29	16	(3)	28	17	(8)
Subsidiaries	1,474	510	(112)	1,144	452	(75)
Group	1,503	526	(115)	1,172	469	(83)

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

	2000			1999		
	Board and CEO (of which bonuses, etc)		Other employees	Board and CEO (of which bonuses, etc)		Other employees
Parent Company						
Sweden	10	(2)	28	4	(0)	24
<i>Subsidiaries</i>						
Australia	1	(0)	12	1	(0)	9
Belgium	1		94	1		105
Brazil	3		42	2		37
Bulgaria	—		6	0		5
Dominican Republic	—		65			12
Estonia	—	—	—			2
Philippines	—	(0)	11	1	(0)	10
France	—		21	0		45
Honduras	—	—	16			
Hong Kong	1		2	2		2
India	1		70	1		42
Indonesia	—		4			4
Ireland	3	(0)	11	2	(1)	10
China	—		8			6
Netherlands	5	(2)	113	3		111
Portugal	—		4	1		4
Switzerland	3	(0)	8	3	(0)	32
South Africa	1	(0)	28	0		8
Spain	1		38			35
United Kingdom	4	(0)	41	1	(0)	24
Sweden	5		282	3	(0)	333
Turkey	1		19	3	(1)	14
Germany	2	(0)	11	1		11
Hungary	—		14	0		16
United States	14	(6)	482	9	(0)	223
Other countries	1	(0)	16	2	(0)	8
Total in subsidiaries	47	(8)	1,418	36	(2)	1,108
Group total	57	(10)	1,446	40	(2)	1,132

Notes – Consolidated Financial Statements

Note 22 cont.

During year 2000, 10 MSEK was paid into the profit sharing fund for Group employees in Sweden.

Employees by country are detailed below:

	2000	Average number of employees of whom men, %	1999
Parent Company			
Sweden	43	49	45
<i>Other</i>			
Australia	55	55	48
Belgium	538	36	562
Brazil	765	71	826
Bulgaria	251	47	316
Dominican Republic	2,126	27	493
Estonia	—	—	26
Philippines	165	51	176
France	69	62	172
Hong Kong	14	57	16
Honduras	528	52	
India	4,019	99	4,478
Indonesia	681	15	737
Ireland	44	77	42
Jamaica	143	22	
China	208	84	195
Netherlands	485	72	441
Portugal	28	57	31
Switzerland	28	39	42
Spain	161	87	168
United Kingdom	81	65	75
Sweden	915	56	1,138
South Africa	337	88	108
Turkey	212	87	203
Germany	51	31	46
Hungary	295	42	428
United States	1,404	59	961
Other countries	26	62	24
Group total	13,672		11,797

Information regarding benefits for senior executives is presented below:

Bernt Magnusson, Chairman of the Board of Swedish Match, was paid a Board of Directors fee of 450,000 in 2000 MSEK.

Lennart Sundén, President and CEO, was paid 4,566,000 MSEK in 2000, including a bonus of 1,050,000 MSEK. Lennart Sundén has a bonus agreement of up to 35 percent of his salary. In accordance with an options program established in 2000 by the Board, Lennart Sundén was allotted options in 2000 at a gross cost of 1,200,000 MSEK, plus social fees. He is entitled to a pension from age 60. From age 60 to 65, a pension is paid at 70 percent of pensionable salary. From age 65, a pension is paid at 45 percent of pensionable salary. Lennart

Sundén must give six months notice of his intention to resign and the company must give 12 months notice. A maximum severance payment of two years' salary is payable if the company terminates the employment contract. However, severance pay will be reduced by a maximum of 50 percent of any other income but to not less than half of the contracted severance pay.

Other members of Group Management are entitled to pensions at the normal pension ages of 60-65. Between 60 and 65 years of age, pensions are paid at 50-70 percent of pensionable salary. From age 65, pensions are paid at 32.5 – 70 percent of pensionable salary. Pensionable salary (which can vary depending on country of service) is defined as cash salary plus the average of bonus payments received during the three years immediately prior to retirement, which may in no case amount to more than 35 percent of the cash salary. A six-month mutual notice of intent to terminate employment applies for all members of the Group Management other than Lennart Sundén. If the Company terminates employment, severance pay is payable in an amount equivalent to 18 months of cash salary. Wages, salaries and remuneration for the President and Executive Vice President in 2000 amounted to approximately 8.5 MSEK including options amounting to 1.8 MSEK. Pension costs for the President and Executive Vice President amounted to 0.7 MSEK.

INCOME STATEMENT

MSEK	Note	2000	1999
Net sales		10	14
Cost of goods sold		- 6	- 9
Gross profit		4	5
Selling expenses	1	- 3	- 4
Administrative expenses	1	- 196	- 238
Other operating income	1	15	41
Operating income		- 180	- 196
Income from participations in Group companies		- 653	737
Interest income, Group companies		379	298
Other interest income		168	113
Interest expenses, Group companies		- 78	- 67
Other interest expenses		- 308	- 240
Exchange differences and other financial items	2	421	190
Income after financial items		- 251	835
Appropriations			
Accelerated depreciation, equipment		—	1
Appropriations to tax equalization reserve		- 240	- 320
Group contribution and shareholder contribution, net		775	1,402
Income before tax		284	1 918
Taxes		- 279	- 351
Net income for the year		5	1,567

CASH FLOW ANALYSIS

MSEK	Note	2000	1999
Cash flow from current operations		843	1,953
Cash flow from investment activities		244	287
Financing activities			
Change in short-term loans		—	- 1,999
Amortization of long-term loans		- 670	3,673
Change in Group balances		444	- 1,854
Dividends paid		- 539	- 474
Redemption of shares, net		- 1,062	—
Repurchases of own shares		- 905	—
New share issue		66	—
Other		- 120	—
Cash flow from financing activities		- 2,786	- 654
Cash flow for the year		- 1,699	1,586
Liquid funds at beginning of the year		4,047	2,461
Liquid funds at end of the year	5	2,348	4,047
Supplementary information, see Note	7		

BALANCE SHEET

MSEK	Note	December 31, 2000		December 31, 1999	
Assets					
Fixed assets					
Tangible fixed assets	3	2		3	
Financial fixed assets	4				
Shares and participations in Group companies		6,842		7,791	
Other long-term securities		10		10	
Other long-term receivables in Group companies		3,864	10,716	4,154	11,955
Total fixed assets		10,718		11,958	
Current assets					
Current receivables					
Trade receivables		1		2	
Accounts receivable, Group companies		2,478		2,060	
Other receivables		8		8	
Prepaid expenses and accrued income		47	2,534	62	2,132
Liquid funds					
Current investments	5	1,789		3,355	
Cash and bank	5	559	2,348	692	4,047
Total current assets		4,882		6,179	
Total assets		15,600		18,137	
Shareholders' equity and liabilities					
Shareholders' equity					
6					
Restricted equity					
Share capital		969		949	
Statutory reserve		169		190	
Unrestricted equity					
Profit brought forward		5,035		5,907	
Net income for the year		5	6,178	1,567	8,613
Untaxed reserves		959		719	
Long-term liabilities					
Debenture loan		3,936		4,580	
Liabilities to credit institutions		200		440	
Liabilities to Group companies		12	4,148	12	5,032
Current liabilities					
Liabilities to credit institutions		908		792	
Liabilities to Group companies		3,313		2,759	
Accounts payable		13		12	
Accounts payable, Group companies		26		8	
Other current liabilities		39		190	
Accrued expenses and deferred income		16	4,315	12	3,773
Total shareholders' equity and liabilities		15,600		18,137	
Pledged assets		8		8	
Contingent liabilities for subsidiaries		626		415	

NOTES

(All amounts in MSEK unless stated otherwise)

The Parent Company's accounting principles coincide in appropriate sections with those applied in the Group.

1 Sales and administrative expenses and other operating revenue

In addition to management functions, Parent Company operations comprise sales of advertising products in the Nordic market. In 2000, sales to Group companies amounted to 1 MSEK (2). Purchases from Group companies amounted to 4 MSEK (5). Other operating revenue consists mainly of Group administration expenses billed to subsidiaries.

Administrative expenses include costs for auditing fees as shown below:

	2000	1999
Auditing	2	1
Other	4	3
PricewaterhouseCoopers	6	4

2 Exchange-rate differences and other financial items

Exchange gains amounted to 433 MSEK in 2000 and 203 MSEK in 1999. The exchange gains include an entry of 393 MSEK (141), which relates to currency hedging of net investments in certain subsidiaries and which, accordingly, was booked directly under shareholders' equity as a net entry after tax.

3 Tangible fixed assets

Tangible fixed assets at December 31 include equipment as follows:

	2000	1999
Acquisition value brought forward	8	9
Investments	1	1
Sales/disposals	- 1	- 2
Closing balance, accumulated acquisition value	8	8
Depreciation brought forward	- 5	- 4
Depreciation for the year	- 1	- 2
Sales/scraping	—	1
Closing balance, accumulated depreciation	- 6	- 5
Closing balance, book value	2	3

4 Financial fixed assets

Change in financial fixed assets:

	2000	1999
Amount brought forward from preceding year	11,955	10,564
Acquisition of shares in Group companies	1	212
Liquidation of Group companies	- 722	- 500
Sales of subsidiaries	- 228	—
Change in other long-term receivables due from Group companies	- 290	1,679
Total	10,716	11,955

Shares and participations in subsidiary companies at December 31, 2000:

	Number of shares or participations	Currency	Par value*	Book value MSEK	Parent Company holding, %	Corp. Reg. No.	Domicile
Swedish Match Arenco AB	305,500	SEK	30,550	31	100	556040-2157	Kalmar
Swedish Match Industries AB						556005-0253	Tidaholm
- common stock	30,000	SEK	30,000	195	100		
- preferred stock	851	SEK	851	0	99,8		
Swedish Match United Brands	200,000	SEK	20,000	122	100	556345-7737	Stockholm
Intermatch Sweden AB	710,000	SEK	71,000	85	100	556018-0423	Stockholm
Svenska Tändsticks AB	1,000	SEK	100	0	100	556105-2506	Stockholm
Treab Plus AB	96,000	SEK	4,800	17	100	556013-4412	Stockholm
Svenska Tändsticks Philippine Company	20,000	PHP	20,000	0	100		
Swedish Match North America Inc	100	USD	100	849	100		
Swedish Match Group BV	20,900,000	NLG	2,090	5,331	100		
Nitedals Taendstiker A/S	500	NOK	500	1	100		
SA Allumettière Caussemille 1)	10,000	FRF	1,000	0	100		
The Burma Match Co. Ltd 2)	300,000	BUK	3,000	0	100		
Vulcan Trading Co. Ltd 3)	4,000	BUK	400	0	100		
Svenska Tobaks AB	8,000	SEK	800	1	100	556337-4833	Stockholm
Petum AB	10,000	SEK	1,000	2	100	556362-6968	Stockholm
Petum Sverige AB	60,000	SEK	6,000	0	100	556197-0350	Stockholm
Tobak Fastighetsaktiebolaget	2,000	SEK	2,000	146	100	556367-1253	Stockholm
Svenskt Snus AB	1,000	SEK	1,000	62	100	556367-1261	Stockholm
Total shares				6,842			

*) Local currency in 000s 1) Nationalized in November 1963 2) Nationalized in December 1968 3) Nationalized in January 1969

In addition, shares are owned in: - Union Alumettière Marocaine S.A. Ownership is purely formal. Group companies have all rights and obligations.

Other shares at December 31, 2000

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

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

5 Liquid funds

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

Short-term investments	2000	1999
Government bonds/treasury bills	492	312
Corporate bonds/commercial paper	1,207	2,444
Capital market funds	90	599
	1,789	3,355
Cash and bank balances		
Bank accounts and cash	254	195
Certificates of deposit in banks	305	497
	559	692
Total liquid funds	2,348	4,047

Liquid funds above include instruments in which the maturity term exceeds three months.

6 Shareholders' equity

The Parent Company's share capital at December 31, 2000 consisted of 403,946,391 shares with a par value of 2.40 SEK per share. All shares carry one vote each. Through repurchases, the Company has 28,799,500 shares, and the total number of shares outstanding, accordingly, is 375,146,891.

	2000	1999
Share capital brought forward	949	949
Redemption of shares	- 67	—
New issue	5	—
Bonus issue	82	—
Total share capital	969	949
Statutory reserve brought forward	190	164
Premium on share issue	61	—
Bonus issue	- 82	—
Allocation to statutory reserve	—	26
Total statutory reserve	169	190
Unrestricted equity brought forward	7,474	6,407
Redemption of shares	- 995	—
Dividend	- 539	- 474
Allocation to statutory reserve	—	- 26
Repurchases of own shares	- 905	—
Income for the year	5	1,567
Total unrestricted equity	5,040	7,474
Total shareholders' equity	6,178	8,613

7 Supplementary information to Cash Flow Analysis

Cash flow from investment activities includes an interGroup sale of a subsidiary in the amount of 228 MSEK.

Liquid funds

See note 5.

Taxes paid, interest, etc.

Taxes paid amounted to 434 MSEK (272) and interest payments totaled 397 MSEK (136). Dividends received during the year amounted to 55 MSEK (737).

PROPOSED DISTRIBUTION OF EARNINGS

According to the Consolidated Balance Sheet, the Company's unrestricted shareholders' equity amounts to 2,375 MSEK, of which 1,153 MSEK is the net income for the fiscal year. Proposed allocations to restricted funds amount to 25 MSEK.

As shown in the Parent Company's Balance Sheet, 5,040 MSEK in retained earnings, of which 5 MSEK comprises net earnings for the year, is at the disposal of the Annual General Meeting.

The Board of Directors and the President recommend that earnings of 5,040 MSEK at the disposal of the Annual General Meeting be distributed so that 25 MSEK is allocated to the restricted reserve, shareholders receive a dividend of 1.35 SEK per share, a total of 506 MSEK, based on the number of shares outstanding at year-end, and that remaining earnings be brought forward.

The Board of Directors also proposes April 27, 2001 as the record date for shareholders listed in the Swedish Securities Register Center (VPC).

Stockholm, February 8, 2001

Bernt Magnusson
Chairman of the Board

Arne R. Bennborn

Jan Blomberg

Kenneth Ek

Anders Lannebo

Eva Larsson

Gull-Britt Larsson

Meg Tivéus

Klaus Unger

Lennart Sundén
President

Our audit report was submitted on February 23, 2001

Åke Danielsson
Authorized Public Accountant

Göran Tidström
Authorized Public Accountant

AUDITORS' REPORT

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

Organization Number: 556015-0756

We have audited the annual report, the consolidated financial statements, the accounts and the administration by the Board of Directors and the President of Swedish Match AB (publ) for year 2000. The accounts and administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the annual report, the consolidated financial statements and the administration of the Company based on our audit.

The audit was conducted in accordance with generally accepted auditing standards in Sweden. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a random basis, evidence supporting the amounts and other disclosures in the financial statements. An audit also includes assessments of the accounting principles applied and their application by the Board of Directors and President, as well as evaluations of the overall presentation of information in the financial statements. We examined significant decisions,

actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any Board member or the President, or whether they have in some other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for the opinion set out below.

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

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

Stockholm, February 23, 2001

Åke Danielsson
Authorized Public Accountant

Göran Tidström
Authorized Public Accountant

FIVE YEAR SUMMARY

Consolidated income statements (MSEK)	1996	1997	1998	1999	2000
Net sales	7,416	7,465	8,194	9,420	11,533
Gross profit	3,763	3,850	4,098	4,282	4,886
Items affecting comparability	- 123	—	- 108	3,707	—
Operating income	1,600	1,586	1,381	5,396	1,886
Items affecting comparability			- 60	—	—
Net financial items	- 70	- 28	- 183	- 116	- 176
Income after financial items	1,530	1,558	1,198	5,280	1,710
NET INCOME	1,109	1,045	726	4,656	1,153
Operating income before depreciation/amortization	1,870	1,854	1,713	5,777	2,429
Operating income before items affecting comparability and depreciation/amortization	1,993	1,854	1,821	2,070	2,429

Consolidated balance sheets (MSEK)	1996	1997	1998	1999	2000
Assets					
Intangible fixed assets	516	757	895	3,268	4,288
Tangible fixed assets	1,939	2,050	2,239	1,866	2,576
Financial fixed assets	372	484	463	432	605
Inventories	1,388	1,584	1,902	1,732	3,270
Current receivables	1,720	1,694	2,187	2,076	2,582
Liquid funds	942	563	2,876	7,296	2,960
Total assets	6,877	7,132	10,562	16,670	16,281
Equity and liabilities					
Equity	2,314	2,972	2,160	5,940	4,635
Minority interests	54	20	148	162	620
Provisions	663	656	1,165	1,195	1,867
Long-term liabilities	33	236	2,124	5,303	4,845
Current liabilities	3,813	3,248	4,965	4,070	4,314
Total equity and liabilities	6,877	7,132	10,562	16,670	16,281

Cash flow (MSEK)	1996	1997	1998	1999	2000
Cash flow from current operations	1,806	773	794	1,329	945
Cash flow from investment activities	- 340	- 652	82	2,005	- 1,967
Cash flow from financing activities	- 1,312	- 531	1,427	1,181	- 3,273
Cash flow for the year	154	- 410	2,303	4,515	- 4,295
Liquid funds at beginning of the year	804	942	563	2,876	7,296
Translation difference in liquid funds	- 16	31	10	- 95	- 41
Liquid funds at year-end	942	563	2,876	7,296	2,960

Key Data (MSEK)	1996	1997	1998	1999	2000
Operating capital at year end	3,224	3,975	4,700	6,352	9,821
Net debt	77	471	1,455	- 1,267	2,739
Investments	217	292	393	452	331
Operating margin, %	23.2	21.2	18.2	17.9	16.4
Return on operating capital, %	49.9	42.7	33.2	30.6	23.3
Return on shareholders equity, %	57.3	39.5	28.3	115.0	21.8
Net debt/equity ratio, %	3.2	15.7	63.0	pos	52.1
Equity/assets ratio, %	34.4	41.9	21.9	36.6	32.3
Share capital	927	927	949	949	969
Dividend per share	1.05	1.05	1.08	1.22	1.35*
Earnings per share after full tax					
Before items affecting comparability, SEK	2.48	2.15	1.92	2.26	2.78
After items affecting comparability, SEK	2.28	2.15	1.56	10.56	2.78

* Board proposal

Key figures by product area (MSEK)	1996	1997	1998	1999	2000
Net sales					
Snuff	900	1,079	1,337	1,688	2,071
Chewing Tobacco	1,043	1,149	1,068	1,068	1,227
Cigars	678	691	902	1,438	2,690
Pipe Tobacco and Accessories	196	166	218	420	762
Matches	1,241	1,299	1,573	1,673	1,712
Lighters	846	834	735	662	720
Other operations	529	701	893	1,742	2,351
Total	5,433	5,919	6,726	8,691	11,533
Divested operations	1,983	1,546	1,468	729	—
Total	7,416	7,465	8,194	9,420	11,533
Operating income					
Snuff	431	522	641	828	954
Chewing Tobacco	368	420	331	297	331
Cigars	136	131	117	206	347
Pipe Tobacco and Accessories	41	28	38	109	213
Matches	118	147	134	107	90
Lighters	48	53	18	14	74
Other operations	- 208	- 252	- 228	- 127	- 123
Total	934	1,049	1,051	1,434	1,886
Divested operations	789	537	438	255	—
Items affecting comparability	- 123	—	- 108	3,707	—
Total	1,600	1,586	1,381	5,396	1,886
Operating margin, %					
Snuff	47.9	48.4	47.9	49.1	46.1
Chewing Tobacco	35.3	36.6	31.0	27.8	27.0
Cigars	20.1	19.0	13.0	14.3	12.9
Pipe Tobacco and Accessories	20.9	16.9	17.4	26.0	28.0
Matches	9.5	11.3	8.5	6.4	5.3
Lighters	5.7	6.4	2.4	2.1	10.3

QUARTERLY DATA

Condensed income statements		1999				2000			
MSEK	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Net sales	2,122	2,318	2,418	2,562	2,394	2,871	3,072	3,196	
Gross profit	1,046	1,112	1,005	1,119	1,009	1,217	1,296	1,364	
Items affecting comparability	—	—	4,102	- 395	—	—	—	—	
Operating income	440	444	4,509	3	415	471	500	500	
Net financial items	- 11	- 40	- 12	- 53	-15	- 44	- 50	- 67	
Income after financial items	429	404	4,497	- 50	400	427	450	433	
Net income	290	253	4,299	- 186	264	288	299	302	
Operating income before depreciation/amortization	524	543	4,599	111	536	598	651	644	
Operating income before items affecting comparability and depreciation/amortization	524	543	497	506	536	598	651	644	

Key Data		1999				2000			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Operating margin, %	20.7	19.2	16.8	15.5	17.3	16.4	16.3	15.6	
Net debt/equity ratio, %	52.2	147.8	pos	pos	pos	22.8	54.8	52.1	
Equity/assets ratio, %	22.5	20.8	45.5	36.6	38.3	30.0	31.6	32.3	
Investments	65	218	51	118	53	49	117	112	
Earnings per share after full tax									
Before items affecting comparability, SEK	0.66	0.57	0.56	0.47	0.60	0.65	0.75	0.78	
After items affecting comparability, SEK	0.66	0.57	9.75	- 0.42	0.60	0.65	0.75	0.78	

Net sales by product area		1999				2000			
MSEK	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Snuff	376	402	430	480	459	531	529	552	
Chewing Tobacco	261	278	270	259	282	318	311	316	
Cigars	224	370	407	437	405	646	796	843	
Pipe Tobacco and Accessories	55	53	100	212	173	184	205	200	
Matches	448	401	406	418	391	414	429	478	
Lighters	165	173	170	154	175	169	175	201	
Other operations	243	262	635	602	509	609	627	606	
Sub-total	1,772	1,939	2,418	2,562	2,394	2,871	3,072	3,196	
Divested operations	350	379	—	—	—	—	—	—	
Total	2,122	2,318	2,418	2,562	2,394	2,871	3,072	3,196	

Operating income by product area		1999				2000			
MSEK	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Snuff	193	178	236	221	209	241	254	250	
Chewing Tobacco	75	71	78	73	89	83	72	87	
Cigars	39	57	55	55	52	87	104	104	
Pipe Tobacco and Accessories	17	11	22	59	49	52	58	54	
Matches	29	34	30	14	25	18	24	23	
Lighters	2	- 8	8	12	16	19	18	21	
Other operations	- 42	- 27	- 22	- 36	- 25	- 29	- 30	- 39	
Sub-total	313	316	407	398	415	471	500	500	
Divested operations	127	128	—	—	—	—	—	—	
Items affecting comparability	—	—	4,102	- 395	—	—	—	—	
Total	440	444	4,509	3	415	471	500	500	

Operating margin by product area		1999				2000			
Percent	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Snuff	51.3	44.3	54.9	46.0	45.5	45.4	48.0	45.3	
Chewing Tobacco and accessories	28.7	25.5	28.9	28.2	31.6	26.1	23.2	27.5	
Cigars	17.4	15.4	13.5	12.6	12.8	13.5	13.1	12.3	
Pipe Tobacco	30.9	20.8	22.0	27.8	28.3	28.3	28.3	27.0	
Matches	6.5	8.5	7.4	3.3	6.4	4.3	5.6	4.8	
Lighters	1.2	- 4.6	4.7	7.8	9.1	11.2	10.3	10.4	
The Group	17.7	16.3	16.8	15.5	17.3	16.4	16.3	15.6	

BOARD OF DIRECTORS

BERNT MAGNUSSON



Born 1941. Chairman. Board member since 1993.

Other Board assignments: Chairman of AssiDomän AB, Dyno Nobel ASA and Näringslivets Skattedelegation. Vice Chairman of Net Insight AB. Board member of Volvo Car Corp., Avesta Polarit, Nordea AB, Aros Maizels Corporate Finance, Höganas AB, Emtunga International, the Federation of Swedish Industries and Förvaltnings AB Stattum. Advisor to the European Bank for Reconstruction and Development.
Shares: 9,858

ARNE R. BENNBORN



Born 1932. Board member since 1996.

Honorary Dr. Technology.
Other Board assignments: Member of the Royal Academy of Engineering Sciences.
Shares: 4,584

JAN BLOMBERG



Born 1939. Board member since 1996.

Other Board assignments: Chairman of Handelsbanken Regionbank City, Stockholm. Vice Chairman of Drott AB. Board member of AssiDomän AB, Besam AB, Skandia Investment, Haldex AB, Capió, Byggelit AB and Svenska Spel AB.
Shares: 3,638

ANDERS LANNEBO



Born 1944. Board member since 2000.

Founder and Chairman of Lannebo Fonder.

Other Board assignments: Chairman of eumetrix Financial Solutions AB and Webupdate AB. Board member of Aktieförbundet and Svenskt Stål AB SSAB. Shares: 35,015

LENNART SUNDÉN



Born 1952. Board member since 1999.

President and CEO of Swedish Match AB.

Other Board assignments: Board member of FöreningsSparbanken AB and Arnold André GmbH & Co KG
Shares: 60,000. Call options 267,105.

MEG TIVÉUS



Born 1943. Board member since 1999.

President of Svenska Spel AB. Other Board assignments: Board member of Framtidsfabriken AB, Operan, ARK Resebyrå AB and Danderyds Sjukhus.
Shares: 4,000

KLAUS UNGER



Born 1934. Board member since 1984.

Other Board assignments: Board member of Arnold André GmbH & Co KG. Member of the Royal Swedish Academy of Engineering Sciences.
Shares: 4,614

KENNETH EK



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

EVA LARSSON



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

Board of directors

Employee representatives
(Regular members)

Employee representatives
(Deputies)

GULL-BRITT LARSSON



Born 1947. Board member since 1999.
Appointed by the Swedish Trade Union Confederation (LO) of Swedish Match. Co-determination negotiator at the snuff factory in Gothenburg, Sweden.
Shares: 0

LENNART JOHANSSON



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

STIG KARLSSON



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

JOAKIM LINDSTRÖM



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

GROUP MANAGEMENT

LENNART SUNDÉN



Born 1952, MSc. Engineering, MBA.
President and CEO
Joined Swedish Match AB in 1998

Previously employed by AB Electrolux 1977–1998. Manager of Electrolux industrial operations for white goods in Europe 1991–1993. Manager of Electrolux' global vacuum cleaner and small appliance operations 1993–1998.

Board assignments: Board member of Förenings-Sparbanken AB and Arnold André GmbH & Co KG. Shareholding in Swedish Match: 60,000
Call options: 267,105

SVEN HINDRIKES



Born 1950, MBA.
Executive Vice President, Chief Financial Officer
Joined Swedish Match and Group management staff in 1998.

Previously employed within ABB in Mexico and served as Executive Vice President of ABB Canada. Executive Vice President of Linjebuss AB. Shareholding in Swedish Match: 60,000
Call options: 127,895

MASSIMO ROSSI



Born 1942, MSc.
Senior Executive Advisor
Joined Swedish Match in 1975
Member of Group management since 1992.

Board assignments: Chairman of Duni AB and international Health Insurance, Denmark. Member of EQT Scandinavia B.V., EQT Northern Europe and Stiftelsen Solsticken. Shareholding in Swedish Match: 101,400
Call options: 217,895

BO AULIN



Born 1948, Graduated from Uppsala University, Law School
Senior Vice President, Corporate Affairs, Secretary and General Counsel
Joined Swedish Match in 1990
Member of Group management since 1996.

Previously employed as corporate lawyer for Swedish National Forest Enterprise and chief legal counsel for the Swedish Association of Wholesalers. Shareholding in Swedish Match: 2,700
Call options: 127,895

LENNART FREEMAN



Born 1951, MBA.
President, North America Division
Joined Swedish Match in 1975
Member of Group management since 1999.

Previously employed by SAAB Cars and Exxon. Shareholding in Swedish Match: 300
Call options: 116,842

STEFAN GELKNER



Born 1944, MSc. Engineering.
President, North Europe Division
Joined Swedish Match in 1977
Member of Group management since 1999.
Previously employed by Ericsson.
Shareholding in Swedish Match: 1,000
Call options: 97,895

GRAHAM JONES



Born 1949, MBA.
President, Match Division
Joined Swedish Match in 1978.
Member of Group management since 1999.
Previously employed by De Beers Prospecting Ltd,
Arthur Anderson & Co, Mars Ltd, Scot Bowyers Ltd
and Bryant & May Ltd.
Shareholding in Swedish Match: 6,000
Call options: 187,895

PETER NILSSON



Born 1962, MBA.
President, Continental Europe Division
Joined Swedish Match in 1987.
Member of Group management since 1999.
Shareholding: 6,554
Call options: 187,895

INGEMAR OLSSON



Born 1953, MSc. Engineering.
President, Overseas Division
Joined Swedish Match in 1983.
Member of Group management since 1999.
Previously employed by Sandvik Coromant.
Shareholding in Swedish Match: 19,500
Call options: 187,895

GÖRAN STREIFFERT



Born 1946, MSc.
Senior Vice President, Group Human Resources
and IS/IT
Joined Swedish Match and Group management staff
in 1997.
Previously employed by Gullspång, PLM and
Scancem.
Shareholding in Swedish Match: 2,000
Call options: 127,895

SWEDISH MATCH

the share

The Swedish Match share is listed on the OM Stockholm Exchange and the NASDAQ Exchange in the US. Total share capital amounts to 969 MSEK, distributed among 403.9 million shares with a par value of 2.40 SEK each. Every share carries one vote. A round lot is 1,000 shares.

Turnover

Total turnover in 2000 was approximately 245 million (196) Swedish Match shares on the OM Stockholm Exchange, with a daily average turnover of about 1.0 million shares (0.8). The turnover rate, or the liquidity of the share on the OM Stockholm Exchange, amounted to 59 percent during the year, compared with the market average of 107 percent. The volume of trading on NASDAQ increased during the year, and the number of outstanding American Depository Receipts (with each ADR corresponding to 10 shares) rose to 601,056 (297,310) (symbol SWMAY). The depositary bank is the Bank of New York.

Price performance in 2000

The company's market capitalization at year-end 2000 amounted to SEK 13.8 billion. The share price increased 27.7 percent during the year. The Affärsvärlden General Index declined 23 percent.

The lowest price paid during the year was SEK 25.03 on April 18, and the highest price paid was SEK 37 on November 20.

Ownership structure

Foreign ownership interests corresponded to 57 percent of total share capital, an increase of five percentage points compared with 1999. Swedish ownership interests were divided among institutions, with 16 percent of total share capital, mutual funds 14 percent and private persons 13 percent.

The ten largest shareholders account for 39 percent of equity capital.

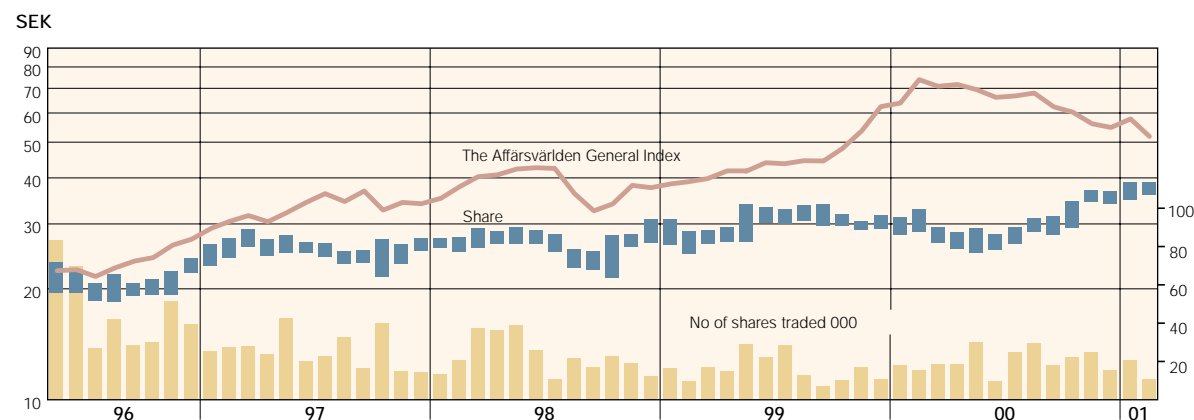
Transfers of capital to Swedish Match shareholders

	1996	1997	1998	1999	2000	Total
Dividends	300	510	510	474	539	2,333
Redemptions, net	—	—	1,147	—	996	2,143
Buyback	—	—	—	—	905	905
TOTAL	300	510	1,657	474	2,440	5,381

Share distribution, December 31, 2000

Size of holding	No. of owners	%	No. of shares	% of capital and votes
1 – 1,000	97,160	91.7	17,967,487	4.8
1,001 – 5,000	7,399	6.9	15,562,122	4.1
5,001 – 20,000	973	1.0	9,132,165	2.4
20,001 – 50,000	175	0.2	5,580,477	1.5
50,001 – 100,000	74	<0.1	5,542,051	1.5
100,001 –	168	<0.1	321,362,589	85.7
Total	105,949	100.0	375,146,891*	100.0

*Not including 28,799,500 shares acquired by the company through buyback.



Dividend policy

Swedish Match's dividend policy is to pay dividends equivalent to 40-50 percent of the Group's net income over the long-term. The size and timing of dividend payments depends on Swedish Match's financial position, net income, anticipated future profitability, cash flow, investments, expansion plans and other factors that need to be considered. The Board of Directors has proposed a dividend for 2000 to the Annual General Meeting of 1.35 SEK (1.22) per share.

Authorization to buy back shares

In accordance with a mandate issued by the Annual General Meeting on April 27 to buy back a maximum of 5 percent of all shares outstanding in the company, which was increased to ten percent at an Extraordinary General Meeting of shareholders on October 27, the company had repurchased 28,799,500 shares under the buyback program as of December 31, 2000, corresponding to 7.13 percent of the company's outstanding shares. The average price paid for the repurchased shares was

31.39 SEK. A proposal was also approved at the extraordinary general meeting of shareholders to cancel 17,350,120 of the buyback shares. An application has been submitted to reduce the amount of equity capital in the company.

Largest shareholders

as per December 31, 2000*

Owner	No. of shares	% of voting rights and capital
Roburs aktiefonder	45,394,343	12.1
Fidelity	42,171,069	11.2
Harbor Funds Inc	18,818,974	5.0
Alecta	9,837,376	2.6
Capital Group	6,000,000	1.6
Barclays Global Investors	5,114,268	1.4
First AP-fonden	4,944,000	1.3
Second AP-fonden	4,944,000	1.3
Third AP-fonden	4,944,000	1.3
Fourth AP-fonden	4,944,000	1.3
Others	228,034,861	60.9
Total	375,146,891	100.0

*Registered direct ownership according to VPC (The Swedish Securities Register Center). In addition, the company owns 28,799,500 acquired through buyback.

Per-share data*

	1996	1997	1998	1999	2000
Income after tax					
before items affecting comparability, SEK	2.48	2.15	1.92	2.26	2.78
after items affecting comparability, SEK	2.28	2.15	1.56	10.56	2.78
Dividend, SEK	1.05	1.05	1.08	1.22	1.35**
Market price at year-end, SEK	22.89	25.34	28.86	29.06	36.50
Shareholders' equity per share, SEK	4.76	6.12	4.89	13.47	12.36
P/E ratio after tax	10.0	11.8	18.7	2.8	13.1
EBIT multiple	7.0	8.1	10.4	6.9	9.0
Price/equity	4.8	4.1	5.9	2.2	3.0
Direct return, %	4.6	4.2	3.7	4.2	3.7
Total return, %		15.0	17.0	4.4	29.0
Average number of shares	463,558,252	463,558,252	450,133,840	431,339,663	410,177,322
Number of shareholders	167,062	142,859	127,710	115,019	105,949

* Where appropriate, adjusted for bonus issue element at redemption.

** Board proposal.

Share capital development

	Par value per share, SEK	Increase in share capital, SEK	Number of shares issued	Total share capital, SEK	Total number of shares
April 11, 1994 New issue	10.00	3,448,260	344,826	407,948,360	40,794,836
January 9, 1996 New issue and split	2.00	519,168,144	259,584,072	927,116,504	463,558,252
July 22, 1998 New issue	2.00	5,068,200	2,534,100	932,184,704	466,092,352
July 22, 1998 Redemption	2.00	- 69,505,378	- 34,752,689	862,679,326	431,339,663
July 22, 1998 Bonus issue	2.20	86,267,933		948,947,259	431,339,663
June 20, 2000 New issue	2.20	5,447,640	2,476,200	954,394,899	433,815,863
June 20, 2000 Redemption	2.20	- 65,712,839	- 29,869,472	888,682,060	403,946,391
June 20, 2000 Bonus issue	2.40	80,789,278		969,471,338	403,946,391

INFORMATION

to our shareholders

Annual General Meeting

The Annual General Meeting will be held at 4.30 p.m. on Tuesday, April 24, 2001 in Hall K1, Stockholm International Fairs (Stockholmsmässan), Älvsjö in Stockholm. Shareholders who are listed in a printout of the Shareholders' Register compiled on April 12, 2001 and have notified Swedish Match of their intention to attend are entitled to participate in the Annual General Meeting.

Listing in shareholders' register

The Swedish Match Shareholders' Register is maintained by Värdepapperscentralen VPC AB (the Swedish Securities Register Center). Listings are restricted to shares registered in the owner's name. Shareholders whose shares are held in trust must ensure that their shares are re-registered in their own names not later than Thursday, April 12, 2001.

Notification of intention to attend Annual General Meeting

Notification of intention to participate in the Annual General Meeting will be accepted as from Monday, March 19, 2001.

Applications may be submitted by:

- **Telephone** +46 20-61 00 10
- **Fax** +46 8-720 76 56
- www.swedishmatch.com/stamman
- **mail** Swedish Match AB
Legal Affairs
SE-118 85 Stockholm

When notifying the company, please state your:

- name
- personal identification number (registration number)
- address and telephone number (daytime)

Shareholders who wish to participate in the Annual General Meeting must notify the Company not later than 4.00 p.m. on Thursday, April 19, 2001, which is the expiration date for receipt of notification by Swedish Match. The Board of Directors has proposed April 27, 2001 as the record date for dividend entitlement. Dividends are expected to be paid by VPC on May 3, 2001.

Nominating committee for Swedish Match Board of Directors

The Nominating Committee prepares and submits proposals to the Annual General Meeting for the election of the Board of Directors and auditors and fees paid to members of the Board and the auditors.

The Committee, which is appointed by the Annual General Meeting, comprises Bernt Magnusson, Bo Eklöf and Björn Franzon.

Address Swedish Match AB
Nominating Committee
SE-118 85 Stockholm

Financial reports may be ordered via the Internet
www.swedishmatch.com

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

DEFINITIONS

Average shareholders' equity	$\frac{\text{Opening + closing shareholders' equity}}{2}$
Average operating capital	$\frac{\text{Opening + closing operating capital}}{2}$
Operating capital	Current operating assets + intangible assets, property, plant and equipment + other long-term operating assets – current operating liabilities
Return on Shareholders' equity (%)	$\frac{\text{Net income for the year}}{\text{Average shareholders' equity}} \times 100$
Return on Operating capital (%)	$\frac{\text{Operating income before items affecting comparability}}{\text{Average operating capital}} \times 100$
Direct return (%)	$\frac{\text{Proposed dividend per share}}{\text{Share price at year-end}} \times 100$
EBIT multiple	$\frac{\text{Market capitalization + net debt + minority interests}}{\text{Operating income before items affecting comparability}}$
Net debt	Interest-bearing liabilities – liquid assets
Net debt/equity ratio	$\frac{\text{Net debt}}{\text{Shareholders' equity + minority interests}}$
P/E ratio after tax	$\frac{\text{Share price at year-end}}{\text{Income per share after items affecting comparability}}$
Operating margin (%)	$\frac{\text{Operating income before items affecting comparability}}{\text{Net sales}} \times 100$
Equity/assets (%)	$\frac{\text{Shareholders' equity + minority interests}}{\text{Total assets}} \times 100$
Total return (%)	$\frac{\text{Share price performance during the year + dividend + where appropriate adjusted for redemption}}{\text{Share price at the beginning of the year}} \times 100$
Earnings per share	$\frac{\text{Income for the year (where appropriate, adjusted for items affecting comparability)}}{\text{Average number of shares}}$
Bonus issue element at redemption	Since the redemption price per share exceeded stock market price at the time of redemption, key ratios for previous periods have been adjusted for comparative purposes. Of a total of 431,339,663 shares, 29,869,472 shares were redeemed in July 2000 for SEK 35 per share. The correction factor is 0.97831.

☆☆☆
SWEDISH MATCH

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